

**How American Management Theory Helped to Legitimize German Codetermination:  
Erich Potthoff and the Cross-Border Transmutation of Knowledge**

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**Abstract**

This paper examines an important moment in the early postwar history of German political economy when codetermination (labor representation on corporate boards of directors) was introduced. Codetermination was and is one of the unique features of the German “variety of capitalism.” Yet one of the crucial and highest profile advocates of codetermination at the time, Erich Potthoff, strategically deployed American personnel management and organizational theory that helped to legitimize codetermination as a corporate human resource practice rather than just as “industrial democracy” or as a power-sharing arrangement.

The article offers a sort of intellectual history of codetermination whereby Potthoff transmuted American management theory to promote German codetermination that should make firms work more “optimally,” more effectively. Potthoff’s ideas foreshadowed the transformation of the meaning of codetermination from a means of limiting executive license to a managerial, performance-oriented instrument to enhance corporate decision-making and legitimacy that occurred by the 1980s—and have become the standard arguments today.

The paper offers a story of creative (mis)appropriation or re-working of American management theory that often occurs when ideas, practices, or firms move abroad. It provides insights into (cross-border) theories of organizational learning and institutional change.

## **Introduction**

At the heart of the study of German capitalism there lies a strange paradox, which might apply to the study of European capitalisms more generally, but the German case is peculiarly salient with major theoretical implications for how we understand institutional change in capitalism more generally.<sup>1</sup>

In the historical profession, one of the major themes in German history (and western European history by proxy) is its Americanization, especially after 1945. Ulrich Wengenroth characterized German business development as a series of successive waves of Americanization.<sup>2</sup> In his classic work on the *Americanisation of West German Industry*, the historian Volker Berghahn focused on the liberalizing effect of American-style antitrust legislation after 1945, which helped to block the tendency for German big business to manage markets through cartels; once prohibited a more American-style oligopoly capitalism emerged. Berghahn made this debate over this law a crucial signifier for the liberalization and Americanization of West German business more broadly.<sup>3</sup> 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

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<sup>1</sup> This has become a major research agenda in political science with Germany playing a key role. James Mahoney and Kathleen Thelen (eds.), *Explaining Institutional Change: Ambiguity, Agency, and Power* (Cambridge: Cambridge University Press, 2010). Wolfgang Streeck, *Re-Forming Capitalism: Institutional Change in the German Political Economy* (Oxford: Oxford University Press, 2009). Wolfgang Streeck and Kathleen Thelen, *Beyond Continuity: Institutional Change in Advanced Political Economies* (Oxford: Oxford University Press, 2005).

<sup>2</sup> 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.

<sup>3</sup> 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 an organized capitalism or of a “non-liberal” economy, then most other European countries continued to be more organized and “non-liberal” than Germany.

the Marshall Plan.<sup>4</sup> Harm G. Schröter, in his 20<sup>th</sup> century survey on the *Americanization of the European Economy*, wrote: “in the course of the twentieth century European society and economy became increasingly like American society and economy.”<sup>5</sup> Djelic and Schröter broadly meant convergence of business practices and economic wellbeing. Berghahn, Djelic and Schröter all 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. Victoria de Grazia went so far as to call this American wind an “irresistible empire,” particularly led by mass consumption (rather than mass production), supermarkets, fast food, and American consumer culture.<sup>6</sup> For German historiography at least, this Americanization, economic modernization, and convergence to western democratic norms was also driven in part by explaining why Germany became so derailed in its deviant *Sonderweg* (or “special path”) that led to the Third Reich of 1933-1945, yet managed to reform, right itself, and “normalize” after 1945.<sup>7</sup>

Given this viewpoint and in spite of 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 it is not. Michel Albert famously termed it a “Rhineland model” of capitalism.<sup>8</sup> After all this Americanization, how can this be?

What is even stranger in light of these Americanizing histories is a large body of political science literature under the umbrella term, “Varieties of Capitalism,” that tends to make Germany the stylized *opposite* of “Anglo-Saxon capitalism” whose archetype is the “American model.” 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-

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<sup>4</sup> Marie-Laure Djelic, *Exporting the American Model: The Postwar Transformation of European Business* (Oxford: Oxford University Press, 1998).

<sup>5</sup> 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.

<sup>6</sup> Victoria de Grazia, *Irresistible Empire: America’s Advance through 20<sup>th</sup>-Century Europe* (Cambridge, Mass.: Belknap Press of Harvard University Press, 2005).

<sup>7</sup> 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).

<sup>8</sup> Michel Albert, *Capitalism vs. Capitalism* (New York: Four Walls Eight Windows, 1993).

term, *neo-americaine*, casino capitalism. In this mostly political science literature, Germany is a “non-liberal,” “coordinated market economy,” an updated version of “organized capitalism” *par excellence* relative to the liberal, market-oriented, individualistic capitalism of the U.S.

After all this Americanizing in history departments, how can one even think of Germany as being the archetypal *opposite* of America in political science departments? At minimum, we have a problem of non-communication between historians and political scientists, and a problem of relating theory to empirical reality. 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.<sup>9</sup> 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.<sup>10</sup> After re-reading both disciplinary literatures, Mary Nolan (historian) felt as if she was in a room full of blind people attempting to describe an elephant.<sup>11</sup>

To be clear, not all historians accept this broad Americanization thesis, nor do all political scientists accept divergent capitalisms. Werner Abelshausen in his book “Cultural Struggle” (*Kulturkampf*) finds largely an autonomous German tradition of capitalism that had its roots in the late 19<sup>th</sup> century in Imperial Germany. Imperial Germany was a “hothouse of postindustrial institutions” that still exist today—among them codetermination; America had influence but the features of German capitalism were essentially “made in Germany” built on remarkable continuities since the 19<sup>th</sup> century.<sup>12</sup> (I will return to Abelshausen’s argument a bit later in the discussion of codetermination). The political scientist, Wolfgang Streeck, recently stresses that the “commonalities of capitalism” need to be reasserted rather than invest more research effort in

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<sup>9</sup> William H. Sewell, Jr., *Logics of History: Social Theory and Social Transformation* (Chicago: University of Chicago Press, 2005).

<sup>10</sup> Volker R. Berghahn und Sigurt Vitols (eds.), *Gibt es einen deutschen Kapitalismus? Tradition und globale Perspektiven der sozialen Marktwirtschaft* (Frankfurt/Main: Campus, 2006).

<sup>11</sup> 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, comment from p. 98.

<sup>12</sup> Werner Abelshausen, *Kulturkampf: Der deutsche Weg in die Neue Wirtschaft und die amerikanische Herausforderung* (Berlin: Kadmos Kulturverlag, 2003). Werner Abelshausen, *The Dynamics of German Industry: Germany’s Path toward the New Economy and the American Challenge* (New York: Berghahn Books, 2005).

distinguishing, distinct national models; a general theory of capitalism and institutional change under capitalism (using fundamentally historical methods) is needed.<sup>13</sup> Another historian, 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 version of “America” being transferred in the 1920s was not the same version of “America” transferred in the 1950s or, for that matter that of the 1990s built on financial innovations.<sup>14</sup> 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 quite distinct in their practices.<sup>15</sup> One can also see the slow creep of “Americanization” in quotation marks indicating uncertainty with the term as in the works of 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.”<sup>16</sup> Christian Kleinschmidt uses American (and later) 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 a distinct reality, a discourse affecting and effecting change.<sup>17</sup>

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<sup>13</sup> Wolfgang Streeck, *Re-Forming Capitalism: Institutional Change in the German Political Economy* (Oxford: Oxford University Press, 2009). Wolfgang Streeck and Kozo Yamamura, *The Origins of Nonliberal Capitalism: Germany and Japan in Comparison* (Ithaca: Cornell University Press, 2001). In “Origins,” Streeck and Yamamura stress the divergent “non-liberal” variant of German and Japanese capitalism as opposed to a liberal American one.

<sup>14</sup> Nolan, “‘Varieties of Capitalism’ and Versionen der Amerikanisierung.” 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.

<sup>15</sup> 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).

<sup>16</sup> Susanne Hilger, “Amerikanisierung” deutscher Unternehmen: Wettbewerbsstrategien und Unternehmenspolitik bei Henkel, Siemens und Daimler-Benz (1945/49-1975), quote from p. 282.

<sup>17</sup> Christian Kleinschmidt, *Der produktive Blick: Wahrnehmung amerikanischer und japanischer Management- und Produktionsmethoden durch deutsche Unternehmer 1950-1985* (Berlin: Akademie Verlag, 2002).

My own work tends to be quite skeptical. Americanization is a “concept too many” to quote 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 to some aspect of imagined American reality. The concept of Americanization ultimately obscures the process of cultural exchange and institutional translation (the subject of this article). Ideas from America clearly had influence, but a straightforward Americanization thesis obscures indigenous trajectories and continuities within German business. All that appears as “American” did not have American origins such as the multidivisional form or even many marketing practices. Many institutional, professional, and organizational developments were true parallels, rather than imitations. Even allegedly distinctive “American” or “German” institutional arrangements such as bank-industry “financial capitalism” were less distinct at certain times than imagined. Or the stylized features did not actually conform to the empirical reality of both economies. Finally, transferred ideas were transformed by or embedded in existing structures so much that Americanization is the wrong word—possibly “Germanization” of American ideas.<sup>18</sup>

But that latter formulation, too, falls short as it: 1) neglects the active *trans-mutation* process itself; 2) ignores how much “American” influences had “German” origins such as in political economy, consumer research, and engineering, which altered the course of “American” practices, which a generation later, came back to Germany as “American” (one can think of the enormous contribution of many Central Europeans to the success of Hollywood or Walter Gropius and Mies van der Rohe’s in architecture or design) and 3) elides how much they offered a mental *representation* of what it meant to be “American” that could be accepted or rejected as the case may be. In an influential piece, Jonathan Zeitlin stressed piecemeal borrowing, very selective or

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<sup>18</sup> Jeffrey Fear, *Organizing Control: August Thyssen and the Construction of German Management* (Cambridge, Mass.: Harvard University Press, 2005). Uwe Spiekermann, “>Der Konsument muss erobert werden!< Agrar- und Handelsmarketing in Deutschland während der 1920er und 1930er Jahre,” *Marketinggeschichte: Die Genese einer modernen Sozialtechnik*, (Hg.) Hartmut Berghoff (Frankfurt/Main: Campus Verlag, 2007), 123-147. Also see Berghoff’s introduction on mutual, transnational influences. Jeffrey Fear and Christopher Kobrak, “Banks on Board: Banks in German and American Corporate Governance, 1870-1914,” with Christopher Kobrak, *Business History Review*, (forthcoming Fall 2010). Matthew M.C. Allen, *The Varieties of Capitalism Paradigm: Explaining Germany’s Comparative Advantage?* (Hampshire: Palgrave MacMillan, 2006).

strategic adaptation (more bricolage), partial reception and hybridization through an *active, creative reworking process* rather than of just “resistance” to or “adoption” of American ideas.<sup>19</sup> (Erich Potthoff’s transfer of American management theory to legitimize German codetermination illustrates this process of creative reworking.)

At minimum, we have a story of cognitive dissonance much like the recent Porsche story under Wendelin Wiedeking’s leadership. Although Wiedeking stressed his leadership models were classic *Mittelstand* entrepreneurs such as Bernd Leibinger of Trumpf or Reinhold Würth, Porsche’s turnaround owed much to Japanese lean production techniques (and direct consulting advice), classic German engineering prowess, and the financial wizardry of American-style derivatives of chief financial officer Holger P. Härter. And much like his American financial counterparts, Wiedeking and Härter overtaxed Porsche with those fancy financial derivatives until Volkswagen took it over. Although Wiedeking criticized the shareholder value-oriented Josef Ackermann of the Deutsche Bank, his own success hardly rested on the pure old-school virtues of the German family-oriented *Mittelstand* he publically espoused.<sup>20</sup> The Porsche case blurs what exactly is “American,” “German,” or “Japanese.”

But more profoundly, we have a fundamental problem of narration—of relating these cross-border translation processes effectively without resorting to stylized national archetypes. 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 upheavals in society and politics. A fundamentally illiberal polity and authoritarian mentality among its businessmen prior to 1945 was forcibly 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 decisive feature of West Germany’s

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<sup>19</sup> 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.

<sup>20</sup> Wendelin Wiedeking, *Anders ist besser: Ein Versuch über neue Wege in Wirtschaft und Politik* (Frankfurt/Main: Piper, 2008).

normalization beyond authoritarianism and debilitating 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 extant 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 first two narratives presume a self-contained national economy, yet French (early 19<sup>th</sup>), British (mid-to-late 19<sup>th</sup>), and American influence (1920s, but esp. post 1945), leaving aside the globalizing and Europeanizing tendencies present since the 1980s all call into question a fully autonomous development. The question remains when a distinct “German-style” capitalism emerged (and why)—leaving aside the question if one can speak of a specifically “German” model of capitalism.

For the purposes of this paper, codetermination (that is, labor representation on German supervisory boards of directors--*Mitbestimmung*) is clearly a uniquely German institution with few parallels across the globe. It plays a crucial—but differing—role in each of these narratives. In the first narrative, codetermination proves that German business managed to escape its illiberal, authoritarian mindset and accept power sharing and “democratization” of corporate life, let alone national parliamentary life. Codetermination was a symbol of social partnership and democratic acceptance—one of the reasons why it carries a great weight of political symbolism today. Disposing of it symbolically ends this hard-won social partnership. In the second narrative, codetermination and the demand for “industrial democracy” had its roots in the class struggles of the late 19<sup>th</sup> and early 20<sup>th</sup> century. Many firms voluntarily introduced forms of worker representation quite early on; codetermination was an evolving continuity of distinctly German arrangements that solved particularly agency problems inherent to corporate industrial life.<sup>21</sup> In this narrative, codetermination is a key way in which society has integrated labor into business, introduced a non-market, “non-liberal” manner of organizing firms, and enhanced loyalty among key groups of skilled workers necessary for manufacturing, especially high-value added products.

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<sup>21</sup> Kathleen Thelen, *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States, and Japan* (Cambridge: Cambridge University Press, 2004). Thelen tells a similar story how training programs layered themselves over particular innovations in the late 19<sup>th</sup> century.



Codetermination (on boards of directors) and works councils (in individual factories) also represented a core traditional demand by labor unions for German industrial democracy since the late 19<sup>th</sup> 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. German distinctiveness in its industrial relations and corporate governance has significantly delayed a common European enterprise. Finally, in the third more transnational narrative, German codetermination just looks weird and exceptional from a global, comparative perspective. The strength of labor representation on corporate boards is distinctive, nearly unique. Under liberalizing conditions of globalization or Europeanization, it might be consigned to the dustbin of history because no one outside of Germany understands how it works—as one prominent German businessman provocatively asserted—and it only depresses company share prices.

Codetermination is thus a great vantage point to discuss each of these three narratives in microcosm. In certain respects, Erich Potthoff's story blends each of these three narratives with a surprising American twist. Potthoff played a crucial behind-the-scenes, role in early union politics as an advisor to Hans Böckler—the leader of the newly unified German union movement, 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*)—still the main research arm of German unions today. Recently, the historian Karl Lauschke, an expert on codetermination and the union movement, has also stressed Potthoff's unsung importance for the Social Democratic Party and the early union movement.<sup>22</sup>

In this article, I would like to portray Potthoff was the intellectual father of codetermination as *management practice*, not as “economic democracy” as originally propagated by Fritz

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<sup>22</sup> Karl Lauschke, *Die halbe Macht: Mitbestimmung in der Eisen- und Stahlindustrie 1945 bis 1989* (Essen: Klartext Verlag, 2007). 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.

Naphtali.<sup>23</sup> Along with Karl Hax, a friend, and a prominent management theorist at the University of Frankfurt, Potthoff helped legitimize codetermination in German management theory.<sup>24</sup> Their arguments shifted codetermination to a performance-oriented human resource instrument. Potthoff did so by borrowing liberally from American management and organizational theory to modernize German personnel management practices. 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 “optimally,” more effectively. Potthoff’s arguments in the 1950s foreshadow the arguments made by the union movement today to defend codetermination.

Thus, the Potthoff-codetermination story integrates all three larger narratives into one, but one reworked, twisted in surprising 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.”<sup>25</sup>

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 specific theoretical base for discussing a very focused, archival-based story on Erich Potthoff. If Potthoff did not exist, he would have to be invented (paraphrasing a classic statement about codetermination itself).

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<sup>23</sup> Fritz Naphtali, *Wirtschaftsdemokratie—Ihr Wesen, Weg und Ziel* (Frankfurt/Main: Europäischer Verlagsanstalt, 1966<sup>3</sup> [1928]).

<sup>24</sup> 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.

<sup>25</sup> D. Eleanor Westney, *Imitation and Innovation: The Transfer of Western Organizational Patterns in Meiji Japan* (Cambridge, Mass.: Harvard University Press, 1987).

**Part I:  
Codetermination in “Non-liberal” Capitalism: Dustbin of History or Source of Competitive Advantage?**

Codetermination with near parity representation on boards of directors is indeed unique to German capitalism and one of its defining corporate governance features. Labor is represented in firms in two distinct ways: through works councils (in factories) and on corporate (supervisory) boards; this description does not incorporate labor representation outside firms through unions or various collective bargaining forums. There are four main types of *firm-level* codetermination.<sup>26</sup>

**Works Councils:** First, the vast majority of German firms do not have labor representatives on their boards as they are too small, sole proprietors, or are partnerships, but firms between 5 and 500 employees are required to establish a *works council* if their workers choose to want one. Such works councils are anchored in the constitution of the Federal Republic along with collective bargaining, one of the most controversial political achievements of the Weimar Republic; even in the 1920s works council representatives formally had access to company financial statements so as to create greater transparency about managerial decision-making (*Betriebsrätegesetz* of 1920/1922). Larger firms have both works councils for white-collar staff and wage laborers (with which management must consult before making personnel decisions) as well as labor representatives on their supervisory boards. Some firms do without works councils. For instance, in 2006 ninety percent of the employees at the giant software firm, SAP, rejected instituting a works council even though its employee representatives on its supervisory board recommended it.<sup>27</sup> About two-thirds of all employed in Germany today work in firms without codetermination. (This is an important fact for the varieties of capitalism literature that tends to generalize from the commanding heights of German capitalism.)

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<sup>26</sup> This discussion elides the considerable firm-level variations, see Allen, *Varieties of Capitalism Paradigm*, 72-95.

<sup>27</sup> “Controversy over works council election at SAP,” EIRonline (European Industrial Relations Observatory On-line), 21 April 2006, [www.eurofound.europa.eu/eiro/2006/03/articles/de0603019i.htm](http://www.eurofound.europa.eu/eiro/2006/03/articles/de0603019i.htm), accessed July 15, 2010.

**One-Third Representation:** The second popular form are those for joint-stock and limited liability firms having between 501-1999 employees who are required to have *one-third* of their supervisory board members as representatives of labor. The Works Constitution Act of 1952 (*Betriebsverfassungsgesetz*) established this type of codetermination variant.

**Supervisory Board Parity Representation:** The third type—only introduced in 1976 after a major controversy and a legal challenge struck down in 1979 by the Federal Constitutional Court—are for firms over 2000 employees, which are required to hold *one-half* their seats on the *supervisory board* for labor representatives, so-called “parity representation.” In the event of a tie, the chair of the supervisory board holds the deciding vote. Depending on the size of the company, the supervisory board consists of twelve, sixteen, or twenty members. The sheer size, unwieldy decision-making, and cost of German supervisory boards play a crucial role in decision to move to the *Societas Europaea* corporate form. Most DAX firms have such a codetermination form. Because of the German two-tiered board structure, labor is *not* represented on the executive board, which is the main source of decision-making within the firm. The supervisory board, however, has to vet and affirm major investment outlays and appoints (fires) the chair (or CEO) of the executive board.

**Parity Representation in Coal and Steel:** Finally, the fourth—and main subject of this story—is parity representation in coal and steel firms that stems from a major political battle that helped found the social peace of West Germany. An important point is that coal and steel firms are singled out for this type of representation since 1951. Such coal and steel firms are also required to have a *Labor Director (Arbeitsdirektor)* on the *executive board*. This Labor Director on the executive board was *the* key sticking point in the 1950s “battle for codetermination” as the title of Erich Potthoff’s book was named; it was Potthoff’s most essential feature in his conception of codetermination as an executive instrument for personnel management. 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).

Needless to say, most American business executives would only feel repelled by such labor representation and alleged (over)regulation. The near visceral dislike of such an institution, leaving aside the “Anglo-Saxon” orientation to shareholder rather than stakeholder value, which is implicit in the whole institution of codetermination as a cornerstone of economic and social order, is one of the key dividing features between the two capitalisms. Finally, “Americanizing(?),” liberalizing and harmonizing pressures deriving from cross-border investment in German firms by American pension funds or private equity groups, corporate governance conflicts, and international financial reporting standards raise the question whether codetermination has a future in a globalized economy. High profile cases such as Vodafone’s takeover of Mannesmann, Volkswagen’s Brazilian “vacations” for its employee directors, or isolated cases of insider trading violations have highlighted the potential corporate governance conflicts of interests within codetermination. The debate about codetermination under conditions of globalization has also given birth to a number of recent econometric analyses on the performance effects of codetermination, which cannot be reviewed here.<sup>28</sup>

Instead, from a historical perspective I would outline the arguments made by Wolfgang Streeck and Werner Abelshauser because they both 1) offer a long-term story about the German variant of capitalism, placing codetermination in a narrative of continuity, and 2) help contextualize Erich Potthoff’s contributions in the late 1940s and 1950s. Potthoff’s writings

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<sup>28</sup> John T. Addison and Claus Schnabel, “Worker Directors: A German Product that Didn’t Export?,” IZA DP No. 3918 (January 2009), [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1329556](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1329556), accessed July 15, 2010. Franziska Boneberg, “The Economic Consequences of One-Third Co-determination in German Supervisory Boards: First Evidence for the Service Sector from a new Source of Enterprise Data,” University of Lüneburg Working Paper Series in Economics No. 177 (June 2010), [http://www.leuphana.de/fileadmin/user\\_upload/Forschungseinrichtungen/ifvwl/WorkingPapers/wp\\_177\\_Upload.pdf](http://www.leuphana.de/fileadmin/user_upload/Forschungseinrichtungen/ifvwl/WorkingPapers/wp_177_Upload.pdf), accessed July 15, 2010. Dietmar Hexel and Rainald Thannisch, “Bilanz und Weiterentwicklung der Mitbestimmung in ökonomischer Betrachtung,” *Wirtschaftsdienst* (2006), [www.dgb.de](http://www.dgb.de), accessed July 15, 2010. Sigurt Vitols, “Ökonomische Auswirkungen der paritätischen Mitbestimmung: Eine ökonomische Analyse” (2006), [https://www.dgb-bestellservice.de/besys\\_dgb/pdf/DGB70002.pdf?DGBBSESSID=7b59632360a012915cc69ae0ba28347b](https://www.dgb-bestellservice.de/besys_dgb/pdf/DGB70002.pdf?DGBBSESSID=7b59632360a012915cc69ae0ba28347b), accessed July 15, 2010. Dietmar Hexel, “Mitbestimmung als Entwicklungsressource in der wissensbasierten Industriegesellschaft,” (2008), [www.dgb.de/.../++co++mediapool-37818cb52ffdc09cefd0681ea1f1b3c7](http://www.dgb.de/.../++co++mediapool-37818cb52ffdc09cefd0681ea1f1b3c7), accessed July 15, 2010. Bernd Frick and Erik Lehmann, “Corporate Governance in Germany: Ownership, Codetermination, and Firm Performance in a Stakeholder Economy,” *Corporate Governance and Labour Management: An International Comparison* (Oxford: Oxford University Press, 2005), 122-147.

foreshadow the more firm performance-oriented arguments offered today by codetermination defenders.

Streeck and Abelshausen share a similar narrative of strong continuities in German capitalism since the late 19<sup>th</sup> century, yet they differ quite dramatically in their assessment of codetermination's and (by proxy) German capitalism's future prospects in the 21st. In the early to mid-2000s, 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.<sup>29</sup> Streeck stressed Germany's strength in "incremental innovation," largely due to the higher degree of coordination needed to effect change, rather its ability to react swiftly to market change. Streeck thought that labor representation was good for creating loyal workers and for bolstering the training system, but German firms were being increasingly found in niches of established industries, rather than in new industries with new job and new value creation with disruptive, future-oriented technologies. At the same time, Peter A. Hall and David Soskice in *Varieties of Capitalism* stressed Germany's continuing comparative advantage (at least in some critical industrial sectors, such as high value-added machine engineering, but not other more service/financial sectors ala Streeck).<sup>30</sup> But Hall and Soskice were generally more optimistic than Streeck, arguing that continuing institutional divergence is likely and desirable because of the enduring comparative advantage it conveyed Germany on the world economic stage. Due to their historical legacies ("path-dependency"), certain countries will simply excel in certain areas and compete less effectively in others.

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<sup>29</sup> 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).

<sup>30</sup> 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, 1999). Bruno Amable finds these dichotomies particularly problematic. Bruno Amable, *The Diversity of Modern Capitalism* (Oxford: Oxford University Press, 2003).

For Streeck, however, Germany's lack of convergence to Anglo-American norms would tend to become a competitive disadvantage. The complicated set of wage bargaining, already eroding under pressures of eastern reunification and globalization, and codetermination that slowed decision-making, would hamper Germany's prospects in the 21<sup>st</sup> century. For Streeck and co-editor Kozo Yamamura, German and Japanese capitalism were 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, including ones originally derived from liberal and democratic contexts—thereby widening the repertoire of the two systems." Their framework tends to rest on "lock-in effects" and "stickiness" based on long-term continuities such as in industrial relations or training programs. Streeck and Yamamura ultimately stress continuity, integration, coherence over time rather than rupture, change, re-embedding in existing structures, and cross-national fertilization (hybridization).<sup>31</sup>

Streeck's fears were widely echoed in the business press in the mid-2000s (although this has appeared to change by 2010 even though the fundamental institutions of German capitalism have not changed that much). 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.<sup>32</sup>

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<sup>31</sup> 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."

<sup>32</sup> *The Economist*, July 16, 2005, p. 16.

The incoming and outgoing Presidents of Germany's main business association stirred considerable domestic controversy when they announced in 2004: "No one abroad understands German codetermination." The incoming President, Jürgen Thumann, viewed codetermination 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. Outgoing President Michael Rogowski was even blunter: [Codetermination is] a "historical mistake." (*Irrtum der Geschichte*); Rogowski stressed its unique, not replicable, origins.<sup>33</sup> Indeed, for a nation that exports so much, little excitement existed for codetermination "Made in Germany."<sup>34</sup> Efforts to harmonize corporate governance to enhance cross-border investment and Europeanization all tended to call into question codetermination or water it down.

In reaction to such fundamental criticisms, codetermination carried and carries a good deal of symbolic political weight for the German left. It was one of the great political and practical achievements for the labor movement in contrast to the disaster of the pre-1945 period: "We would have to invent the Works Constitution Act [codetermination] if it did not exist" in the words of Henkel's personnel director and director of the main German union (Deutsche Gewerkschaftsbund, DGB).<sup>35</sup> Werner Abelshausen (and the union movement) stressed the continuing vitality of the German production regime for a "postindustrial" world, including the effectiveness of codetermination. For Abelshausen, codetermination not only helped to generate social peace (Germany had one of the fewest days lost to strikes), but also helped solve critical agency problems for firms. Decisively, Abelshausen argues that codetermination was not mainly

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<sup>33</sup> "Wechsel an der BDI-Spitze," n-tv.de, 29 Nov. 2004, [www.n-tv.de/308665.html?pl=druck](http://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](http://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/](http://www.bda-online.de/)>, accessed 15 Aug. 2007.

<sup>34</sup> Addison/Schnabel, "Worker Directors: A German Product that Didn't Export?"

<sup>35</sup> 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](http://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 Governance and Labour Management: An International Comparison* (Oxford: Oxford University Press, 2005).



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 and sheer monetary wages—one of the reasons why works councils appeared in the late 19<sup>th</sup> century and on a largely voluntary basis *prior* to legislation. It was Erich Potthoff who first developed such arguments. The main German union (DGB) today, moreover, stresses how building consent and permitting voice made managerial decision-making more legitimate in the eyes of the workforce. Because it permitted tough choices (rather than blocking them), it also enhanced structural change through cooperation rather than confrontation. According to the DGB, it also enhanced innovation processes through the building of trust.

For Abelshauser and like-minded people, codetermination was thus not an “anachronism,” but exceedingly well placed for 21<sup>st</sup> century knowledge workers; in this new world “trust” is better than expensive control and helps constitute and augment the human/social capital for the firm.<sup>36</sup> Corporative and coordinated capitalism remained a continuing advantage. Abelshauser stressed the robustness of stakeholding because of its stress on long-term human capital participation, rather than shareholder value—indeed that was the core of the ongoing “cultural struggle” (*Kulturkampf*), a battle of values and ideas, not just of competitive advantage in the 21<sup>st</sup> century, but also between shareholder and stakeholder value, between Anglo-Saxon and “Rhineland” social market economy. Arriving after both Streeck’s and Abelshauser’s books were published, the tremendous export figures generated by Germany as the world’s leading exporter after 2001 to 2008 driven by its core industries might have bolstered Abelshauser’s case even more.

Abelshauser’s arguments rest on an impressive line of continuities from Imperial Germany, a “hothouse of *postindustrial* institutions” (*italics mine*), not pre-industrial legacies.

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<sup>36</sup> Abelshauser, *Kulturkampf*, pp. 142 ff. Hexel, “Mitbestimmung als Entwicklungsressource in der wissensbasierten Industriegesellschaft.” “Mitbestimmung: Standortvorteil für Deutschland,” 24. Jan. 2006, [www.dgb.de/themen/++co++c0b3acea-2ac0-11df-6376-001ec9b03e44](http://www.dgb.de/themen/++co++c0b3acea-2ac0-11df-6376-001ec9b03e44), accessed 15 July 2010.

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, now 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)  
 1897: cartels or regulated competition affirmed--prohibited 1957  
 1896: Stock Exchange Act bans futures (derivatives regulated, minimized)  
 Prior to 1871: strong promotion of university research/technical colleges, i.e. “national innovation system” (Bismarck: “the country that has the schools, has the future)  
 1860s ff.: Corporate social welfare policies  
 1883 beginning of modern welfare state (Health Insurance of Workers Law, Accident Insurance Law of 1884, Old Age and Invalidity Insurance Law of 1889)

Except for the prohibitions of cartels in 1957, basic features of German capitalism remain largely coherent until the potentially disintegrating effects of globalization after the 1990s. The larger point being that codetermination was part of a broader set of continuities that (for the most part) conveyed a cohesive, competitive industrial system along an alternative production order than that of the U.S. or UK. Abelshauser also views the subsequent extension of the codetermination tradition as beginning *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 relatively high-skilled machine tool industry. Major conflicts in 1919-1922, 1951-1955 (the subject of Part II), and after 1976-1979 legislatively built this core industrial relations innovation.

Without denying that one can find clear continuities in spite of “all sorts of disorganizing forces,” the continuity thesis has its interpretative problems. Why is there more “system integration” and continuity than not, especially in German history? Despite such undoubted continuities, the ruptures and changes of German history also need to be given their due.<sup>37</sup> Why do “non-liberal” (Streeck) corporatist continuities have precedence over a history of social conflict? Much depends on where one places the end point to be explained: the 1920s,

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<sup>37</sup> 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).

1933/1945, 1968, 1989, or 2010. The “social partnership” or new “system integration” of the post-1945 (post-1973?) period was a hard-won, 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 traditional cartel politics of German business, yet why is this not considered a major *discontinuity* in “nonliberal capitalism” as the Americanization thesis would interpret it?<sup>38</sup> In this case, 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. The stability and system coherence of the constellation of institutions of the 1990s as posited by the *Varieties of Capitalism* literature might be more contingent than systemically coherent or continuous. (This is a major critique of the VoC literature that it stylizes a static portrait of an economy ca. 2000). Then, *if* there is “continuity,” it is a continuity based on dramatic political choices whose outcome was always in doubt at specific points in time (contingency), so the “continuity” disguises conflict, alternative paths that were subsequently not taken—just like the story of codetermination.

The codetermination story with Erich Potthoff is such a case in point. The continuity was *created* by hard political choices, not merely channeled by institutional constraints or path-dependency. In terms of codetermination, such choices were by no means foreordained (Part II). It is less path-dependency than uneven, “crooked,” “path-generation” as Marie-Laure Djelic and Sigrid Quack express it: i.e. history based on contingent agency.<sup>39</sup>

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<sup>38</sup> 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.

<sup>39</sup> 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 reconstituted along similar pre-1945 lines, thus a continuity reaffirmed, but American efforts to push through anti-cartel legislation found success, a discontinuity.

The political decision to sanction “parity codetermination” in German coal and steel was one of the key founding moments of the West German social order—quite a dramatic departure over the dictatorial regime of the Nazis and the more traditional paternalistic authoritarianism of German business. It represents a line of continuity only in retrospect as it barely passed the legislature and then only after a dramatic personal intervention of the political conservative, Konrad Adenauer, to meet with Hans Böckler, the head of the union movement. Erich Potthoff played a key moment at its inception and developed some of codetermination's most sophisticated defenses.

**Part II:**

***Erich Potthoff, Legitimizing German Codetermination with American Management Theory***

As one of the union movement's top advisors and researchers in the late 1940s to mid-1950s, Erich Potthoff managed to blend longstanding Social Democratic demands for “industrial democracy,” with Eugen Schmalenbach's theory about the “optimal” firm, and with the latest American personnel management theory to create a hybrid vision of codetermination as a potentially effective human resource tool for company management that would lower the costs of goods and enhance the welfare of ordinary citizens. Over time, Potthoff's ideas (as in the Federal Republic as a whole) moved the idea of codetermination away from a mere power-sharing arrangement to human resource management, which even many German executives today have come to rely. Potthoff helped champion American-style “personnel management” to achieve this shift.

Potthoff's early contributions to West German political economy have largely been forgotten because in the 1960s he moved back into private practice and academia. Erich Potthoff was born in 1914 in Cologne in a working class neighborhood. His parents ran a small general store (*Kolonialwarenladen*).<sup>40</sup> There he often tallied the credit list for the women who bought foo;

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<sup>40</sup> 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

he recalled how the list of unpaid credits grew quite large for many families. His experience in his parents' store heightened his sense of social responsibility. Potthoff was raised "social and democratic" in a "milieu" where one "could not think otherwise." His high school, for instance, taught him Marx 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 of "rollback" of Social Democratic gains in the 1920s fed into his interpretation of 1950s developments. He attended an upgraded vocational school (*Realschule*) rather than a *Gymnasium* but still received his *Abitur*. An unusual format for the time, by receiving the *Abitur* it permitted him to attend the Universität Köln where between 1935 and 1941 he studied business economics at Germany's most renowned center for this field. In 1941 Potthoff received his doctorate for a dissertation on the legal foundation of private companies. He escaped military service due to chronic, severe ear infections that debilitated him from time to time.<sup>41</sup>

At Cologne, he came into contact with the greatest influence on his intellectual development—Eugen Schmalenbach—who became a sort of surrogate father figure to him. (In the 1980s Potthoff along with others wrote a biography of Schmalenbach). Schmalenbach was one of Germany's foremost management and accounting theorists and one of the leading lights in German business economics (*Betriebswirtschaftslehre*, *BWL*), most famous for his theory of dynamic accounting for financial statements and cost accounting scheme (*Kontenrahmen*) utilized all over Europe. In contemporary terms, Schmalenbach was a cross between Peter Drucker and Robert Kaplan. Between 1937 and 1946, Potthoff worked for Eugen Schmalenbach's auditing firm, which after 1933 was sold to its partners and transformed into a research institute when Schmalenbach resigned from his chair at the University of Cologne

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<sup>41</sup> Erich Potthoff, *Die Gesellschaftsverträge der Offenen Handelsgesellschaft und Kommanditgesellschaft* (Köln: Dissertation, 1942). Erich Potthoff, Heinrich Zintzen, und Karl Halft, *Handbuch der Gesellschaftsverträge in Personengesellschaften* (Köln: Westdeutscher Verlag, 1965<sup>3</sup>). Potthoff offers a somewhat personalized description of the development of business economics during the Third Reich in Erich Potthoff, „Betriebswirtschaftslehre im Nationalsozialismus (1933-1945) bei politischer Gleichschaltung und staatlicher Wirtschaftslenkung,“ *Entwicklungen der Betriebswirtschaftslehre: 100 Jahre Fachdisziplin—zugleich eine Verlagsgeschichte*, (Hrsg.) Eduard Gaugler und Richard Köhler (Stuttgart: Schäffer-Poeschel, 2002), 87-110.

because of the persecution of his Jewish colleagues; Schmalenbach's wife was Jewish and objected to the Nazis' discrimination. In 1943, Potthoff received power-of-attorney for the firm and, with others, helped the Schmalenbach family and continue Schmalenbach's research through a number of working circles established by the Schmalenbach-Society dedicated to keeping Schmalenbach's ideas alive. (The Schmalenbach-Society is still one of Germany's most prestigious management associations.)<sup>42</sup>

Potthoff became Schmalenbach's last personal assistant during those awful years and his "most important liaison to the outside world."<sup>43</sup> By the end of the war, the Schmalenbachs' situation became so desperate that they carried poison capsules in case they were arrested.<sup>44</sup> A small group of people saved the Schmalenbachs. Potthoff spoke of an "underground relationship" or a "discussion circle of inner emigration."<sup>45</sup> 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."<sup>46</sup>

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 that became some of the foundational works started through the Schmalenbach-Society in the 1930s; the Schmalenbach-Society during the Third Reich was a loose organization of people dedicated to promoting Schmalenbach's ideas; it could not be a formal organization or else the Nazi party would have "synchronized" it. These books researched and mostly written during the Third Reich were among the most important in the early 1950s, helping to restart the German management

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<sup>42</sup> See Schmalenbach-Gesellschaft für Betriebswirtschaft e.V., [www.schmalenbach.org](http://www.schmalenbach.org).

<sup>43</sup> Kruk, *Eugen Schmalenbach*, S. 184.

<sup>44</sup> 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.

<sup>45</sup> 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.

<sup>46</sup> Author interview with Erich Potthoff, March 24, 2005. Kruk, *Eugen Schmalenbach*, S. 184. Also Erich Potthoff, "Betriebswirtschaftslehre im Nationalsozialismus (1933-1945, 104-106.

profession.<sup>47</sup> 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). Potthoff's and Schmalenbach's entwined fates was symbolized by the fact that after bombs destroyed the Potthoff's Cologne house and after 1943 when their son was born, Potthoff and his family moved to Schmalenbach's home in Halver in the safer Wuppertal region.<sup>48</sup>

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" (*Zur Philosophie des Nullpunktes und der Selbsthilfe*).<sup>49</sup> More importantly for Potthoff, Haurand had a daughter, Elisabeth (Liesel), who spoke fluent English. Elisabeth would later follow Potthoff to the main German union's Economic Research Institute (*WWI*) as his personal assistant where she worked for decades organizing research projects and assembling statistical work, especially about the retail sector and consumption patterns.<sup>50</sup> However, at the immediate end of the war, Elisabeth helped Potthoff arrange an automobile from the British to clear Schmalenbach's property of Russian prisoners-of-war. 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 years, while Potthoff's life took a decidedly new course.<sup>51</sup>

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<sup>47</sup> AdsD FES, WWI/Erich Potthoff Korrespondenz, Signatur 0014: Korrespondenz übriges Ausland A-L Potthoff to Professor Metod Dular, Jugoslavia, 3. Juni 1953.

<sup>48</sup> 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 Potthoff,“ *Erwartungen: Kritische Rückblicke der Kriegsgeneration* (Sonderdruck Ahrweiler Meerbusch: Günter Olzog, 1981), S. 1-6.

<sup>49</sup> "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](http://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.

<sup>50</sup> 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.

<sup>51</sup> Kruk, *Eugen Schmalenbach*, S. 184.

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 for the health of the overall economy and individual firms. That meant he needed union members to understand business, management, and economy; unlike many of his Social Democratic colleagues, Potthoff had the intellectual tools. For both Böckler and Potthoff, true codetermination (*Mit-bestimmung*), co-management of firms and economy required that union leaders be as competent and knowledgeable as managers. For this reason, in 1946 Böckler started the DGB's Economics Research Institute (WWI) to provide economic and social information for issues facing the labor movement. For instance, it employed Germany's leading economic statistician, Rolf Wagenführ, for a time in the late 1940s. The institute became Böckler's "favorite child."<sup>52</sup>

Viktor Agartz, Wilhelm Deist, and Potthoff headed the Economics Research Institute. 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 too had worked for Schmalenbach's Treuhand AG. Wilhelm Deist, a close associate of Böckler, had also worked at the Treuhand AG. Deist would lead a special research office of the DGB's Economic Research Institute and later became a colleague with Potthoff in the Steel Trustees Administration (*Stahltreuhändervereinigung*) to deconcentrate German heavy industry. All three, Potthoff, Agartz, and Deist, had studied to become chartered accountants (*Wirtschaftsprüfer*) at the University of Cologne. This Schmalenbach-Cologne-accountancy connection was an important building block in Potthoff's career.

Potthoff helped build the Economics Research Institute into an all around economic information service for the newly unified German central union (DGB), as it still is. In the

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<sup>52</sup> 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.



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.<sup>53</sup> The demand for them was so high that they began publishing them as *Economics Research Institute-Communiqués* (WWI-Mitteilungen). Potthoff published innumerable articles on a range of corporate governance issues between 1950 and 1956.<sup>54</sup> 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.<sup>55</sup>

Potthoff also helped found *THE FIRM* (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 management, joint-stock company reform, management and decision-making theory, auditing, controlling, and finance. Potthoff's publications appeared until the late 1980s.<sup>56</sup>

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<sup>53</sup> 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.

<sup>54</sup> 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.

<sup>55</sup> 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](http://library.fes.de/gmh).

<sup>56</sup> See [www.der-betrieb.de](http://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 Unternehmungsleitung," 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

Potthoff also helped to restart *Schmalenbach's Business Review* (then *Schmalenbach's Zeitschrift für betriebswirtschaftliche Forschung* (ZfbF) along with Karl Hax (later professor at the University of Frankfurt), the new editor of *Schmalenbach's Business Review*.<sup>57</sup> In the late 1940s, Potthoff 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.”<sup>58</sup> This focus on “manpower,” personnel, on the “worker as human being” was a crucial addition to Schmalenbach's more functionalist, accounting perspective.

In his own writings for *Schmalenbach's Business Review* (then *ZfbF*), Potthoff published articles focusing in particular senior management, the proper role of personnel management, corporate organization, and auditing. Potthoff was heavily involved with publishing three of the most important books on corporate management after the war, *Firm Organization*, *Corporate Konzern Organization*, *Corporate Finance* (*Unternehmensorganisation*, *Konzern-Organisation*, *Finanzorganisation*). Those books essentially outlined the advantages and disadvantages of

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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.

<sup>57</sup> 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.

<sup>58</sup> AdsD FES, WWI/Erich Potthoff Korrespondenz Professoren 1949-1956, Signatur 0016: Potthoff to Karl Hax, Walter Krähe, Otto Löffler, Willy Minz, 6 Aug. 1951.

functional versus multidivisionally or Konzern-organized firms based on the practical experiences of German firms since the 1920s.<sup>59</sup>

Finally, after 1946 Potthoff became involved with the re-founding of the important *Rationalisierungskuratorium der Deutschen Wirtschaft e.V.* (RKW), which now included union representatives for the first time; Potthoff remained active on RKW boards until 1980.<sup>60</sup> 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.<sup>61</sup>

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 the prism of Schmalenbach’s theories of the firm—as a personnel management practice to optimize the functioning of the firm. For Potthoff, this was partially inspired from America.

For Potthoff, codetermination was the key aspect of improving corporate effectiveness (good for the ordinary consumer first as it potentially lowered prices, then for the business) and

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<sup>59</sup> 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.

<sup>60</sup> 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](http://www.rkw.de/RKW/99_UeberRKW/Geschichte/MAG105_Schmalenbach.pdf)<, accessed 15. Nov. 2007.

<sup>61</sup> 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.

then combining it with social responsibility so that business interests would be better aligned with the interests of society as a whole. Labor representation inside firms, particularly in questions of social or personnel management, would help the decision-making and efficiency of large firms that were, in his view, bureaucratic anyway. Potthoff tended to stress how much capitalism was no longer just a question of founder-owners-entrepreneurs but of salaried managers, planning, and corporate bureaucracy. For Potthoff the *ownership* of the means of production was less meaningful than proper *management* to optimize the efficiency of firms. This distinction made him more flexible on the question of socialization than many of his Social Democratic colleagues. 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.

Like Schmalenbach, Potthoff focused primarily on enhancing 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 a 1953 Economics Research Institute report, the Institute (Potthoff) 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.<sup>62</sup>

This view on pricing is debatable, but Potthoff regularly stressed that big business already managed markets, especially through traditional cartel arrangements, and that competition was imperfect; thus codetermination provided an instance inside large bureaucratic entities to have a voice about the direction of products, pricing, and industrial relations. At the Economics Research

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<sup>62</sup> 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).

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 Konsumgenossenschaften e.V.*) after leaving the Economics Research Institute. In 1957 Potthoff explained why he moved to Hamburg to Elisabeth Haurand, his personal assistant: "We appear to have both found ourselves on the side for the struggle for the consumers. Codetermination another way."<sup>63</sup> Rationalization of production fit with his goals for a broader-based cooperative consumer society that provided for the welfare of ordinary worker citizens. He explained in one letter to a Minister of North Rhine-Westphalia:

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 contradiction.<sup>64</sup>

On one 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

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<sup>63</sup> 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.

<sup>64</sup> 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

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.”<sup>65</sup>

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 as he could speak both the language of labor and of management. His educational training and personal inclinations oriented him toward finding pragmatic, practical solutions more so 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 Catholic church.”<sup>66</sup> Indeed, Potthoff’s ability to articulate positive reforms integrating labor with more effective business organization did not lend itself to easy left-right characterizations. Although he did have many Catholic friends and colleagues, he was not indebted to Catholic thought.<sup>67</sup> His working class upbringing and Catholicism did, however, teach him to put the human being in the center of economic life (a major rhetorical trope at the time), but “that we

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<sup>65</sup> AdsD FES, WWI/Erich Potthoff Korrespondenz 1949-1956 Signatur 0001: Direktor Friedrich Simon, Bank für Gemeinwirtschaft Nordrhein-Westfalen, 12. Nov.1952.

<sup>66</sup> 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 too notes the influence of Schmalenbach on Potthoff. On Potthoff’s pragmatism, see Müller-List, *Montanmitbestimmung*, S. XXIV, F. 23.

<sup>67</sup> When asked directly if Catholicism or Catholic social teaching influenced him, Potthoff replied that he was a “lapsed Catholic,” Author interview with Erich Potthoff, March 24, 2005. 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.

need to discuss social questions with a warm heart, but with cold reasoning.”<sup>68</sup> Potthoff wanted a scientific, objective basis to legitimize his politics and economics.<sup>69</sup>

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 himself and Schiller edited a 1958 collection entitled *Principles of Modern Economic Policy (Grundfragen moderner Wirtschaftspolitik)* and were all members of the program commission to prepare for the famous 1959 Bad Godesberg conference moved the Social Democratic Party away from its demand to expropriate property.<sup>70</sup>

### ***Erich Potthoff, American Personnel Management, and the “Struggle for Codetermination”***

Potthoff advocated for German codetermination based on classic Social Democratic-style “industrial democracy” but blended it with American management theory in the effort to “modernize” German personnel management theory (“manpower management” in American parlance of the time). To be clear, the political balance of power in Germany introduced codetermination, but Potthoff’s arguments defending it were among the highest profile and most sophisticated at the time. They appeared mostly in the Economics Research Institute’s Communiques (*Mitteilungen des Wirtschaftswissenschaftlichen Instituts der Gewerkschaften*), the Union’s Monthly Newsletter (*Gewerkschaftliche Monatshefte*), *The Firm (DER BETRIEB)*, and his more management, organization, and accounting-oriented pieces in *Schmalenbach’s Business*

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<sup>68</sup> 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.

<sup>69</sup> 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.

<sup>70</sup> 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, 1958). „Mitglieder der Programmkommission für das Godesberger Programm (1959), archiv.spd.de, accessed February 21, 2007.

*Review (ZfhF)*. The ordinary Social Democratic or union “rank and file” did not necessarily read them, but they engaged the intellectual class, most especially those who read the business press—including his opponents. Along with other academics, Potthoff helped introduced “American-style” human resource management and its techniques to German business economics and universities. So at the heart of the German codetermination story was an “Americanizing” story as well.

As one of the major political battles of the early postwar period, the story of codetermination is well told and can only be sketched here for context and orientation. After the physical and moral destruction of the Third Reich, traditional political and economic elites were discredited, a powerful movement to reintroduce democracy after an authoritarian regime, and a profound skepticism about the ability of capitalism to provide for ordinary people (even among conservative Christian Democrats), generated considerable momentum to introduce “industrial democracy” inside firms to align them with the public interest. The 1947 Ahlen Program by the conservative Christian Democrats called for the nationalization of major industry, *especially* coal and steel considered the most politically reactionary sector. At the time, a Catholic social movement, whereby rehabilitation, repentance, and restitution played a strong role, captured the conscience of many on the traditionally conservative Right. No industry was as thoroughly reviled as German heavy industry with its reputation as the armaments smithy of the Ruhr. 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. Most of those on the left demanded socialization of big business. Geopolitically, international control of the Ruhr animated both French and Russian authorities, but at home, control (if not socialization) of heavy industry animated the Social Democratic demand for codetermination. Persecuted by the Nazis, the Social Democrats had tremendous moral authority. Before the Cold War reconstituted the playing field, big business played defense, off-



balance, back on their heels.<sup>71</sup> This moment of post-1945 disorientation and openness to multiple futures, alternative economic orders, is difficult to imagine today.

As after World War One, workers' councils took over the firms to protect their livelihoods and began to rebuild as best they could. As many advocates of codetermination later reminded their critics, reconstruction required workers' voice and participation on the ground, in practice; later returning business executives needed the confirmation and confidence of labor to return to their posts.<sup>72</sup> At the time, Allied occupation authorities had complete control. The decision to introduce codetermination with formal labor representation occurred as early as 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 introduce parity codetermination in Ruhr coal and steel firms. In 1946, industrialists were horrified, but powerless to stop such moves, let alone the dismantling of their factories and deconcentration of their firms.

Just a few years later, most industrialists reminded just about everyone that lent them their ear that codetermination was an occupation power *Diktat* and that Dinkelbach was a traitor to the cause. In 1954, for instance, Wilhelm Zangen of Mannesmann blamed the Allies and Dinkelbach for codetermination, "whereby the Allies and Herr Dr. Dinkelbach were the leading pathfinders for a principally mistaken social system."<sup>73</sup> Dinkelbach not only defended

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<sup>71</sup> 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, und 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 und Norbert Kluge (Hg.), *Mitbestimmung in Deutschland: Tradition und Effizienz* (Frankfurt/Main: Campus, 1999). Werner Plumpe, *Betriebliche Mitbestimmung in der Weimarer Republik: Fallstudien zum Ruhrbergbau und zur Chemischen Industrie* (München: R. Oldenbourg, 1999).

<sup>72</sup> AdsD FES, WWI Signatur 0017 WWI Korrespondenz (Potthoff): Potthoff to Dr. Schelsky, Akademie für Gemeinwirtschaft, 19. März 1951

<sup>73</sup> MA: M21.558 Zangen to Ernst Hellmut Vits, 12. April 1954

codetermination (largely on grounds of Catholic social thought that stressed workers as moral human beings), but also headed the planning team to break up the coal and steel industry. Like Potthoff, he too was influenced by Schmalenbach's ideas that German firms were too large to be managed effectively. Given Potthoff's network of union contacts reaching up to Böckler, his auditing and organizational expertise, his connections to the Schmalenbach Society, and his political views on industrial deconcentration and codetermination, Potthoff made an ideal candidate for the Steel Trustees Administration. Potthoff was the Steel Trustees Administration's youngest member. Moreover, a few years later Dinkelbach appointed Potthoff the chief labor representative to Mannesmann (at the time he was chair of the supervisory board of Mannesmann), so that Zangen's comments were not just one's directed at Dinkelbach, but a personal one directed at Potthoff of his own supervisory board.

In his 1957 book, *The Struggle for Codetermination*, Potthoff noted the dilemma of the timing of codetermination's introduction: "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."<sup>74</sup> 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 jobs. Dismantling or deconcentration confirmed those fears.

For his efforts, Dinkelbach in his capacity as head of the Steel Trustees Administration became one of the most controversial figures in early West German political history. Potthoff recalled "human warmth did not exactly stream toward him;" many thought him a collaborator or "lackey" of the occupation forces.<sup>75</sup> Elisabeth Haurand, who initially worked as Dinkelbach's

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<sup>74</sup> Potthoff, *Kampf um die Montan-Mitbestimmung*, S. 49.

<sup>75</sup> Author interview with Erich Potthoff, Düsseldorf, 24. März 2005. *Die Neuordnung der Eisen- und Stahlindustrie im Gebiet der Bundesrepublik Deutschland: Ein Bericht der Stahltreuhändervereinigung* (München: C. H. Beck, 1954), S. 523-620. Opposing viewpoint, see K.H. Herchenröder, Joh. Schäfer, and Manfred Zapp, *Die Nachfolger der Ruhrkonzerne* (Düsseldorf: Econ-Verlag, 1953), S. 13-15.

personal secretary before moving to the Economics Research Institute with Potthoff, “experienced much bitterness” working with Dinkelbach.<sup>76</sup> One industrialist, Hermann Reusch (director of the GHH in the 1950s), publically accused Dinkelbach of engaging in orgies at work.<sup>77</sup>

In retrospect (2005), Potthoff thought that Dinkelbach’s efforts have been “hushed up. He saved the German steel industry.”<sup>78</sup> Potthoff admired Dinkelbach; Dinkelbach was essentially the financial controller and auditor of the Vereinigte Stahlwerke, which became one of Potthoff’s main career activity (as director of an auditing firm) and field of academic expertise after the 1960s (see his book, *Auditing for Human Resource Management*, 1986).<sup>79</sup> Both admired Schmalenbach. Potthoff later remarked that Dinkelbach “had the courage to join the Schmalenbach Society—one of the few” during the Third Reich. Along with Schmalenbach, Dinkelbach also helped to promote the chartered accounting profession, a subject dear to Potthoff, and his chosen profession after his years of political activism.<sup>80</sup>

Potthoff thought that the central question facing Dinkelbach after the war was: “how can socialization be combined with reasonable business economics.” It was a question that Potthoff wrestled with as well. For Potthoff, codetermination was the key answer.

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. For the French and Soviets, what to do with the Ruhr was one of the most contentious geopolitical issues. For the Social Democrats, a unified neutral Germany and a nationalized coal and steel industry were one of their main political demands, but the course of

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<sup>76</sup> TKA: NDI/19 Haurand to Dinkelbach, 17 April 1950; letter of reference for Elisabeth Haurand, 26 July 1950.

<sup>77</sup> 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.

<sup>78</sup> 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. The VSt was reorganized utilizing Schmalenbach’s principles of accounting and organization. TKA: NDI/19 contains extensive correspondence between Dinkelbach and Haurand 1950.

<sup>79</sup> Erich Potthoff und Karl Trescher, *Controlling in der Personalwirtschaft* (Berlin: De Gruyter, 1986).

<sup>80</sup> Author Interview with Erich Potthoff, 24. März, 2005. Fear, *Organizing Control*.

Cold War history began to move against them—and against codetermination. When the Federal Republic of Germany came into being in 1949, its Basic Law or Constitution guaranteed the right of collective bargaining, reinstated the requirement of works councils for firms, and some form of employee voice in the firm. The exact form of codetermination, however, remained controversial, especially as it was entwined with the question of socialization. It was at this critical juncture that Erich Potthoff became one of the highest profile voices for parity codetermination.

Between 1949-1951 a number of controversial issues were wrapped together: who would control the Ruhr; whether big business, especially coal and steel, should be socialized; and what form of codetermination should be instituted. By 1949 dismantling had slowed, but the Allies still required the deconcentration of Ruhr heavy industry; among others Dinkelbach and Potthoff were working on the planning. The postwar economic revival combined with a nascent production boom caused by the Korean War beginning in June 1950 made German industrial production more important for Allied efforts. The French too thought they were losing control over the Ruhr and Robert Schumann announced his dramatic plan for a European Coal and Steel Community in May 1950. Industrialists began to feel more confident and refused union demands for parity codetermination; at most, they were willing to accept one-third labor representation, but most were opposed to that in their ideal world. The existing government draft of the codetermination law stated that only *firm* employees could join corporate supervisory boards, but unions rejected this clause. 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 massive general strike in January 1951.<sup>81</sup> The strike over codetermination would potentially upset a fragile social peace and bring down the government at a crucial moment of integration into the Western alliance. In a series of dramatic meetings, 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.

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<sup>81</sup> 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).

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 a Labor Director (*Arbeitsdirektor*) for companies' executive board—a key reform for Potthoff's conception of codetermination. For Adenauer, compromising on codetermination largely took the issue of nationalization off the table for coal and steel; it also found him greater support for tighter western integration (against the Social Democratic demand for a neutral, unified Germany). On 21 May 1951, Parliament passed the parity codetermination law, but it applied *only* to coal and steel firms. This inflamed coal and steel industrialists, who felt they were sold out and made an exception. About a year later, on July 19, 1952 Works Constitution Act passed Parliament, but 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 Communists voted *against* the 1952 Works Constitution Act. In a famous speech from 30 January 1951 regarding the first agreement but that could have applied to the second law as well, union leader 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].<sup>82</sup>

Like Böckler, Potthoff's labor director should not just be a representative of employees, but an integral part of a company's personnel or industrial relations management. At the time of this political controversy and Böckler's words, Potthoff was actually the supervisory board chair of Mannesmann; Mannesmann's executives, led by one of the most unrepentant and outspoken company directors in West German industry, Wolfgang Zangen, came out legally and publically against codetermination; he had special hatred for the position of labor director on the executive

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<sup>82</sup> Quoted from Potthoff, *Zwischenbilanz der Mitbestimmung*, S. 44. Potthoff, *Kampf um die Montan-Mitbestimmung*, S. 79-80.

board. Over the next decade, Mannesmann would try to show the coal and steel industry how to escape of the chains of codetermination (more on this below).<sup>83</sup>

How did Potthoff conceive codetermination in society and this labor director in the corporate governance of firms? Potthoff blended traditional Social Democratic power-sharing demands with Schmalenbachian functional optimizing claims with American/"Anglo-Saxon" joint consultation and personnel management theory. One of the first intimations of Potthoff's thinking appears in a speech from the summer of 1946.<sup>84</sup> After discussing the numerous problems of food, goods, raw materials, the black market, all of which he lumped together under an umbrella term of "circulatory problems" (*Kreislaufstörungen*), Potthoff argued: "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. His thinking fit perfectly with British occupation forces, the Social Democrats, and the newly appointed Steel Trustee, Dinkelbach.

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 itself was inadequate if it 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

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<sup>83</sup> 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.

<sup>84</sup> 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.

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.<sup>85</sup> Political and economic democracy was important to establish those overall priorities, that is, codetermination (*Mitbestimmung*). Codetermination had a political-democratic, a macroeconomic, and a microeconomic (firm-level) function.

Correctly or incorrectly, Potthoff transferred Schmalenbach's skeptical ideas for managing large firms onto the overall economy. Schmalenbach doubted 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. Since bureaucracies were not markets, they needed better management. While Schmalenbach stressed managed decentralization and pretial (internal, market-oriented) pricing, at the time Potthoff placed greater faith in regulation with proper firm-level statistical management and a balance of social interests anchored in codetermined institutions. 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.<sup>86</sup>

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<sup>85</sup> 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.

<sup>86</sup> 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).

In a 1953 letter to Wolfgang Zangen, director of Mannesmann, Potthoff linked rationalization, higher wages, and the necessity to coordinate an economy, even through 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 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.<sup>87</sup>

However, Zangen and Potthoff did differ in their opinions and the means. In the late 1940s Potthoff favored the socialization of big business in line with the political program of the Social Democrats and DGB, 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.”<sup>88</sup> Spoken like the auditor he became in the second half of his life. For both the macroeconomy and for firms (particularly for personnel management), Potthoff felt upgraded statistical methods (often borrowed from America) were needed. But the key for balancing claims in society, in managed cartels, or in individual firms was codetermination.

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<sup>87</sup> 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.

<sup>88</sup> 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.



As demonstrated by his correspondence with myriad sociologists and industrial relations experts across the world as a result of his position in the DGB Economic Research Institute, Potthoff thought more like an academic, empirical sociologist than a Catholic social intellectual or Social Democratic politician. Through the DGB'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, the company on which he sat on the supervisory board.<sup>89</sup> The Economics Research Institute collected literature on personnel management and 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; Horkheimer worked specifically on the Mannesmann case and industrial relations/sociology in general by generating statistical surveys of worker opinions about their work environment.<sup>90</sup> The Frankfurter School 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; such statistical techniques could also be used by a modern personnel executive to help manage the firm.<sup>91</sup> Potthoff was the key liaison between academia and the union movement. Potthoff desired more extensive training in German universities in the direction of a sort of "social

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<sup>89</sup> 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 Signatur 0010 St-U, Potthoff to Hans Jürgen Teuteberg, 23. Juni. 1955. Teuteberg, *Geschichte der industriellen Mitbestimmung in Deutschland*.

<sup>90</sup> 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 and 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.

<sup>91</sup> Thomas Wheatland, *The Frankfurt School in Exile* (Minneapolis: University of Minnesota Press, 2009), esp. 191 ff.

economist" (*Sozialwirt*).<sup>92</sup> 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 himself gravitated toward the human relations school of management.

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 (who sent 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 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 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 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.<sup>93</sup>

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<sup>92</sup> AdsD FES, WWI Korrespondenz Institute Signatur 0017, Potthoff to Helmut Schelsky, Akademie der Gemeinwirtschaft, 22. März 1955.

<sup>93</sup> 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," WWWI Jg. 5, Nr. 5/6, S. 110-116. AdsD FES, WWI/Erich Potthoff Korrespondenz 1949-1956 Signatur 0001: Potthoff to Friedrich Simon,

Potthoff's most controversial yet, for him, 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 personnel manager needed executive functions, not just advisory ones. This conception of the *Arbeitsdirektor* derived both from the Schmalenbach's optimizing, functional management thinking and from "personnel management" or "manpower management" made in America. However, he "Germanized" the idea by arguing that it should be held by a representative of labor who had workers' best interests in mind. Personnel management simply needed to be a management function on par with technical or commercial management. By the late 1960s, his academic work focused mostly on personnel management.

For Potthoff, it was essential that modern personnel management overcome the depersonalization caused by the division of labor inside the impersonal modern bureaucratic, large firm; this was less of a problem in smaller, entrepreneurial market-oriented firms.<sup>94</sup> This was a general trend in capitalism, also seen in Britain or the United States. Ever more specialization within firms and the greater complexity of industrial relations outside of firms, corporations needed to develop greater attention to personnel management. Potthoff leaned, in particular, on two standard American textbooks on personnel management, one by Dale Yoder (University of Minnesota) and the other co-authored by Walter Dill Scott (Northwestern), Robert C. Clothier (President Rutgers University), and William R. Spiegel (Northwestern); each textbooks well into their third and fourth editions, respectively. Both opened their books with a discussion of trends of large-scale business that transformed industrial relations in the United States. Quoting principles espoused in Dale Yoder's textbook, *Personnel Management and*

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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*.

<sup>94</sup> 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.

*Industrial Relations*, Potthoff stressed that there were three “M”s of management: materials, money, and men; the latter had been relatively neglected. 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.”<sup>95</sup> Firms needed to construct different organizational ways of ensuring “different forms of advising (*Mitberatung*) and codetermination (*Mitbestimmung*).”<sup>96</sup>

German industry, in particular, had to pay more attention to workers as subjects, not objects and as human beings. Writing to Dr. Schelsky of the Academy for Public Economy, Potthoff argued:

I believe that you would agree with me that in Germany it takes a great deal of effort to at first deal with people. I just cannot help myself to have the impression that we here in Germany at almost every level still view people too much as an object, rather to view them as fellow human beings (*Mitmenschen*), as a co-worker (*Mitarbeiter*). If that were namely the case, the many problems of codetermination (*Mitbestimmung*) would be much more simple and less complicated. If I reflect on the “ethics” of this viewpoint, we still have here too many sociable (*soziabele, sic*) people instead of social people.<sup>97</sup>

Although Potthoff’s language fits quite well with the rhetoric of the time to view workers as “human beings” or the “human factor” at work, he relied on American ideas that almost all management was “manpower” or “people management:

Manpower management is not in any sense a distinctive feature of private capitalism. On the contrary, it is as important in the government service as in any private industry, as important in a socialist or communist economy as in the “free enterprise” system. All modern economies are “management minded,” so far as manpower management is concerned, because the problem of manpower management is a major problem of all large-scale production, quite apart from any question as to who owns the material facilities of production or what system is used to distribute the product. Actually, some of the finest research, the results of which are most valuable in increasing the effectiveness of manpower

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<sup>95</sup> Potthoff, “Die Organisation des Personalwesens,” S. 574. Potthoff quoted Dale Yoder, *Personnel Management and Industrial Relations* (1948, 3<sup>rd</sup> edition), 9 (on the 3 Ms) and referred to Walter Dill Scott, Robert C. Clothier, William R. Spriegel, *Personnel Management: Principles, Practices and Point of View* (New York 1949, 4<sup>th</sup> edition).

<sup>96</sup> Potthoff, “Der Arbeitsdirektor,” S. 12.

<sup>97</sup> AdsD FES, WWI Korrespondenz Institute Signatur 0017, Potthoff to Helmut Schelsky, Akademie der Gemeinwirtschaft, 19. März 1951.

management, has been carried on by government agencies and under conditions of public employment.<sup>98</sup>

With his reading of both American and British industrial relations literature, Potthoff (and Yoder and Scott/Clothier/Spriegel) noted how much the management of men as well as “joint consultation” altered the field during the war. In a letter to Helmut Schelsky, Potthoff ironically noted:

In regards joint consultation [joint consultation in English, JF], the comparison with England is quite close. You will sure know that this institution originated from the Second World War where the goal was to interest workers in the raising of armaments production. It is moreover especially interesting to not that one always begins to remember the people, if they are needed for wartime goals. In the First World War it was similarly so. And for the steel industry it must be said that this institution existed with us to a much greater extent than in England, only it was not characterized as such. Also in the statutes of the deconcentrated firms it was required that the executive board meet at least once a month with the department directors and the representatives of the works councils to discuss and elucidate the state of the business. Those plants had biweekly meetings. This arrangement proved itself very well and gave workers at first through the works councils a running overview of firm operations.<sup>99</sup>

Not only did such cooperative industrial relations prove themselves during wartime and reconstruction, but they appeared to be a sign of the times, even in the United States. Yoder opened his book by noting the “striking advances” in industrial relations in the defense industry and World War II: “High level demands for manpower in post-war years have continued the pressure for soundly conceived and effectively administered industrial relations.”<sup>100</sup> Yoder noted that over 5,000 joint labor-management committees in defense firms were created during World War II.<sup>101</sup> Scott/Clothier/Spriegel reviewed different “concepts of labor” and concluded: “The citizenship and partnership conceptions of labor are at present playing important roles in industrial relations” in the United States. Under the citizenship conception:

Just as citizens of the United States automatically have certain inherent rights and a voice in determining and exercising those rights, so are workers, as citizens of the industry in which they are employed, entitled to a right to have a voice in determining the rules and regulations under which they work... Like political democracy, industrial democracy is self-government by the people,

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<sup>98</sup> Yoder, *Personnel Management and Industrial Relations*, 4-5, also 21-24, 48-65.

<sup>99</sup> AdsD FES, WWI Korrespondenz Institute Signatur 0017, Potthoff to Helmut Schelsky, Akademie der Gemeinwirtschaft, 19. März 1951.

<sup>100</sup> Yoder, *Personnel Management and Industrial Relations*, vii.

<sup>101</sup> Yoder, *Personnel Management and Industrial Relations*, 59, 488-489

determining the mutual relationships of employer and employee, terms of employment, conditions of labor, rules and regulations affecting employees, and the relationships of employees to each other.<sup>102</sup>

The partnership conception, which differed from the citizenship concept based on intrinsic rights, the “mutuality of interest” in the ongoing, profitable operations of the firm was paramount in the long-run, regardless of the short-term contradictions.<sup>103</sup> Yoder reminded readers that even for functional specialties of finance, sales or production, most the executive function was essentially managing men.<sup>104</sup> For Potthoff, examining such standard American textbooks made it appear that Social Democratic demands were hardly out-of-line with general trends across the world and if anything, German firms had to catch up to more advanced Anglo-Saxon practices, especially in terms of making personnel management an “applied science” benefiting from sociological insights to make firms produce more effectively.<sup>105</sup>

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 director must be active in supervising, advising, coordinating, and educating.”<sup>106</sup>

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<sup>102</sup> Scott, Clothier, and Spriegel, *Personnel Management*, 5-6.

<sup>103</sup> Scott, Clothier, and Spriegel, *Personnel Management*, 8-9.

<sup>104</sup> Yoder, *Personnel Management and Industrial Relations*, 9.

<sup>105</sup> Yoder, *Personnel Management and Industrial Relations*, 10-15.

<sup>106</sup> Potthoff, “Der Arbeitsdirektor,” S. 16.

For Potthoff, personnel management did not imply just the management of industrial relations, complicated as these were, but the systematic organization of employees throughout the business. In short, human resource management should be an executive function that should be professionalized. 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, vice-presidential* level. Yoder stressed that the “formulation of personnel policies is properly a project in which top management and all levels of operating managers may well cooperate. Certainly, those charged with responsibility for manpower management should not impose policies upon the whole structure. Without cooperative formulation, the policies are likely to be regarded with question if not with opposition. A manpower management program requires general understanding and support if it is to be successful.”<sup>107</sup> More top-down and functional, Scott, Clothier, and Spriegel stressed the need for a “functional department primarily concerned with personnel” as there was “Obviously, a great need exists for giving these executives, foremen, and supervisors the right point of view toward their dealings with their subordinates,” and policies “uniformly and effectively carried out...” It also included training executives and middle management, not only workers.<sup>108</sup> Many American and British firms already had joint committees combining both labor and managerial personnel. Personnel departments had a distinct place on the organizational chart even if in mostly of an advisory capacity.<sup>109</sup> Most American universities or business schools had professors of personnel management—unlike Germany.<sup>110</sup> Unlike Britain and the U.S., dealing

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<sup>107</sup> Also Yoder, *Personnel Management and Industrial Relations*, 14-15

<sup>108</sup> Scott, Clothier, Spriegel, *Personnel Management*, 23, 315-331.

<sup>109</sup> Scott, Clothier, Spriegel, *Personnel Management*, 28-39.

<sup>110</sup> AdsD FES, WWI Korrespondenz Institute Signatur 0017, Potthoff to Helmut Schelsky, Akademie der Gesamtwirtschaft, 22. März 1955. Potthoff to Helmut Schelsky, Akademie der Gesamtwirtschaft, 18.

with “social questions of the everyday” was always politicized in Germany. If one reads Scott, Clothier and Spriegel’s version of a personnel department, the overall place in the firm is often obscured by the procedures, techniques, interview as tool, descriptions, job ratings, tests, aptitude tests, aids, and controls for various aspects of the department all designed for the “effective molding of human resources as contrasted with physical resources.” It was a professional activity. This was a far cry from the politicized, near class war dialogue of Germany; their portrayal remained well within the bounds of American-style “democracy and private ownership.”<sup>111</sup>

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” with little organizational backup.<sup>112</sup> The *Arbeitsdirektor* needed executive functions, not just staff advisory ones.

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. It should be a professional position trained in business schools much like it had emerged in American business schools and was integrated into American firms through a series of specialized tasks from wage and salary administrators, to specific cost accounting and statistical techniques to assess the cost of personnel and benchmark, health and safety standards, working conditions, training, recruiting at all levels, employee rating, job analyses,

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Dez.1950. Schelsky stressed the importance of Peter Drucker’s, *Concept of the Corporation* (New York: John Day and Co., 1946).

<sup>111</sup> Scott, Clothier, Spriegel, *Personnel Management*, quotes from 23 and 383.

<sup>112</sup> 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.



disciplinary issues, morale, communication, employee services as well as managing industrial relations and dealing with legislation, regulation, and union bargaining. However, managing industrial relations was just one small part of a more encompassing personnel management function as conceived by Potthoff. So strangely enough, German business had to catch up to the Americans although it had always had a robust social welfare and industrial relations tradition, but mostly subordinated to the desires of technical directors and entrepreneurs. Potthoff wanted to make it an independent executive function as well as a university profession.<sup>113</sup>

Throughout his life he was regularly offered university positions in this field, but for one reason or another was too involved in active business life. In the early 1950s, he was offered a chair for personnel policy at the Free University of Berlin, but was too busy preparing the research groundwork for the introduction of codetermination and with his activity in the Steel Trustees Administration. Potthoff's response is telling: "As much as a chair for personnel administration (*Personalwesen*) (and I would rather use this expression than personnel economy (*Personalwirtschaft*) attracts me, I would rather not because I am so pressed for time in my scholarly preparatory work. This is even more necessary because we in Germany still have much to catch up upon in order to achieve the level of foreign research especially in this area of personnel administration."<sup>114</sup> It was not until the early 1970s that he officially wrote his *Habilitation* (or second book). Potthoff published two books in the early 1970s, entitled *Plant Personnel Management (Betriebliches Personalwesen)* and *Personnel Management in the Corporation (Personelle Unternehmungsorganisation)*.<sup>115</sup> They extended Potthoff's insight 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

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<sup>113</sup> Yoder, *Personnel Management and Industrial Relations*, 33-34, 89-119.

<sup>114</sup> AdsD FES, Signatur 0022 Korrespondenz WWI (Potthoff) with Institut: Potthoff to Prof. Dr. Karl Christian Behrens, Seminar für Markt- und Verbrauchsforschung der Freien Universität Berlin, 1. Juni 1951.

<sup>115</sup> Erich Potthoff, *Betriebliches Personalwesen* (Berlin: de Gruyter Verlag, 1974) and *Personelle Unternehmungsorganisation* (Berlin: de Gruyter Verlag, 1977).

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 (found in his own *Festschrift*).

After his involvement in the Economics Research Institute and in the volatile codetermination debates of the 1950s, in 1958, Potthoff passed his exams to become a chartered public account and largely returned to private practice. He was then nominated to be chief executive of the auditing and consulting firm, Wirtschaftsberatung AG (WIBERA), and held this position until he retired in 1979. In 1963, he was offered Schmalenbach's professorial chair at Cologne, but he had to turn them down because of bad timing at WIBERA to his utter regret.<sup>116</sup> Potthoff did, however, offer courses on corporate personnel issues and the management of public corporations at the University of Cologne he offered courses on corporate personnel issues and the management of public corporations. 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 or auditing personnel management, a main feature in many American firms and textbooks. In 1993 they jointly published *The Supervisory Board Director: A Handbook of Tasks, Rights, and Duties* (*Das Aufsichtsratsmitglied: Ein Handbuch der Aufgaben, Rechte und Pflichten*), which is the standard handbook today. Potthoff had essentially begun this work during his time at the Economic Research Institute in the early 1950s when the unions began preparing a handbook for labor representatives on supervisory boards so that they would better understand their role and be true "co-determiners" of the corporation.<sup>117</sup> For Potthoff,

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<sup>116</sup> Author interview with Erich Potthoff, Düsseldorf, 24. März 2005.

<sup>117</sup> 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, 2003<sup>6</sup> [1993]). AdsD FES Signatur 0039 Korrespondenz DGB/WWI 22. Sept. 1950-17 Juli 1952: Potthoff to Erich Bührig, Bundesvorstand des DGB, 1. Feb. 1952.

codetermination was never just an industrial relations issue but a feature of modern corporate management and organization—of corporate governance itself.

The *Arbeitsdirektor* would coordinate the internal social affairs of the firm with the regulations and requirements of the public world. Thus, the basic premise was “German-Social Democratic” (the executive personnel director for firms should stem from labor), but the inspiration as an executive director as a specific management function stemmed from America. Why not have a representative of labor on the executive board for personnel issues, if the main interest of employees is in personnel matters? The modern firm had to maneuver through a web of complicated regulations and industrial relations statutes that change constantly. It needed a dedicated human resource director. The modern corporation or public administration was all about how best to manage men.

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).<sup>118</sup>

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.<sup>119</sup> 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:

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<sup>118</sup> Yoder noted that plant independent unions and councils were also viewed skeptically by unions as either more radical than reformist unions (as in Germany) or coopted by business executives themselves. Attempts at “union-management cooperation” within the firm “encountered serious problems, and several of them have been discontinued because of difficulties and dissatisfactions. But they represent valuable experiments that may well point the way to increasingly effective cooperation,” see Yoder, *Personnel Management and Industrial Relations*, 669-671, quote from p. 700.

<sup>119</sup> On the early debates and position of the *Arbeitsdirektor*, see Karl Lauschke, *IG Metall Zweigbüro des Ruhrs*, Abschnitt 2: “Die Arbeitsdirektoren im Spannungsfeld der Interessen,” (unpublished manuscript).

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.<sup>120</sup>

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.

### **The Great Escape: Erich Potthoff and the Mannesmann Codetermination Conflict**

For Potthoff, the Great Mannesmann Codetermination Conflict of the 1950s struck at the heart of many of his assumptions. What was worse was that the Mannesmann codetermination conflict also had personal dimensions, aside from the fact that it nearly brought down the coalition government of the time. 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 actually Mannesmann's first supervisory board chairman (1952-1953) before turning it over to his friend, Dr. Karl Hax. 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 attempt to escape parity codetermination 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.<sup>121</sup> In 1955, Potthoff sent *Ministerpräsident* Karl Arnhold an early draft of his 1957 book on the *Struggle for Codetermination*:

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<sup>120</sup> AdsD FES, WWI Korrespondenz DGB/WWI 1946-1948, Signatur 0033: Potthoff to Werner Hansen, 31 Okt. 1946.

<sup>121</sup> Similarly Hans Böckler in 1946, see quote in Karl Lauschke, *Hans Böckler, Band 2: Gewerkschaftlicher Neubeginn 1945-1951* (Essen: Klartext, 2005), S. 79.

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.<sup>122</sup>

New “centers of power” were forming that threatened to undercut democratic decision-making; Potthoff spoke of a rising “new feudalism.”<sup>123</sup> He lamented that the Social Democrats and unions had not exactly thrown their support behind codetermination (they voted against the *Betriebsverfassungsgesetz*). Potthoff criticized one Social Democrat for claiming “that codetermination does not also mean co-responsibility”—the essence of a co-managed firm in Potthoff’s conception of it. Arnold too thought that such an argument might prove fatal for codetermination.

The great Mannesmann controversy, which nearly brought down Adenauer’s coalition government in the mid-1950s, made Potthoff’s political profile even higher. During this controversy, Potthoff clarified his arguments about the importance of codetermination as a management function on the public stage. Despite Mannesmann’s public explanations about why they were reorganizing the firm (efficiency reasons), internally they clearly designed the reorganization 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 step threatened parity codetermination in one manner or another.<sup>124</sup>

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<sup>122</sup> AdsD FES, WWI/Erich Potthoff Korrespondenz, Signatur 0001: Potthoff to Karl Arnholt, 11. Juli 1955.

<sup>123</sup> However, Arnholt thought that Potthoff’s view that “a new feudalism” would arise, was too “defeatist;” see AdsD FES, WWI/Erich Potthoff Korrespondenz, Signatur 0001, Arnholt to Potthoff, 22. Juli 1955. AdsD FES, WWI/Erich Potthoff Korrespondenz, Signatur 0002: Potthoff to Leo Brandt, Ministerium für Wirtschaft 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).

<sup>124</sup> Horst A. Wessel, *Kontinuität im Wandel: 100 Jahre Mannesmann 1890-1990* (Düsseldorf: Mohndruck, 1990), S. 279-283.

The great Mannesmann-controversy began with ambiguities in the 1951 (parity for coal and steel firms) and 1952 codetermination law(s) (one-third). 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 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.<sup>125</sup>

Crucially, because of continuing Allied trusteeship, the former owners of the old firms (*Konzerne*) did not yet have any rights regarding the liquidation of their old firms nor over the course of 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 shareholders meeting in which Mannesmann shareholders had a voice did not occur until 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 Potthoff as chair of the supervisory board; the Deutsche Bank had been the traditional *Hausbank* of Mannesmann since the 1890s.<sup>126</sup>

In preparation for independence 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 Karl

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<sup>125</sup> Erich Potthoff, "Die Wirtschaftliche Machtstruktur der Bundesrepublik," *Grundfragen Moderner Wirtschaftspolitik*, pp. 78-85.

<sup>126</sup> 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.

Hax, a personal friend of Potthoff and 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 as a sort of default: "Decisive for the board was thereby the moral commitment deriving from the previously mentioned agreement, irregardless of its legal sustainability (*Durchschlagskraft*)."<sup>127</sup> 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 and supported many Nazi-tainted executives back into the firms.<sup>127</sup>

What happened next, for Potthof, was 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 union's Economic Research Institute's journal that argued that the Mannesmann complex was "technically, economically, and organizationally a 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.<sup>128</sup>

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—an argument heard again after the 2000s.

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<sup>127</sup> 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.

<sup>128</sup> Erich Potthoff, "Mitbestimmung vor Gericht: ein wirtschaftlicher Kommentar zum Mannesmann-Prozess," *WWI-Mitteilungen*, (Jan. 1954), S. 1-6.

In January 1955 Hermann Reusch of the GHH 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 courses 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 the exception to the rule among German business. 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 eventual 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.<sup>129</sup>

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.

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 21<sup>st</sup> man (Rösler). The chair of the supervisory board would be a shareholder representative (Zangen) with a vice-chair held by labor (Hax). Executive board

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<sup>129</sup> MA: M21.558 Mitbestimmung bei der Holding 1953-54: Geissler to Pohle, 12. Feb. 1954.



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 and dilemma: 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 21<sup>st</sup> person, which kept parity codetermination applicable to Mannesmann.<sup>130</sup>

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 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.<sup>131</sup>

*Codetermination as Co-Responsibility or Mitverantwortung:*

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<sup>130</sup> 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 Bundeskanzler Adenauer, 27. Jan. 1954. Wessel, *Kontinuität im Wandel*, S. 280-282. Potthoff, *Zwischenbilanz der Mitbestimmung*, S. 47-48

<sup>131</sup> MA: M21.559 Zangen und Winkhaus to Erich Potthoff, 27. April 1954, 10 Mai 1954.

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.<sup>132</sup> He also made suggestions to the 1952 annual report to highlight the importance of Mannesmann for rebuilding the overall economy.<sup>133</sup> 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.<sup>134</sup>

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:

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

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<sup>132</sup> MA: M11.164 Potthoff to Vorstand Mannesmann, 7. Feb. 1953.

<sup>133</sup> MA: M11.164 Potthoff to Vorstand Mannesmann, 8. April 1953.

<sup>134</sup> 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.

“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.” Such supervisory board activism rubbed Zangen the wrong way.<sup>135</sup> 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.<sup>136</sup>

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 social issues as a function are inextricably entwined with the work of the corporation.” But Zangen scribbled comments on the margin of Potthoff’s letter: “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.<sup>137</sup> 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.<sup>138</sup> To Hax, Potthoff objected to Zangen’s attempt to recentralize power in the holding, which would restore “the old managerial

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<sup>135</sup> 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.

<sup>136</sup> MA: M11.164 Potthoff to Vorstand Mannesmann, 8. April 1953.

<sup>137</sup> 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.

<sup>138</sup> MA: M11.164 Potthoff to Zangen, 1 Okt. 1954.

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 the necessity 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.”<sup>139</sup>

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 uninformed. In theory, Kohlitz 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.”<sup>140</sup>

Zangen made his views 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

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<sup>139</sup> AdsD FES, WWI/Potthoff Korrespondenz, Signatur 0016: Potthoff to Karl Hax, 1 April 1954 (2 letters).

<sup>140</sup> MA: M11.164 Kohlitz to Rösler, 18. Jan. 1955. AdsD FES, WWI/Potthoff Korrespondenz, Signatur 0016: Hax to Potthoff, 19. Dez. 1953; Potthoff to Hax, 1 April 1954.

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.”<sup>141</sup>

Mannesmann’s legal adviser viewed the *Arbeitsdirektor* an “adversary” of management inside the executive board rather than a full-fledged member—certainly not a human resource vice-president or director in Potthoff’s sense. 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.<sup>142</sup> Given this resistance and implacable “union identity” of the *Arbeitsdirektor*, Potthoff’s 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, Potthoff’s arguments pointed the way to the future.

Potthoff thought this rollback was so dangerous, so frustrating that he penned a book on the history of codetermination in 1957: *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.

Potthoff argued for broadened codetermined legislation that would move beyond extraordinary, stopgap legislation and stave off the recurrent skirmishes caused by ambiguity in the law.<sup>143</sup> Arguably Potthoff’s demands were not met until the 1976 extension of codetermination. Growing out of a series of articles in the monthly union journal, the

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<sup>141</sup> 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.

<sup>142</sup> 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;

<sup>143</sup> Potthoff, *Kampf um die Montan-Mitbestimmung. Ibid.*, “Mitbestimmung vor Gericht.“

*Gewerkschaftliche Monatshefte*, the book was designed to counter common historical falsehoods. Potthoff argued: "The broader personalization of shareholding (*Mitpersönlichung*) and codetermination (*Mitbestimmung*) 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."<sup>144</sup>

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).

In the 1950s, Potthoff's reasoning significantly overlapped with that of the Social Democratic and union 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.<sup>145</sup> 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,

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<sup>144</sup> AdsD FES), WWI, Signatur 1001 "Entwurf eines Tätigkeitsberichtes des WWI für 1954 bis Mitte 1956."

<sup>145</sup> 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.

and even by cartels formed by entrepreneurs themselves. Potthoff tried to counter one of the most important criticisms of codetermination, that it violates property rights of shareholders, which became a popular argument after the 1980s.<sup>146</sup> 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 Potthoff knew how management did not appreciate board member activism by board members or shareholders (see Zangen above). Potthoff argued that salaried managers set strategy for the firm so that codetermination hardly violated property rights, but they did check executive control rights.<sup>147</sup>

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, but found further articulation in this 1957 book. Here 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 permit any organization to work effectively without every rule spelled

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<sup>146</sup> 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 they are adversely affected by it."

<sup>147</sup> Potthoff, *Der Kampf um die Montan-Mitbestimmung*, S. 118-120, 140-144.

out or waiting for permission of superiors.<sup>148</sup> It is essentially Abelshauser's argument (Part I) that codetermination helped save 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.<sup>149</sup> Again many modern theorists have not stated it better.

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. After these battles in the late 1950s, Potthoff moved back into private practice. 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 arguments beyond the rhetoric of class

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<sup>148</sup> 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).

<sup>149</sup> Potthoff, *Der Kampf um die Montan-Mitbestimmung*, S. 124-127, quotes from S. 145.



or that of social justice. For Potthoff, codetermination was in his conception modern human resource management that needed to be “modernized” as in America.

### *Conclusion*

What does the Potthoff codetermination story tell us about the larger narratives of German history? First, despite 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 typically German codetermination story has some strange American connections. Potthoff was inspired by both American management theory and American organizational models (ala Alfred D. Chandler), but he obviously took something else from them and applied it in novel ways. The act of encounter or exchange was a trans-mutation of ideas and practices as much as it was a direct transfer. One can think about this process in the opposite direction as well. Emigrés such as Joseph Schumpeter (economics), Walter Gropius or Mies van der Roë (architecture/design), intellectuals who brought Max Weber or Sigmund Freud to the U.S., or film luminaries such as Billy Wilder, Ernst Lubitsch, Friedrich Murnau, Fritz Lang to Marlene Dietrich (Hollywood) transformed the “American model” by this exchange. (One of the quintessential “American” movies of the 20<sup>th</sup> 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 irresistible 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 clearly tried to fuse his Social Democratic activism, with Schmalenbach’s functional optimization of the firm, with state-of-the-art American personnel management 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.” Here we see a potential story of Americanization essentially turned on its head into its opposite German codetermination, which was clearly “made

in Germany.” The whole *Varieties of Capitalism* literature tends to work with national or regional models that are either static (at certain snapshots of time) or based on path-dependent continuity.

Third, throughout this story we can see codetermination winning by the skin of its teeth or losing by the skin of its teeth (depending on your point of view) in the late 1940s and 1950s. The continuity about voice and representation in German business history is visible only in retrospect built on struggle, timing, contingency, and agency. 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 19<sup>th</sup> 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 today is about more than revamping corporate governance but asking questions about the foundations of the Federal Republic of Germany.

Fourth, there are fundamental ambiguities about the major direction of codetermination. It was by no means 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 formal institutional arrangement but in the comportment of the actors and learning to use the institution effectively—if one wants to have it at all. By not wanting to have it at all and making it a political bone of contention in Parliament or in the firm, it could never be a form of functional personnel management where the interests of labor could be taken into account as envisioned by Potthoff. The irony is that German firms—maybe against their will—have by and large learned to work with codetermined governance forms in ways imagined by Potthoff in the early 1950s.