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## **Industrial Democracy: Historical Development and Current Challenges\*\***

The following article gathers notes and comments on industrial democracy, its terminology, history and current developments. Industrial democracy is an enigmatic term whose spectrum of meanings is explored in the first section. The Anglo-Saxon terminology, going back to S. and B. Webb will be compared with the German vocabulary of *Wirtschaftsdemokratie* and co-determination. The following sections deal with the peculiarities of German co-determination. First the emergence of co-determination is explained by a conflictual interplay of employers, state and trade unions, followed by a sketchy number of the crucial steps of its development up to today's challenges. An additional section is devoted to the rationale of the works council, which has surprisingly evolved from a Cinderella to the most significant institution of industrial relations in contemporary Germany. The final discussion focuses on the ideological permutation of co-determination changing its socialist embeddedness into a market-economy one. The paper concludes with a proposal to couple the legitimacy of co-determination with the normative framework of social market economy.

Key words: **industrial democracy, economic democracy, co-determination, works council, workers committees, social market economy, industrial relations, Germany**

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\*\* Article received: December 16, 2007  
Revised version accepted after double blind review: October 31, 2008.

### 1. Industrial Democracy in comparison with *Wirtschaftsdemokratie*

The term 'industrial democracy' is an intricate one. Sidney and Beatrice Webb (1897) introduced it to the vocabulary of social sciences at the end of the 19th century, whereas the German term '*Wirtschaftsdemokratie*' was coined by Fritz Naphtali and his distinguished collaborators, among them Rudolf Hilferding, Hugo Sinzheimer and Fritz Baade, in the late 1920s.

The Webbs published their collective work "Industrial Democracy" in 1897 just three years after they had published their masterpiece "History of Trade Unionism". Surprisingly the book contains a completely different meaning of industrial democracy as contemporary industrial relations experts (e.g. Blumberg 1968; Hammer 1998) understand by this term. They usually locate industrial democracy at shop-floor level (participation, works councils) and the company level (co-determination, workers' directors).

The Webbs, however, use industrial democracy in a twofold manner:

The first meaning is laid down in Part I of their book, titled "Trade Union Structure". Their conclusion: "We find that Trade Unions are democracies; that is to say their internal constitutions are all based on the principle 'government of the people by the people for the people'" (1911: Vf.); and further: "they have solved the fundamental problem of democracy, the combination of administrative efficiency and popular control" (1911: 38). This is the *internal dimension* of the Webbs' industrial democracy which one could call, with Seymour Martin Lipset, "union democracy" (Lipset/Trow/Coleman 1977).

The second meaning is incorporated in the much larger Part II on "Trade Union Function" and indicates an *external dimension*. Here it is primarily "the method of collective bargaining" which – in the reading of Hugh Clegg's work (see below) – is the equivalent of industrial democracy.

Fritz Naphtali and his collaborators chose the term '*Wirtschaftsdemokratie*' as the title for a programmatic report elaborated on behalf of the German Trades Union Congress (*Allgemeiner Deutscher Gewerkschaftsbund*). According to the authors' claim the term was understood as the German equivalent of the Webbs' 'Industrial Democracy' to which they referred to in their introductory chapter explicitly. Nonetheless '*Wirtschaftsdemokratie*' predominantly refers to co-determination at the sectoral and national economic levels. Co-determination at establishment and enterprise levels, although covered by this term, too, was regarded to be of secondary importance. Naphtali stated explicitly: The works council cannot be a pioneer of the new socio-economic order (1966: 163).

The background theory of '*Wirtschaftsdemokratie*' was Hilferding's theory of 'organized capitalism'. With its tendencies to organize and centralize the economic actors and institutions, organized capitalism was designed as the socio-economic framework of '*Wirtschaftsdemokratie*' being understood as a lever to a socialist society.

By now it should be clear that both terms cover completely different contents (see figure 1).

Figure 1

| Industrial Democracy<br>(Webb/Webb 1897) |                                     | Wirtschaftsdemokratie<br>(Naphtali 1928)                        |                                                            |
|------------------------------------------|-------------------------------------|-----------------------------------------------------------------|------------------------------------------------------------|
| Union Democracy<br>(internal)            | Collective Bargaining<br>(external) | Co-determination                                                |                                                            |
|                                          |                                     | at sectoral & national<br>economy level<br>(chambers, councils) | at establishment<br>& enterprise level<br>(works councils) |

There are some other definitions of industrial democracy worthwhile to be mentioned. Three authors are of particular interest in defining our subject matter.

The first is the German Marxist Karl Korsch (1922). He adopted the term industrial democracy from the Fabian society after a longer stay in London in 1912/13. He literally translated the term into German as ‘Industrielle Demokratie’ but with a much more comprehensive meaning. According to him industrial democracy meant the whole spectrum from workshop participation over collective bargaining to co-determination in the regional and national economy. He indicated this state of co-determination as ‘industrial constitutionalism’ (*gewerblicher Konstitutionalismus*) being a transitional stage on the road to socialism.

The second author is Michael Poole who presents a comprehensive classification of industrial democracy in an article in the “Concise Encyclopaedia of Participation and Co-Management” (1992) where he distinguishes six different forms:

- workers’ self-management,
- producer co-operatives,
- co-determination,
- works councils,
- trade union action,
- shop-floor programmes.

Trade union action comprises collective bargaining as its most important component, and shop-floor programmes cover direct participation, team work etc. Poole subsumes the financial participation of employees under the term ‘economic democracy’.<sup>1</sup>

In contrast to these broad understandings of industrial democracy our third author, Hugh Clegg (1960), confronts us with a radically reductive new approach to industrial democracy. “Industrial democracy”, he defines, “must provide mechanisms for protecting the rights and safeguarding the interests of industrial workers” (1960: 83). Advocating a model of pure and simple trade unionism he asserts that “there is no effective alternative to collective bargaining as a means of protecting the interests and rights of workers” (1960: 113).

As we have seen industrial democracy covers a broad spectrum of meanings, from internal union democracy over collective bargaining to co-determination at shopfloor, enterprise, industry and national economic level.

<sup>1</sup> This term sounds as a literal translation of the German ‘Wirtschaftsdemokratie’ which, as we have seen, covers completely different matters of fact.

The comparison of the different definitions reveals that the British authors refer exclusively to the production sphere, whereas the definitions of the German authors also cover the regional, sectoral and national economic domain. The difference can be explained by contrasting conceptions of the economy: liberal or coordinated market economy (Hall/Soskice 2001).

Speaking of co-determination in the present German context we have to distinguish between (1) co-determination at establishment level by *works councils*, eligible in firms with five and more permanent employees, (2) co-determination at enterprise level by employee representatives on supervisory boards – the so-called *board-level co-determination*.<sup>2</sup>

## 2. The development of co-determination

It is a widely spread mistake that co-determination is an original goal of German trade unions. On the contrary, it has been evolved as such by the conflictual interplay of employers; trade unions and the state (see Neuloh 1956).

### *Academics, employers*

Before the trade unions adopted co-determination as their own goal there had been initiatives by academics (the so-called *Kathedersozialisten*) who favoured workers committees in factories. And there also had been a few socially minded business men who voluntarily introduced workers committees in their firms.

These pioneers were motivated by two reasons:

Firstly, they wanted to mitigate the antagonism between workers and entrepreneurs in the former factories. The reason for this policy of reconciling workers with the factory regime (*versöhnende Arbeiterpolitik*) was to reduce the increasing discipleship of the Social Democrats.

Secondly, inspired by the principles of the liberal state, some liberal employers regarded their employees as equal citizens and not as subordinates. Prominent examples of those late 19th century entrepreneurs were *Ernst Abbe* who introduced independent workers representation in the Optische Werke Carl Zeiss in Jena. As well as *Heinrich Freese* who established what he called a ‘constitutional factory’ by conceding his workers the right to participate in wage-fixing and dismissals.<sup>3</sup>

<sup>2</sup> According to the legal framework there exist three different models of board-level co-determination: (1) co-determination based on the act for the coal, iron and steel industries (*Montanmitbestimmungsgesetz*) of 1951 which grants parity representation in the supervisory boards of corporations with more than 1000 employees and a workers’ director to be elected with the majority of the representatives of the employees; (2) co-determination based on the Co-determination Act (*Mitbestimmungsgesetz*) of 1976 which formally grants parity representation in the supervisory boards of corporations in all other industries with 2000 and more employees, but reserving a second vote in runoff ballots for the chairperson (to be nominated by the shareholders); and (3) co-determination based on the act on one-third participation of employee representatives (*Drittelbeteiligungsgesetz*) of 2004 comprising the former regulations of the Works Constitution Act of 1952 on employee representation in corporations with 500 to 2000 employees.

<sup>3</sup> See Teuteberg (1961: 208ff.) for more examples.

*The state*

The earliest legal proposals for the introduction of workers committees go back to the Frankfurt parliament of 1848 where the parliamentarians drafted the rights of factory workers in great detail. But due to the fact that this parliament had a very short life-time – it was dissolved in the course of a political reactionary rollback only one year after its first meeting – the proposals were never put into effect.

It was the Prussian bureaucracy which took the first successful initiative to introduce workers' committees in coal mining after large-scale strikes in the Ruhr area, initially as voluntary bodies (1892) and then as obligatory committees (1905). The autocratic and paternalistic mining employers with their uncompromising attitude towards trade unions and any representation of workers stirred up the first step of mandatory co-determination by the state in order to prevent the coal industry from warlike industrial action. One should keep in mind that coal was classified as a war-essential industry by the state at that time.

Again, during world war I the imperial state was seeking a class-truce (*Burgfrieden*) when in 1916 it passed a law by which the trade unions were recognized as legitimate representatives of the workers and by which the setup of workers committees were prescribed for all war-essential companies with 50 and more workers. Thus co-determination at establishment level spread over all industries through this act. Certainly, the act was a concession for the unions whose collaboration and support was essential for the war efforts. Nevertheless it was fiercely criticized by heavy industry. But for all that this act undeniably is the precursor of the German works constitution.

*Trade unions*

Already at the turn of the century, and particularly after the introduction of mandatory workers committees in coal industry, the Socialist miners union had begun to change its disaffirmation of workers committees. The switch was not at least induced by the more pragmatic Christian trade union which had successfully participated in elections to workers committees in coal mining from the very beginning. Finally the act of 1916 changed the German trade unions' view towards workplace representation. By adopting co-determination as their own goal they ultimately created an instrument, which had been developed to detach workers from the socialist movement, to an integral part of their program.

*Further developments*

After the war and as a result of the November revolution a councils system was incorporated into the Weimar constitution. This was a concession which the political leaders of the mainstream SPD had made to the radical left and the revolutionary councils movement.

Article 165 of the Weimar constitution codified a 3-tier councils system:

- at establishment level: the works council,
- at industry level: district works councils,
- at national level: imperial works council.

The different institutions were introduced to control and administer the respective items. Designed as a parallel parliament dealing with social and economic matters the imperial works council remained a provisional body. Its political influence was marginal. On the contrary, the works council at establishment level was imposed by the Works Councils Act for all companies with at least 20 employees in 1920 (see next section).

The Nazis dissolved the trade unions and eliminated all forms of co-determination after the seize of the trade union headquarters by the SA on the day after the May Day celebration in 1933.<sup>4</sup> The intention to smash all autonomous workers institutions had been formed at the latest after the works councils elections in March and April 1933 which still indicated a relatively stable loyalty of the workers to the candidates of the social democratic unions (Schneider 1999: 94f.).

After World War II, the allied forces took over heavy industry in order to decartelise the industrial power bloc of Hitler's war economy. During the years 1947 and 1948 the military administration established 23 new steel companies in cooperation with a German trusteeship. Simply by administrative orders, all of them were equipped with full-parity co-determination on the supervisory boards and with a workers' director on the executive board.

But the first post-war German parliament with its conservative majority wanted to roll back this – from the trade union's point of view – major achievement of workers representation in companies. Trade unions (*IG Metall* and *IG Bergbau*<sup>5</sup>) were determined to defend this kind of co-determination. Prepared to strike for the survival of co-determination they held union ballots with an overwhelming turnout (more than 90 per cent of their respective members voted in favour of a strike). Confronted with the threat of large-scale strikes the Adenauer government shrank back and appeased the unions with the Co-determination Act for coal and steel industries which passed parliament in 1951. This act codified the *fait accompli* of the British military administration in steel industry and established the basis for the 'Montanmitbestimmung' including iron, steel and coal industries.

One year later, in 1952, the Works Constitution Act (WCA) was passed. This time the trade unions disagreed not because of the rights given to the works council, but because of the one-third representation of workers in supervisory boards in all other industries beyond coal and steel.

Decisive achievements in the field of co-determination were reached during the reform era of the Brandt government. In 1972 the Works Constitution Act was

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<sup>4</sup> With a perverse instinct the Nazis had made the traditional May Day of the international labour movement to a "festival of national labour" (*Feiertag der nationalen Arbeit*) which they celebrated together with the free trade unions on 1 May 1933 before they seized the trade union headquarters on the following day. Since then 1 May is a national holiday in Germany.

<sup>5</sup> IG Bergbau joined IG Metall in this dispute (which was on the brink of a political strike) although co-determination was not yet introduced in coal mining.

amended, in 1976 the Co-determination Act was passed.<sup>6</sup> The amendment of the WCA considerably enlarged the rights of the works councils. With the Co-determination Act equal representation on supervisory boards was spread over the whole economy. But the trade unions were disappointed since the parity of representation was phoney. The chair of the supervisory board who was usually installed by the shareholders was vested with a second vote in a final ballot. Even the employers were dissatisfied. They went as far as to take legal action against the Act blaming it as unconstitutional, but their case was turned down.

After a long period of bi-lateral appeasement co-determination especially at the board level had come under neo-liberal attack. The president of the Confederation of German Industry called board-level co-determination a “historical error”. Conservative and neo-liberal economists and labour lawyers as well as the business and employers confederations wanted to cut back co-determination on supervisory boards. Their main points were:

- Co-determination is not transferable to other EU countries.
- Voluntary agreements shall replace legal regulations.
- Supervisory boards are too large, they should be downsized.

A commission which was to evaluate co-determination, set up by the Schröder government and chaired by Kurt Biedenkopf, confirmed the practice of co-determination as being efficient and well proven. It only recommended moderate alterations, but failed to get the employers’ approval for their advice.

### 3. The historical career of the *Betriebsrat*

It is quite astonishing that over time the works council (i.e. co-determination at establishment level) has become the key institution of German industrial relations although it had started as a Cinderella, in fact, as an illegitimate child of the German labour movement. In other words, it is an offspring of two conflicting historical movements:

- the workers committees of the pre-1914 German Empire which were voluntarily created by employers,
- and the revolutionary councils of 1918/19.

Before World War I, the socialist trade unions opposed the “business-friendly” workers committees, which they considered to be, in the words of German Socialist Party (SPD) leader August Bebel, a “fig leaf covering up factory feudalism” (Teuteberg 1961: 381). But as we have seen their adversarial assessment changed during the war, when in 1916 the Reichstag passed a law with regulations for the introduction of workers committees – an act which was welcomed by the trade unions as a great success.

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<sup>6</sup> It should be noted that the Co-determination Act of 1976 was passed by an overwhelming majority of 389 to 22 votes (Lauschke 2006: 86). Even the Free Democrats proved to be stout advocates of co-determination in business corporations – contrary to their present position.

In 1920, the Works Councils Act was passed, establishing the foundation for the system of mandatory plant-level representation which still exists today. Only its name (*Betriebsrat*) was taken from the revolutionary council's movement (*Rätebewegung*) while the institution itself reminded of the former workers committees albeit with considerably expanded rights. The Act came across fierce opposition from the radical wing of the labour movement (USPD, Spartakus, KPD), culminating in a mass demonstration on the day of the bill's second reading in parliament. Dozens of people lost their lives during the bloody suppression of this protest.

The political and economic turbulence of the Weimar Republic impeded works councils to develop towards a policy of reconciling diverging interests and resolving conflict at plant level. The blueprint offered by the Works Councils Act was handicapped by the real practices of the two parties with diametrically opposed views. Once the revolutionary threat had been averted, the majority of employers tended to see works councils as a necessary evil rather than a body which could make a positive contribution to solving disputes within a plant (see Brigl-Matthiaß (1978 [1926])).

#### *A fresh start*

Employers had a much more positive attitude towards the re-creation of the works council after 1945. They welcomed the Works Constitution Act of 1952 because it provided for works councils independent from the trade unions and restricted the mandates of board-representation to one-third.

The trade unions, on the other hand, opposed the Works Constitution Act, because

- it limited trade union influence and access to plants,
- it deviated considerably from the regulation of employee representation on supervisory boards in the coal and steel industry, granting only one third of the total number of seats, and
- it established separate regulations for the public sector.

However, once the German parliament had passed the act despite their opposition, the trade unions decided to adopt a pragmatic approach and tried to use their influence within companies by adopting a two-pronged strategy. On the one hand they developed a targeted policy of support, advice and training in order to gain the loyalty of works council members. On the other they built up their own groups of union workplace representatives (*Vertrauensleute*) within plants. These were to help works council members with their work, but also to prevent them from focusing exclusively on the narrow interests of their own plant.

#### *Symbiosis between works council and trade union*

Up to date, the trade unions affiliated to the DGB have managed to fill a high percentage (between 2/3 and 3/4)<sup>7</sup> of the seats on works councils with their own members. This success can be ascribed to the highly developed symbiotic relationship between trade unions and works councils. While the trade unions offer works councils

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<sup>7</sup> The figures differ according to the sources – trade unions or employers (cf. Müller-Jentsch/Ittermann 2000: 218).

their support and advice, the works councils help to maintain union membership levels, since it is the workplace where trade union members are mainly recruited.

This role makes works councils indispensable for the trade unions, and ensures them a position of relative independence concerning their dealings with the full-time trade union officers. Works councils also play a key role in determining the extent of the trade unions' presence within a workplace because they are in a position to exercise either a positive or a negative influence over what union representatives can or cannot do.

As a result of this interplay of mutual interests, the trade unions have learned to accept a form of workplace-level representation which is not an integrated part of trade union structures and which is not elected by trade union members alone. They have learned to co-operate with this institution and to use it for their own objectives.

#### *Intermediaries between employees and management*

Over time employers and management also had to accept that particularly on behalf of social and personnel matters, they could no longer take decisions on their own but had to take them jointly with the works council. This learning process was severely put to the test by the reforms of the social democratic/liberal government between 1972 and 1976.

The Amendment to the Works Constitution Act of 1972 reflected the changes and effective expansion in the tasks performed by works councils by broadening and strengthening their participation rights. Although the new regulations by and large ratified existing practice in many companies, especially large ones, the Bill was fiercely contested by employers' representatives.

Eventually, the reality of the legal status and the balance of power in society forced employers to come to terms with their counterparts. They changed their management style by co-operating with works councils. For their part, works councils had to learn to see their role not exclusively in terms of representing employees' interests but rather to find a way of combining this function with their shared responsibility for the company's economic success. Many of the works councillors gradually realized that they could bring about win-win situations.<sup>8</sup>

Overall the legal framework and the largely successful practical implementation of works councils have allowed them to become one of the most stable institutions in German industrial relations. This stability may seem surprising in consideration of the fact that works councils have an ambiguous agenda which pushes them to play the role of intermediaries. The Act states that the overriding goal is the cooperation of works council and management. They "shall work together in a spirit of mutual trust (...) for the good of the employees and of the establishment" (§ 2.1) with a "serious commitment to consensus" (§ 74.1). Like all institutions works councils have a guiding principle which in their case could be described as to represent workers' interests at workplace level while at the same time taking the company's business goals into account. The fact that works councils are an intermediary body forced them to mediate

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<sup>8</sup> On the changes of the relationship between management and works councils after 1972 see Kotthoff (1994) and Bosch (1997)

between what are often conflicting interests appeared to be a weakness at first sight, but in fact has turned out to be a strength in the long run.

The organisational assistance provided by the state played a key role in the institutional development of works councils. Help of this kind is in many ways essential when setting up institutions intended to act as mediators. Without it any given interest group will tend to create institutions that support its own interests and its own particular approach. However, the combination of specific rights and duties codified by the legislation on works councils has had the effect of making them a particularly controversial institution as far as the social partners are concerned.

From the start works councils have had a chequered history opposed or rejected first by one side, then by the other. The early version of the legal framework governing the institutionalisation of works councils provided for too many rights and concessions in the view of the employers and for too few in the opinion of the trade unions. But it was precisely the even-handed nature of these state regulations that made works councils a durable and stable institution. Whenever political and economic changes led to an increasing conflict between employers and employees, the consensus-based agenda of works councils came under attack. However, because of their legal status, they could not simply be bypassed or abolished and so they were able to survive even the periods when the conflict between the two sides was at its most severe.

Finally, stability and support were also provided to works councils by the structures of company-level co-determination. In companies covered by the 1976 Co-Determination Act it was possible for the chairperson and other members of the works council also to act as employee representatives on the supervisory board. This provided them with the opportunity of expanding their information and communication network upwards, as well as having co-determination rights with regard to the appointment of the company's board of management and even the salaries of the members of the board.

#### *New roles and new challenges*

Confronted with new tasks and new competences as well as with a changing environment of work the works councils have to take over new roles besides their traditional one. Just to mention three of them; especially in larger companies works council function as

- bargaining agents,
- co-management,
- mediator.

Bargaining is a traditional union task, the WCA forbids works councils to negotiate with management on matters that are usually dealt with in collective agreements. Exceptions to this rule must be permitted by the parties to an collective agreement through a so-called 'opening clause'. Since the mid-1980s the works councils had been increasingly authorized to prolong bargaining to the plant level particularly on flexible working time and concession bargaining (*Alliance for jobs*).

At the same time many works councillors have become professional crisis managers, agents of change and drivers of modernisation. Without their involvement, large-scale restructuring programmes in companies would have resulted in high levels of conflict. As potential co-managers with particular skills in the field of conflict resolution, works councils obtained the opportunity to expand the scope of their participation, particularly on economic matters which the WCA excludes from co-determination.

Moreover, the increasing segmentation of the workforce, having diverging status and contracts, has saddled the works councils with the role of mediators between different interest groups within one and the same company. With the spread of direct employee participation such as teamwork, quality circles and project teams they also have to mediate between different groups with the task of reconciling their claims and interests. The extension of representative workplace-level co-determination towards the level of individual employees – in effect “first-person co-determination” – threatens the works councils’ monopoly on representation. Nevertheless, as demonstrated by the findings of surveys (see e.g. Müller-Jentsch/Seitz 1998); strong works councils do not feel that they have to fear any teamwork or team leaders. Indeed, they often argue in favour of introducing models that promote greater employee participation and put a lot of effort into negotiating agreements at workplace level that provide for such structures.

These new roles have not at all alleviated the job of the works councillors. On the contrary, many works councillors complain about an overload of tasks. There are also quite a number of examples of management blackmailing the works councils by threats of downsizing, outsourcing, production closure etc. Last but not least, severe corruptive practices and privileges have come to the public.<sup>9</sup>

#### **4. Co-determination: from socialism to social market economy**

Contemporary observers might think co-determination and social market economy are compatible concepts and go together easily. Initially, however, they were contradictory ideas. After World War II the opposing parties and trade unions on the one side, the founders of the social market economy on the other, regarded both concepts as incompatible blueprints for the future economic order in post-war Germany.

Trade unionists and Social democrats discarded the conservative and liberal parties’ decidedness to introduce the ‘social market economy’ including currency reform as a restoration of liberal capitalism. Instead, they favoured a form of ‘liberal socialism’ with a new democratic order of the economy (‘social and economic democracy’), a third way between market and centrally planned economy. It was because of this hy-

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<sup>9</sup> The most spectacular cases were Volkswagen and Siemens. Volkswagen paid call-girl services for works councillors and paid exorbitant bonuses for the chairman of the works council. Siemens secretly financed a docile company union which stood for works council elections.

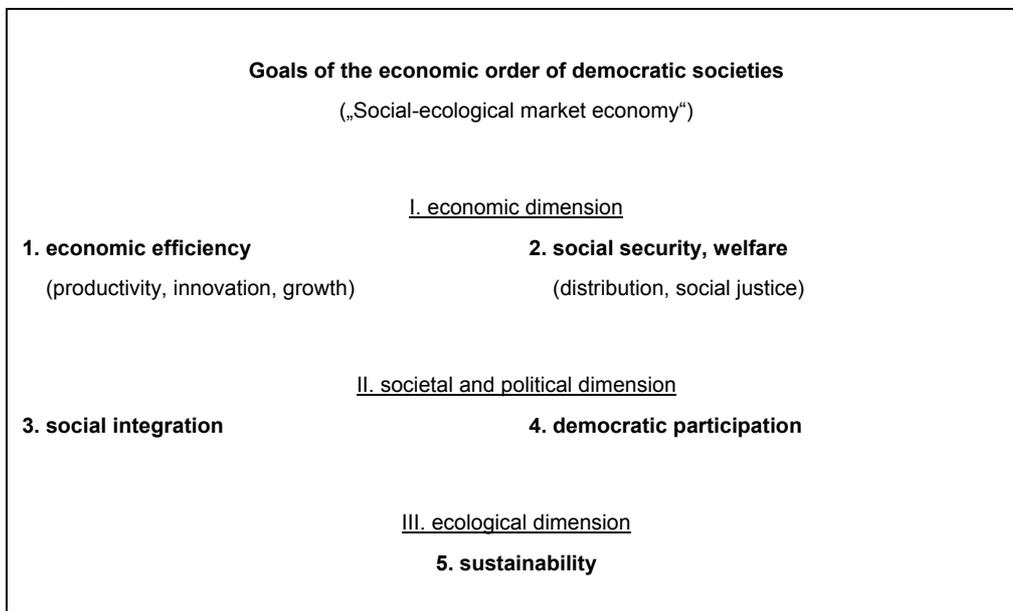
<sup>10</sup> Alfred Müller-Armack, the name-giver, wrote in a lexical entry: „The meaning of social market economy is to combine the principles of freedom on the market and of social balance.” (1956: 390 – my translation)

brid form of economy and the demand for interfering with entrepreneurship via co-determination that the fathers of social market economy attacked 'Wirtschaftsdemokratie' as "half-backed ideas" (Böhm 1951). To their mind, once realized the economic effects would be disastrous. But in fact, neither the social market economy nor the co-determination at establishment and company level did impede economic welfare and prosperity.

Nowadays, chancellor Merkel somewhat surprisingly called co-determination a „great achievement“ and voiced that „social market economy would be unthinkable without it“ in her speech at the memorial day of 30 years Co-determination Act (Hans-Böckler-Stiftung 2006: 22). On the other side, trade union leader Hubertus Schmoldt (chairman of the chemical workers' union) bluntly characterized co-determination as a „constitutive element of social market economy“ (ifo-Schnelldienst 22/2004: 3). At first glance, these declarations seem to be mere rhetorical phrases. But the recent attacks on Rhenish capitalism have at least made trade unions sensitive for the threats of Anglo-American shareholder-value capitalism.

After the attacks on co-determination by neo-liberal and conservative academics and employers representatives, the trade unions tend to justify co-determination in terms of economic efficiency and advantages of the national location. In my opinion it seems advisable to anchor the legitimacy of co-determination in the normative framework of social market economy. The openness of the concept of social market economy allows elaborating a broader framework by integrating social and economic citizenship rights. My proposal looks like this (figure 2):

**Figure 2**



Taking the goals under closer examination it can be said that the early blueprint of the social market economy already included the two first goals: economic efficiency and social security (the latter in Erhard's terminology: "welfare for all").<sup>10</sup> But today market radicals and market theologians of neo-liberalism contest their compatibility by proclaiming absolute primacy for economic freedom and efficiency under which all other goals should be subordinated. There is no trade-off between social security and social integration – on the contrary: "Welfare for all" will foster social cohesion and could prevent societal cleavages. A further pillar of social integration is democratic participation in worklife. Employees that can influence the decisions on the conditions of their workplaces – either through direct participation, workers representatives, or thought union channels – will be more motivated to comply with organizational structures and societal order. I think social integration and democratic participation in the economic sphere are essential rights that base on industrial citizenship (Marshall 1963). And there is no doubt about "sustainability" as an indispensable goal after the ecological turn, although its practical implementation usually provokes political controversies.

Industrial citizenship implies the acceptance of trade unions and of the institutions created by them. They contribute to the social consensus which is, however mediated, of crucial importance for economic performance; because open conflicts and social disintegration, not to think of civil warfare in form of disruptive industrial action would not only shake societal order but also rock the economy.

The conclusion is: Co-determination is no lubricant of business performance and no servant of economic efficiency. But intelligently used, it can contribute to achieving a positive balance of efficiency and interests since it has the potential to create trust, loyalty and motivation among employees instead of distrust, mobbing and quit-stay. The qualified, reliable and motivated German labour force usually figures as an efficiency factor of the German economy – it should be acknowledged that this is most likely also a product of democracy at work.

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