

# **From "Cost factor" to "Co-Entrepreneur"**

## **Christian Social Teaching, Social Market Economy and the Changing Role of the Worker in Modern Economy \***

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In 1868, Friedrich Engels (1820-1895), the close friend of Karl Marx (1818-1883), described the relationship employer – employee as follows: "The capitalist employs his worker. In a certain time the worker has delivered as much work as corresponds to his weekly wage. Assuming that the weekly wage corresponds to three working days, the worker, who started on Monday, has replaced the entire value of the paid wage on Wednesday evening... The capitalist, however, has bought his weekly work, therefore the employee has to work also the three last weekdays".<sup>1</sup> Work, labour is only a commodity; the worker is just a cost factor that should be kept as small as possible!

Little less than 100 years after Friedrich Engels, in 1965, the Second Vatican Council of the Catholic Church declared in the Pastoral Constitution *Gaudium et Spes – Church in the Modern World*: "In economic enterprises it is persons who work together, that is free and independent human beings created in the image of God. Therefore the active participation of everyone in the running of an enterprise should be promoted. This participation should take into account each person's function, whether it be one of ownership, management, or labour" and "the necessary unity of operations" (Art. 68). In other words, all those involved in the enterprise, owners, management and workers, are persons, free, independent, self responsible humans; the enterprise is a 'community' of producing human beings, not only a technical-economic production machine.

In seven steps the following explanation traces the changing role of the worker from a mere *cost factor* in the pure capitalistic economic system to a *co-entrepreneur* in modern economy. The two quotations above briefly describe the change; the two keywords "Cost Factor" and "Co-Entrepreneur" mark its benchmark figures. The explanation deliberately focuses on the development in Germany, which may be helpful beyond its borders, and turns the attention to the contributions, which Christian Social Teaching and the Catholic Social Movement made to this development.

## **Pure Market Economy or Capitalism: Labour – a "Commodity" Worker – just a "Cost Factor"**

Let Friedrich Engels get a chance to speak once more: Despite the fact that the weekly wage of a worker corresponds only to three working days, the worker is not allowed to stop working on Wednesday evening. "The capitalist has bought his weekly work and the employee has still to work the three last weekdays too" – for nothing, in favour of the capitalist. So Engels summarizes vividly the Marxist wage theory, which describes the relation employer-employee in the early time and peak of capitalism. In his main work "Das Kapital" ("The Capital") Karl Marx did not invent the descriptions of the terrible conditions of the workers in the 19<sup>th</sup> century England; they are based on official reports of Royal Investigation Commissions. The owner of the means of production buys the work of the paid worker as a commodity and pays just as much wage as the worker needs to maintain his capacity for work and to keep his species alive. The wage consists – according to Marx – in the costs for the "reproduction" of the commodity

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<sup>1</sup> Friedrich Engels (1868), Das Kapital von Marx, in: Herbert Pönicke (without year), Die sozialen Theorien im 19. Jahrhundert in Deutschland, Paderborn, 33

"human capacity for work", in the costs for raising and maintaining the workers who are needed by the economy at any one time: work, labour- a commodity, worker -just a cost factor, nothing else.

Marx described the situation of the workers in England. At the same time a Catholic Bishop in Germany, Wilhelm Emmanuel von Ketteler (1811-1877), drew a similar conclusion. Ketteler, Bishop of Mainz, was the pioneer of Germany's Social Catholicism and its most influential figure in the 19<sup>th</sup> century. In 1864 he published his book "Die Arbeiterfrage und das Christentum" ("The Worker Question and Christianity"), which attained many editions. Ketteler's analysis reached the following conclusion: The physical existence of the worker depends on his wage; "*in our time* this wage is determined by the subsistence level, by what is vitally necessary in the strictest sense"; for the "wage is a *commodity*: every day its price is determined by supply and demand; the line which it is varying around is the minimal living income; whenever the demand (for labour, for workers) is greater than the supply, the wage rises over this axis; whenever the supply (of labour, of workers) is greater than the demand, the wage drops under this line"<sup>2</sup>. This fact went down in history as the so-called "Iron Wage Law".

The rational economic principle, which is essential for modern economy, forms the background of this fact. This principle demands, "to expend as *little means as possible* for a wanted result or to get out as *much as possible* of available means"<sup>3</sup>: minimum possible input – maximum possible output. Due to the 'shortage of available means' and the great demand, this principle is basically right and made important contributions to the enormous increase in performance of modern economy. **But the mechanical and reckless application of the rational principle to the labour market and the working people also made labour a mere commodity and the worker only a cost factor.** The efforts of completely utilizing the workers' capacity for work caused inhumane working conditions. Because the work capacity was the only 'commodity' of the worker, he was forced to sell it at any cost. Being without material resources, admittedly the worker was always the weaker one in the competition struggle.

The difference between Bishop Ketteler and Karl Marx consists only in three words. Ketteler limited the so-called "Iron Wage Law" to his time ("*in our time*"). Marx, in contrast, declared it as an unchanging and unchangeable law and understood it as a prognosis of the future, which will proceed according to natural law necessity. History, however, did not confirm his prediction – not least because people such as Ketteler and Marx gave decisive incentives to awaken the conscience and to sharpen responsibility for the workers. But the "Iron Wage Law" was in force in Early and High Capitalism; and it will be in force in each economic system, which sees labour as a mere commodity and treats workers only as a cost factor.

It may surprise us that even Adam Smith (1723-1790), the well-known founder of Classical Economic Liberalism and modern economics, saw this initial disadvantage. In a stirring passage of his main publication *An Inquiry into the Nature and Causes of the Wealth of Nations*, Smith wrote in 1776. With regard to the struggle between 'factory bosses' – he called them

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<sup>2</sup> Wilhelm Emmanuel von Ketteler (1864), *Die Arbeiterfrage und das Christentum*, in: *Texte zur katholischen Soziallehre II* (1976), edited by the Bundesverband der Katholischen Arbeitnehmer-Bewegung (KAB) Deutschlands, Kevelaer, 116-217, 125,127

<sup>3</sup> Oswald von Nell-Breuning (1980), *Gerechtigkeit und Freiheit. Grundzüge katholischer Soziallehre*, Wien, 147-148

"masters" – and their "workmen", it is clear, who "will have the advantage in the dispute, and force the other into a compliance with their term... In all such disputes the masters can hold out much longer... They could generally live a year or two (or more) years upon the stocks, which they have already acquired. Many workmen, however, could not even subsist a week... without employment"<sup>4</sup>.

## **Christian Social Teaching and Worker Co-Determination (until World War II)**

The described problematic relations between the 'factory bosses' and their 'subjects', between management and labour, and the legal status of the workforce in enterprises are as old as the industrialization itself. They can be traced to the first decades of the 19<sup>th</sup> century. Thirteen years before Karl Marx and Friedrich Engels published their famous Communist Manifesto in 1848, Franz von Baader (1765-1841) dealt with the issue of worker co-determination. Baader was an entrepreneur (manufacturer of glass), university professor and the most important social critic in the early Catholic Social Movement. As early as in 1835 he claimed "the right" of the emerging work force "to elect and send representatives to the bodies of estates"<sup>5</sup>. The "bodies of estates" were a kind of parliament of groups in the then society, which were powerful at that time. There the representatives of the workers should look after their interests. Baader's proposal was not realized, but what was crucial for the history of co-determination was the fact that Baader declared the representation of the employees in the "bodies of estates" to be "the right" of the workers. Baader claimed this right as early as at the very beginning of the industrialization process in Central Europe and – I repeat – years before Marx and Engels published their "Communist Manifesto".

In the middle of the century the just mentioned Bishop Ketteler made every effort to establish so-called "production associations". By "production associations" he understood co-operatives, which would eliminate the separation of capital and labour and stop the 'proletarianization'. Each member of such a production co-operative would be "entrepreneur as well as worker". As "worker" he would be paid the ordinary "wage as an employee". As "entrepreneur he would receive his share in the enterprise's profit". At the same time he would be involved in the economic decision-making and "running of the enterprise"<sup>6</sup>. This proposal referred clearly to the workers' participation as "entrepreneurs" in the "running of the enterprise" and therefore also to co-determination. Even if Ketteler did not succeed, he introduced the idea of worker participation into the public discussion – as early as in the middle of the 19<sup>th</sup> century.

These efforts stand for many similar ones. They show that the problem of the tension-laden relationship between management and labour, the right of the employees to a say in the enterprise, and consequently the issue of an enterprise constitution including both sides, capital and labour – that is the issue of co-determination -, are as old as the industrialization process.

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<sup>4</sup> Adam Smith (1756), An Inquiry into the Nature and Causes of the Wealth of Nations, London; quotes according to Joseph Höffher (1997), Christian Social Teaching, Cologne, 154

<sup>5</sup> Franz von Baader (1835), Über das dermalige Missverhältnis der Vermögenslosen oder Proletairs zu den Vermögen besitzenden Klassen der Sozietät in Betreff ihres Auskommens, sowohl in materieller wie in intellektueller Hinsicht, aus dem Standpunkt des Rechts betrachtet, in; Texte zur katholischen Soziallehre II, 43-53,47-49 (see note 2)

<sup>6</sup> Ketteler, Die Arbeiterfrage, 202 (see note 2)

The problem however how to organize the co-operation within the production association, remained unsolved. Presumably this was a main reason for the failure of the idea.

The successor to Bishop Ketteler as the leading figure in Social Catholicism was Franz Hitze (1851-1921). Hitze, a Catholic priest and a close supporter of the emerging Christian Trade Unions, acted for many years as the senior spokesman on social affairs for the "Zentrum" ("Centre Party") in the national parliament. Since 1893 Hitze held the first chair of Christian Social Teaching at a German university in Münster. In the eighteen hundred and eighties, Hitze and his friend, the entrepreneur Franz Brandts (1834-1914), established one of the first so-called "Arbeiter-Ausschüsse" ("Worker Committees") in Brandts' textile business. These "Worker Committees" can be called the predecessors of the "Factory Committees". According to the "Law on Regulations Governing Industrial Relations" of 1952, today such a "Factory Committee", called "Betriebsrat", exists in every German company. The "Worker Committee" was involved in discussing personnel and social matters; and "also the employer committed himself to its decisions"<sup>7</sup>. So the "Worker Committee" granted the employees "a share of the rule"<sup>8</sup>, as a contemporary voice said.

During the First World War, the so-called "Hilfsdienstgesetz" ("Law on Help Service") of 1916 enacted the legal introduction of "Worker Committees". The employers had demanded to cancel the free choice of the working place and the right of the free labour contract in order to increase the production capacity for weapons. The introduction of "Worker Committees" by law was the equivalent for the cancellation. So what the Social Catholicism had fought for during a number of decades turned into a reality under the pressure of the war economy.

After the First World War, the development made a crucial step from co-determination concerning social and personnel issues to participation in economic decision-making. The constitution of the new German republic laid down the principle that the employees "play an equal part with the employers in the entire economic development" (Art. 165). The "Betriebsrätegesetz" ("Law on Factory Committee") of 1920 made the concrete step from social to economic co-determination. It provided for the full co-determination in personnel and social affairs and an initial participation in economic decision-making: for the first time, the "Factory Committee" had to send two representatives of the workforce, enjoying equal rights, on the supervisory board of directors, the key deciding body of the enterprise. Representatives of the Catholic Social Movement were decisively involved in making the so-called "Co-Determination Article" of the constitution; and the Minister of Labour Heinrich Brauns (1869-1939) formed the "Law on Factory Committee". Brauns was a Catholic priest and a leading member of the Catholic Social Movement. By this law he put into effect an old demand of this movement.

In 1921 Matthias Erzberger (1875-1921) presented a more progressive model of an enterprise constitution. He was a member of the Catholic Social Movement, became Finance Minister after the war and carried out the great finance reform in 1919-1920 within only 9 months, a unique statesmanlike achievement. Erzberger proposed that the workforce of each enterprise with more than 20 employees should found a "Werksgenossenschaft" ("Work's Association").

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<sup>7</sup> Arbeiterwohl(1881), Vol.1, 101

<sup>8</sup> Max Seering(1890), Arbeiter-Ausschüsse in der deutschen Industrie. Gutachten, Berichte, Statuten, Leipzig, 2

By profit sharing and increasing the enterprise's capital until 50% of the total capital assets should become its property. After that the half of the net earnings should be distributed to both the previous shareholders and the new "Work's Association". In this way the workers too would get "a share in running the enterprise"<sup>9</sup> as well as in ownership and earnings. So this concept was the first enterprise model that provided for an equal co-determination of the employees based on equal co-ownership. (In August 1921, rightwing radicals assassinated Erzberger, who had headed the German cease-fire commission after the war. So they stopped the discussion of his proposal before it had started.)

In 1933 Adolf Hitler and his National Socialists seized power in Germany. Only one year later they cancelled the existing co-determination regulations and replaced them by what they called "Führer-Gefolgschafts Prinzip" ("Follow-the-Leader Principle"); it gave the "Betriebsführer" ("Leader of the Enterprise"), the top management, the sole authority to make decisions on the enterprise including the affairs of the workforce. They were called "Betriebsgefolgschaft" ("followers of the enterprise"), who have to follow the leader, as the German expression "Gefolgschaft" says.

## Concept and Forms of Co-Determination

Before we deal with the subject "Social Market Economy" and "Workers as Co-Entrepreneurs" in this economic system, I give a general survey of the concept of worker participation in economic decision-making. Whenever there is talk of co-determination, one must distinguish between three aspects or levels.

- The first distinction refers to the issues that are objectives of the participation in decision-making. There is co-determination in social issues, for example, enactment or change of the factory order, administration of social services provided by the enterprise, regulation of holiday periods. Another co-determination concerns personnel matters such as employment, transfer or dismissal of employees, regulations of further education in the company. There is, finally, a co-determination in real economic issues, for example, the taking up or ending of a particular production, the amount and kind of investments, the establishment of new production sites. The mentioned "Law on Factory Committees" of 1920 introduced co-determination in social and personnel affairs. After World War II a number of laws established the participation in economic decision-making.

- A second distinction refers to the intensity and degree of co-determination. One must distinguish between mere information of the workforce and a non-binding, advisory discussion on the one hand, and a real participation in decision-making on the other, where the vote of the employees must flow into the decision. This real co-determination takes place in different stages, according to the number of workers' representatives in the decision-making body. For example, the repeatedly mentioned "Law on Factory Committees" of 1920 provided for two representatives of the employees on the supervisory board of directors; according to the "Law on Regulations Governing Industrial Relations" of 1952, a third of the members of the supervisory board of directors must be representatives of the workers; the "Law on Worker Participation in Coal and Steel Industry" of 1951 demands a fifty-fifty representation of owners

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<sup>9</sup> Matthias Erzberger (1921), Christlicher Solidarismus als Weltprinzip, M.Gladbach, 26

and workers on the supervisory board of directors and an "Arbeitsdirektor" ("Worker Director"), who represents the workforce on the board of the executive directors.

- Finally, we must distinguish different levels of participation in decision-making: the co-determination regarding the workplace (Mitbestimmung am Arbeitsplatz), its shape and conditions, by which each individual worker is affected; the crucial co-determination concerning the already mentioned social, personnel and economic issues of the enterprise (betriebliche Mitbestimmung), such as the introduction and administration of social services in the business, the employment, transfer and dismissal of employees, the taking up and ending of productions, the kind and size of investments; the co-determination "on a higher level" (überbetriebliche Mitbestimmung), as the Second Vatican Council says, outside the enterprise itself, where "decisions concerning economic and social conditions, on which the future of the workers and their children depends, are rather often made" (*Gaudium et Spes*, Art. 68). This "higher level" includes, for example, Chambers of Commerce where local economic participants meet to promote industry and commerce.

In this context a few words on the difference between the 'supervisory board of directors' ('Aufsichtsrat') and 'board of executive directors' ('Vorstand'), which have been just mentioned! In German-speaking countries, two different bodies head a company: The board of executive directors is responsible for running the company, for the everyday and routine decisions. The supervisory board of directors draws up the company's policy in general, appoints and dismisses the executive directors and is therefore the body that decides in the end.

## **Social Market Economy – What is it? (after World War Two)**

Most of what the Social Catholicism had elaborated in the 19<sup>th</sup> century and after the First World War aimed at those ideas, which were called *Social Market Economy*. After World War Two they gained increasing acceptance in Central Europe in one or another way. **Social Market Economy is an economic system combining "the principle of freedom in the market with the principle of social justice"**. Economists and politicians, who had opposed the National Socialists and their centrally planned and controlled economy (such as Alfred Müller-Armack, Walter Eucken, Ludwig Erhard – to name just a few), worked out the concept. Ludwig Erhard, Minister of Economic Affairs for many years, translated it into practical policy and became known as 'Father of the German Economic Miracle'. The concept is based on the conviction that competition is "an indispensable tool for organizing modern mass societies", but that this competition "only works if a clear framework and legal regulations safeguard it". **The central core of Social Market Economy is "competition based on performance**, on achievement of output and efficiency"<sup>10</sup> ("Leistungswettbewerb"). This means: a private-enterprise economy, competition of achievement instead of a centrally planned and controlled economy.

Real competition, however, does not automatically result from the free play of market forces – as history and modern economics teach. Therefore state policy has the responsibility to enable, establish, safeguard and promote competition and to create "the legal framework for every

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<sup>10</sup> Alfred Müller-Armack (1956), Soziale Marktwirtschaft, in: Handwörterbuch der Sozialwissenschaften, Vol. 9, Stuttgart, 390-392, 390

economic activity, business, trade and industry"<sup>11</sup>. "The state has to establish competition" – demands Norbert Walter, chief economist of Deutsche Bank, the biggest bank in Germany. "Competition does not happen by itself"<sup>12</sup>. At the same time the state must "prevent restrictions of competition" and "control monopolies and cartels". Anti-monopoly laws have to ensure that monopolies are not being created and, if they are unavoidable, that they are controlled by the state "in order to make competition work most effectively to the consumers' benefit"<sup>13</sup>. Ludwig Erhard and his co-fighters for Social Market Economy managed that as early as in 1957 the national parliament passed a monopoly law and established a monopoly commission – against heavy opposition from industry and commerce. The commission has to control takeovers and prevent monopolies as far as possible. In the meantime the European Union took on parts of its responsibilities.

The growing globalization and in particular the most recent serious crisis of the international finance system confirm the necessity and urgency of a global framework. Until today the world economy lacks such a global framework that would correspond to the domestic or national framework. Powerful economic participants, banks, transnational companies act more and more outside any framework. The framework, however, is essential not only for the concept of Social Market Economy, for well working national economies, but also – as the world economy and people all over the world painfully experience at the moment – for a well working global economy. "We must not accept that capital markets replace the primacy of politics"<sup>14</sup>, warns Horst Köhler, the German Federal President and former Director General of the International Monetary Fund. And the President of the *Weltwirtschaftsarchiv (World Economic Archive)*, one of the leading German economic research institutes, demands "to fix basic conditions of the globalized economy on a global level, to fix global rules for global economic activities"<sup>15</sup>. Voices like these and the experience of the present global financial crisis show that these insights seem to become common knowledge.

**A second essential of Social Market Economy is of equal importance: the social alignment and social objectives that need to be met.** The German 'fathers' of the concept saw the social elements on four levels:

- The alignment of industry and commerce with the needs and wishes of the consumers (by the play of supply and demand) and not with a central state authority as existed in Germany's state controlled economy during the war.
- An income distribution tied to individual performance and achievements and in this way "just income distribution"<sup>16</sup>.
- Constant improvement in economic efficiency due to the pressure of competition.
- Based on the rising productivity, the increasing ability of the state to complement competition by compensating for socially negative results of the market process and to facilitate necessary changes in economic structures.

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<sup>11</sup> Was ist Soziale Marktwirtschaft? Aktionsprogramm der Arbeitsgemeinschaft Soziale Marktwirtschaft, in: Das christliche Gewissen und die Soziale Marktwirtschaft des Neoliberalismus. Sonderheft aus "Junge Wirtschaft" 2 (February 1960), 7

<sup>12</sup> Norbert Walter (1999), Mehr Markt – weniger Moral? in: Rheinischer Merkur, No. 25, 18 January, 14

<sup>13</sup> Müller-Armack, Soziale Marktwirtschaft, 391 (see note 10)

<sup>14</sup> Robin Mishra (2008), Alle Macht den Mächtigen, in: Rheinischer Merkur, No. 45/6 November, 4

<sup>15</sup> Thomas Straubhaar (2005), Löchrige Freiheit, in: Rheinischer Merkur, No. 19/12 March, 12

<sup>16</sup> Ludwig Erhard (1949), Das Problem der freien Marktwirtschaft, in: Vierteljahreshefte zur Wirtschaftsforschung, 71-87, 78

The 'fathers' of the Social Market Economy realized that economic competition alone is insufficient to form a humane economic order. "Many things are indispensable to the market, but of greatest importance for human needs", emphasized the economist Alexander Riistow, one of these 'fathers'. People who are not able to compete, who are not yet or who are no longer able to compete "cannot be abandoned to the market". These "market passives", as Riistow called them, are unable "to take care of themselves in a manner required by the market, because they are ill, they are weak, they are young, they are old and so on... One must do something for them, if one wants to be responsible and humane". The community, the state has to establish a so-called 'social security net' in order to take care of these "market passives". – State intervention is also required to facilitate those changes in the economic structure, which "are beyond the ability of the individual people affected". Such changes "cannot be allowed to regulate themselves – at some time or another"<sup>17</sup>.

Oswald von Nell-Breuning SJ, a highly respected social scientist and theologian, author of the draft of the Encyclical *Quadragesimo Anno* of 1931 and aide of a number of German post war governments, summarized these considerations: **Social Market Economy demands "a socially satisfactory economic process" and "its socially just results"**. "Socially just results", for example, refer to the question 'who benefits from the market'. An abundance of wealth alone is not a desirable aim, if this wealth is unjustly distributed. It is the task of Social Market Economy "to direct the allocation of the national product to different groups of people in such a way that the distribution of income and fortune is satisfactory"<sup>18</sup>. – "A socially satisfactory economic process", for instance, includes the humanisation of the production process so that workers are not already crushed under the wheels of the production process. It also integrates ecological targets, which become increasingly important. This social dimension has to be included in economic activity from the very beginning and as equal in weight. Not at least the "socially satisfactory economic process" includes, as the already-mentioned German constitution of 1919 demanded, that "employees and employers play an equal part in the entire economic development" (Art. 165) – in other words, economic co-determination.

## **Economic Co-Determination: Workers as "Co-Entrepreneurs" in Social Market Economy**

In 1945 World War Two ended with Adolf Hitler's suicide and the destruction of the Nazi reign of terror. But the defeat of Germany saw also its industry destroyed and its economy ruined. At the beginning of the economic reconstruction, very soon the debate about economic determination, which the National Socialists had cancelled, started again. It played a dominant role at the Bochum convention of the Catholic laity in 1949. Each second year German Catholics meet at a big gathering, called "Katholikentag" ("Catholics' Day"). Cardinal Frings, the then Archbishop of Cologne and chairman of the German Bishops' Conference, had convened a commission of Catholic employers and employees in order to prepare this biannual convention. Among other things, the committee dealt with the demand for economic co-determination and firmly declared, "that involvement in decision-making is *highly*

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<sup>17</sup> Alexander Rüstow (1960), Paläoliberalismus, Kommunismus, Neoliberalismus, in: Das christliche Gewissen und die Soziale Marktwirtschaft, 3-7, 5,6 (see note 11)

<sup>18</sup> Oswald von Nell-Breuning (1990), Wie "sozial" ist die "Soziale Marktwirtschaft", in: Friedhelm Hengsbach (Ed.), Oswald von Nell-Breuning – Den Kapitalismus umbiegen, Düsseldorf, 222-238,236

*appropriate*". Therefore, "the employees are entitled to bring into force this demand"<sup>19</sup>.

In 1949 the Catholics' Day took place in Bochum, the centre of the Ruhr-Region, which is the most industrialized region in Germany. After intensive discussions, the convention passed the following resolution: "The Catholic employees and employers agree that the right of worker participation in decision-making on social, personnel and economic affairs is a natural law, based on God's order, to which the co-responsibility corresponds. We demand to fix it by law"<sup>20</sup>. This declaration of the Bochum Catholics' Day, which was passed by employees and employers, has decisively influenced the regulation of worker participation in Germany.

Only two years later, in 1951, the Bundestag, the national parliament, passed the "Law on Worker Participation in Coal and Steel Industry", the so-called '**Montan Co-Determination**'. In each company with more than 1000 employees, this law **provides for an equal fifty-fifty representation** of the owners and the workforce **on the supervisory board of directors**, which is the top body (and an additional neutral member, who belongs neither to the capital side nor to the labour side), as well as an "**Arbeitsdirektor**" ("Worker Director") as one of the **executive directors**. The appointment of the worker director, who is in charge of the personnel department, needs the agreement of the workforce. At this point the above-mentioned difference between the board of executive directors and the board of supervisory directors is evidenced. (The executive directors are responsible for the heading of the company, the everyday and routine decisions; the board of supervisory directors determines the policy of the company in general, appoints and controls the executive directors and is the last deciding body.)

In the remaining part of industry and commerce, the "Law on Worker Participation" of 1976 demands also an equal representation of the shareholders and the workforce on the supervisory board of directors in companies of more than 2000 employees. In a stalemate the chairman of the supervisory board makes the decision, whose appointment needs the agreement of the shareholders – therefore co-determination just under parity. Up to now experience shows that in practice such a stalemate almost never occurs. The pressure to reach an agreement in the interest of the enterprise is very great. In companies with less than 2000 employees, the laws on "Regulations Governing Industrial Relations" of 1952 and 1972 demand that one third of the supervisory board of directors are representatives of the employees. In 1979 the Federal Constitutional Court, the supreme German court, upheld the conformity of the co-determination laws with the constitution. The court stated that the authority of the state to intervene is the more far-reaching "the more the particular property is in a social context and has social functions"<sup>21</sup>. So far a survey of the main laws that regulate worker co-determination in Germany today!

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<sup>19</sup> Joseph Cardinal Frings (Ed.) (1949), Verantwortung und Mitverantwortung in der Wirtschaft, Köln, 123

<sup>20</sup> Gerechtigkeit schafft Frieden. Der 73. Katholikentag in Bochum (1949), Paderborn, 114

<sup>21</sup> Mitbestimmungsurteil des Bundesverfassungsgerichts vom 1.3.1979, in: Bundesminister für Arbeit und Sozialordnung (Ed.) (1979), Mitbestimmung, Bonn, 261-346, 311

## **Social Teaching of the Catholic Church and Co-Determination or "Active Participation" of Workers "in the Running of an Enterprise" (Vatican II)**

In 1891 Pope Leo XIII published the first so-called Social Encyclical *Rerum Novarum*. He did not deal with the issue of worker participation in economic decision-making. The understanding of the right of ownership and the contract of employment excluded any worker co-determination in those days. But the Pope demanded that capital and labour should maintain a 'balance of power', an "aequilibratas", as the Latin term reads, and work together "in harmony and agreement" (No. 15).

In 1931, forty years after *Rerum Novarum*, Pope Pius XI published the Encyclical *Quadragesimo Anno*. He stated that the "economic system in which different people provide the capital and labour jointly needed for production... is not to be condemned" and that "the wage contract is not essentially unjust" (No. 100, 101, 64). So the Encyclical said *Yes* to market economy. *Quadragesimo Anno* condemned, however, the capitalistic class society, in which "capital so employs the working or wage-earning classes as to divert business and economic activity entirely to its own arbitrary will and advantage without any regard to the human dignity of the workers, the social character of economic life, social justice and the common good" (No. 101). "In the present state of human society", the Encyclical therefore "deemed it advisable that the wage contract should, when possible, be modified somewhat by a contract of partnership... thus the workers become sharers in the ownership or management, or else participate in some way in the profits" (No. 65). The close connection, in which Pius XI put ownership and management, suggests that he understood by "sharers in the management" a co-determination of the workforce based on co-ownership: the employees become "sharers in the ownership" by investing parts of their income in the enterprise; the present and the 'new' shareholders own, manage and determine the enterprise together<sup>22</sup>.

The Encyclical *Mater et Magistra* of 1961 and the Second Vatican Council continued the Social Teaching of the Church. *Mater et Magistra* was the first pastoral letter to deal explicitly with the co-determination issue and introduced new aspects into the discussion. Its author, Pope John XXIII, regarded "as justifiable the desire of employees to be partners in enterprises wherein they work.... The manner and degree of such a partnership" cannot be precisely decided, "but it is of utmost importance... that the employees should have an active part in the affairs of the enterprise wherein they work " (No. 91). The Encyclical therefore continues "that the greater amount of responsibility desired today by workers in enterprises, not merely accords with the nature of man, but also is in conformity with historical developments in the economic, social, and political fields" (No. 93). – The basis of these statements is the Pope's preference for labour. "Men engaged in productive activity" should also "have an opportunity to assume responsibility" (No. 82). **Labour "proceeds directly from the human person, and hence is to be thought more of than wealth in external goods...** These latter, by their very nature,

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<sup>22</sup> It seems also reasonable that the Encyclical regards "sharers in the management" and co-determination as possible without co-ownership: the one side invests the capital, the other side does the work; both sides manage and determine the enterprise together. In this way Oswald von Nell-Breuning commented on the issue (see Liederick de Witte (1964), Kirche -Kapital – Arbeit, Limburg, 142-143). On behalf of his order, Jesuit Father von Nell-Breuning, doyen of Christian Social Teaching, had worked out the draft. The text of the Encyclical itself is not quite clear. I prefer the first interpretation.

must be regarded as instruments" (No. 107).

The Second Vatican Council took up this thought of *Mater et Magistra*. The Pastoral Constitution *Gaudium et Spes*, published in 1965, states that "human labour... is superior to the other elements of economic life. For the latter have only the nature of tools... labour comes immediately from the person", who "stamps the things of nature with his seal and subdues them to his will" (Art. 67, 1-2). After this statement of principle on the value of human labour, *Gaudium et Spes* turns directly to worker co-determination: "In economic enterprises it is persons who work together, free and independent human beings, created in the image of God. **Therefore the active participation of everyone in the running of an enterprise should be promoted.** This participation should take into account each person's function, whether it be the one of ownership, hiring, management, or labour. It should provide for the necessary unity of operations" (Art. 68,1).

The statements of *Mater et Magistra* as well as those of the Vatican Council have been intensively discussed. Many experts were and are convinced that the laws on worker co-determination in Germany correspond completely with the statements of the Council. Other pundits say that the German co-determination goes beyond those statements and contradicts them. In my view, the following seems to be clear and indisputable:

- The Church's Social Teaching sees the **enterprise** to be not only an economic-technical machinery producing goods, but a **community of persons**, of "free and independent human beings created to the image of God", or – as Pope John Paul II emphasized in the Encyclical *Centesimus Annus* of 1991 – a business is not only "a 'society of capital goods'; it is also a '**society of persons**', in which people participate" (No. 43, 2). The employers, therefore, must not put the workers and the economic equipment on the same level and should not see them as a cost factor only.
- Management, owners and workers together achieve the success of the enterprise. The active participation of everyone in the running of the enterprise should be promoted – according to one's functions and without damaging the unity of operations. In this sense **the Council sees the workers as co-entrepreneurs**. Therefore an enterprise constitution is needed that bases the management on two legs: "the leg of the technical means of production and the leg of labour". **The management**, in charge of the workers and the capital invested in the enterprise, **should get their decision-making authority from** "both constitutive factors of the enterprise, **capital and labour**"<sup>23</sup>.
- The Council did not determine how this worker co-determination should be put into practice, in which forms and to what extent. The concrete realization, **"the legal and technical solutions in detail are beyond the knowledge and beyond the authority of a Council"**<sup>24</sup>. They are beyond the knowledge and competence of theology and beyond of the Church. That is neither their job nor their responsibility. The Council said 'Yes' to the principle – not more but not less either. The implementation in detail remains the task of the expert knowledge of the employees and employers, the economists and political scientists, and above all – in a democratic state – the responsibility of the parliament elected by the people.

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<sup>23</sup> Oswald von Nell-Breuning (1969), Mitbestimmung-wer mit wem? Freiburg, 179-180

<sup>24</sup> Oswald von Nell-Breuning (1968), Kommentar zum II. Kapitel, in: Lexikon für Theologie und Kirche – Das Zweite Vatikanische Konzil, Vol. 3, Freiburg, 487-515, 500

## Final Remarks of Principle

Critics sometimes raise the objection that the right of ownership and co-determination of the workforce exclude each other. The right of ownership entitles one to have something at one's free disposal; co-determination of those who are not owners limits or even eliminates this disposal. Against such arguments, the contra-thesis says that the owner has the right to have one's property at one's disposal; but it does not entitle one to force fellow people to be available at one's disposal. "The owner has to negotiate the conditions"<sup>25</sup>. The right of ownership entitles to have things at one's disposal, but not persons.

A second objection states that co-determination endangers or even eliminates any qualified management, which especially today is so important. Only owners, who are really liable for their property, who carry the risk of losing it, are able "to exert properly the function of an entrepreneur"<sup>26</sup> and to carry entrepreneurial responsibility. One may ask against this thesis, whether the risk of losing the job or of suffering other disadvantages, whenever the enterprise comes into difficulties, is not a real risk too for those who are not owners – a risk that can also be the base of entrepreneurial responsibility as is the liability based on property? "In principle the entire workforce has to help carry the risk that is inherent in each entrepreneurial decision"<sup>27</sup>. But the representatives of the workers on decision-making bodies should be as well qualified for their job as possible. With regard to this point the objection is right and assigns therefore particular responsibility to modern trade unions. – In this context one should not overlook that most members of the management, responsible for the running of a company, are not its owners themselves. They too are employees – even if employees with high salaries. As a rule, those managers do a good job and show that they are able to carry entrepreneurial responsibility in spite of not being the owners.

Something similar goes for the objection that co-determination endangers the unity of the enterprise management and makes it incapable of acting. But co-determination does not mean a 'parliamentarization' of the company in the sense that every day each individual employee can interfere in entrepreneurial decisions to be made. The running of the company remains the task of the top management. But representatives of the owners and of the workforce should be part of it. The management should get their decision-making "authority from capital and labour together, which both are the constitutive factors of the enterprise, and should consequently be responsible to both"<sup>28</sup>.

The statement of Vatican Two that "persons, independent human beings, created in the image of God", work in enterprises, shows the crucial reason for co-determination. This fact forbids using the workers only as part of the economic machinery and as an unavoidable cost factor, and is the basis of partnership with equal rights. **A company is not only a technical apparatus and capital investment; it is, above all, a social entity, in which human beings are at work.** Therefore it is not only the responsibility of the management to make as big a profit as possible

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<sup>25</sup> Oswald von Nell-Breuning (1968), Heisse Eisen in der Gesellschaftspolitik, in: Echo der Zeit, no.31, 1 August

<sup>26</sup> Alfred Christmann (1964), Wirtschaftliche Mitbestimmung im Meinungsstreit, Vol. 1. Ed. by Otto Kunze, Köln, 176

<sup>27</sup> Eduard Gaugler (1968), Die Auswirkungen der Mitbestimmung auf die unternehmerischen Entscheidungen, in: Anton Rauscher (Ed.), Mitbestimmung, Köln, 80-112,95

<sup>28</sup> von Nell-Breuning, Mitbestimmung, 67 (see note 18)

for the shareholders; the management has also to care for the interests of the employees (and not least for the common good). Capital and labour together accomplish the achievements of the enterprise. This task demands an enterprise constitution, which bases the top management and their leadership authority "upon both constitutive factors of the enterprise, capital and labour"<sup>29</sup>.

## Conclusion

Co-determination, which understands and treats employees as co-entrepreneurs, made an important contribution to Germany's economic recovery after World War Two as well as to its social standards and social stability to this day. Without worker participation in economic decision-making the deep transformation process of the post-war period would have created enormous social problems. For example, half a century ago more than 600 000 miners had worked in the coal industry of the Ruhr-Region. Today their number is less than 30 000 and is still decreasing. This change in structure massively transformed the entire region. In my view, it is due to the co-determination that the huge change did not cause extreme social tensions. Serious decisions, for example to close coalmines and to replace them by other branches of industry, had to be made by the representatives of capital and labour. These decisions had to take into account the interests of both sides and they had to be made years ahead. Today the region is a centre of recycling and service industries.

Jürgen Schrempp, the former chief executive director of Mercedes Benz, one of the biggest car companies, and not a close friend of trade unions, sings the praises of the German worker participation in economic decision-making: "It slows down the speed with which decisions are taken, but it makes them, at the same time, stronger and more enduring, more sustainable, and it creates an atmosphere of consent and partnership"<sup>30</sup>. In this sense Schrempp sees the workers as co-entrepreneurs. So does Heinrich von Pierer, former chief executive director of Siemens, the biggest German company, and "speaks of the advantages of co-determination"<sup>31</sup>. The chief executive officer of Deutz, a big tractor company, calls the German "model of social partnership highly helpful". Very few strikes in Germany are a consequence, "peace-dividend of co-determination"<sup>32</sup>. A former chief executive director of the supervisory board of Adam Opel AG, a subsidiary company of the US carmaker General Motors, underlines that he "does not know an enterprise that fosters co-determination and is not successful in the market place"<sup>33</sup>. And just recently a senior member of the Federal Constitutional Court, the supreme German court, emphasized that participation of the workforce in economic decision-making is "part of the national culture"; it should, however, be complemented by "promoting their co-ownership in enterprises"<sup>34</sup>. The future will show whether co-determination can gain general acceptance in the European Union.

Of course, worker participation in economic decision-making could not and cannot prevent every problem of the country. Take, for example, the problems caused by the costs of Germany's re-unification! Since 1990 about 90 billion EURO per year are transferred from the

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<sup>29</sup> von Nell-Breuning, Mitbestimmung, 67 (see note 18)

<sup>30</sup> Frankfurter Allgemeine Zeitung (1998), No. 167, 22 July, 13

<sup>31</sup> Rheinischer Merkur (2004), No. 30, 22 July, 14

<sup>32</sup> Rheinischer Merkur (2006), No. 3, 19 January, 11

<sup>33</sup> Frankfurter Allgemeine Zeitung (2006), No. 150, 1 July, 16

<sup>34</sup> Rheinischer Merkur (2006), No. 11, 16 March, 13

Western part to the former communist German Democratic Republic to reconstruct its ruined economy. Up to now the sum amounts to € 1 250 billion, and these payments will still be necessary for years. So the wonderful political re-unification showed itself to be a big economic burden. – Then take serious demographic problems caused by the reverse population pyramid! The same number of working people – or even a decreasing number – has to bear the costs for an increasing elderly population. Therefore the government tries their utmost to improve the economic situation of young families in order to have the number of children increased from the present low. – One must not overlook problems caused by the globalization process. Because of high wages, companies transfer factories to Eastern Europe and Asia, where the wage level is lower and the work force is not less well qualified. These facts are some reasons for Germany's unemployment rate, fluctuating between 7 and 11 per cent. But despite these problems, economic and social standards are still remarkable high.

Recently more and more experts and politicians criticize the so-called 'social net' for being too tight-knit. It tempts people, not infrequently, to prefer being unemployed to employed. Unemployment benefit and salaries from jobs on the side can possibly mount up to a higher income than being employed, because legal employment is burdened by all kinds of taxes and social contributions. A rigid, inflexible labour market and many bureaucratic regulations are to be added. The described factors are main causes of Germany's economic problems in recent years. In the meantime the economy, as research institutes say, seems to have gone to rock bottom and to boom again. But that is a different issue.

Looking at the past, worker participation in economic decision-making made a considerable contribution to the reconstruction of German industry in the post-war period and to the present social standards of the country. As an essential part of Social Market Economy, it prevented excessive tensions between management and labour. It created – to quote former Mercedes boss Jürgen Schrempp (once again) – "an atmosphere of consent and partnership" between capital and labour, and it corresponds to the dignity of human beings, who are created in the image of God and enjoy the ability of self-determination. Co-determination has proved to be worthwhile.

## **Appendix: Co-Ownership of the Employees of the Means of Production – "Investment Wage" ("Investivlohn")**

As early as in 1931 the Social Encyclical *Quadragesimo Anno* had spoken of a co-determination of workers based on co-ownership (see No. 65). In 1949, at the beginning of the reconstruction of Germany's economy after World War Two, the Christian Democratic Union CDU, which was to become the ruling party, demanded to extend the existing schemes of ownership-sharing of workers "to more enterprises and to develop new forms"<sup>35</sup>. Members of the Federal Constitutional Court recommend complementing worker co-determination by worker co-ownership of the enterprises<sup>36</sup>; and Horst Köhler, President of the Federal Republic, demands "a more extensive co-ownership of workers"<sup>37</sup>. These voices are just a few examples of the ongoing discussion about 'co-ownership'.

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<sup>35</sup> Christlich Demokratische Union, *Düsseldorfer Leitsätze vom 15. Juli 1949*, in: Ossip K. Flechtheim (Ed.) (1963), *Dokumente zur parteipolitischen Entwicklung seit 1945*, Vol. 2, Berlin, 58-76, 73

<sup>36</sup> See note 34

<sup>37</sup> *Frankfurter Zeitung*, Nr. 147, 28 June 2006, 11

The background is the understanding of the right of ownership. When they give reasons for the right of ownership, both Christian Social Teaching and Social Market Economy start from the point that "the goods of the earth are assigned to all humankind" and that, therefore, "every human being must have the chance to share in the use of these goods". This so-called "universal destination of goods", as the Compendium of the Social Doctrine of the Church calls it, is founded on the will of God, the creator, and "is a permanent impulse to check every existing property order again and again, whether it meets this requirement or not"<sup>38</sup>.

In this context, the unequal distribution of property – in particular the unequal distribution of ownership of the production means – is an extremely explosive subject. It offends against the primary "universal destination of goods" if only a minority owns them and the majority is excluded. Whatever industry and commerce produce, the growth of economic value, depends on co-operation of capital, management and labour. Therefore the growing economic value should become the property not only of the owners of capital, but should be shared between them and the workers.

Most representatives of Christian Social Teaching and Social Market Economy are convinced that the introduction of "investment wages" is the right and most successful way to let wage-earners share in the means of production. Co-ownership of the means of production can become a reality only if parts of the earned income "are not being consumed but invested in means of production". That part of the gross national product, which consists in means of production, can – according to their nature – become only income of those income earners who are willing to get income in the form of means of production. The growing of the work force into co-ownership of the means of production demands therefore "to let an increasing part of the national income come to the wage-earners so that they invest it"<sup>39</sup>. With regard to worker co-determination this fact means: Co-Determination based on Co-Ownership (of means of production). Proposals recommend shares in companies, wherein the employees work, as well as so-called investment trusts. Investment trusts spread the job and capital risk in case of bankruptcy of an enterprise and are preferable in this respect. On the other hand, shares in the company, wherein the employees work, intensify job motivation and commitment of the employees, because they share success and failure of the enterprise.

In Germany today some two million employees hold shares in their companies. This partnership capital amounts to about 13 billion Euro<sup>40</sup>. Since 1961 the national parliament has enacted a number of schemes and laws to enable a better sharing of the workers in the means of production. These laws make asset-creating contributions of employers to savings schemes of employees free of tax and social welfare contributions. 'Asset-creating' means that the respective parts of the wages are invested again (and not consumed). In 1966 the first asset creating wage agreement between trade unions and employers came into force. Later on some more wage agreements followed. But in spite of that, until now the "investment wage" could

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<sup>38</sup> Franz Klüber (1968), *Katholische Eigentumslehre*, Osnabrück, 29-30; Friedrich Beutter (1976), *Die theologische Begründung der katholischen Lehre vom Eigentum*, in: *Gesellschaft und Politik*, Vol. 12, No. 2, 34-41,39

<sup>39</sup> Oswald von Nell-Breuning (1956), *Wirtschaft und Gesellschaft*, Vol. 1, Freiburg, 411,450,406; in detail see Franz Josef Stegmann / Peter Langhorst (2005), *Geschichte der sozialen Ideen im deutschen Katholizismus*, in: Helga Grebing (Ed.), *Geschichte der sozialen Ideen in Deutschland*, Wiesbaden, 597-862, 801-813

<sup>40</sup> Judith-Maria Gillies (2007), *Warten auf den Chef*, in: *Rheinischer Merkur*, No. 10, 8 March, 11

not get sufficient and general acceptance – because of reasons management and trade unions are responsible for. Employers are afraid that they are no longer the only 'master in the house' of their business, if employees are also co-owners. Trade unions fear that their influence on the workers would weaken, because the new co-owners could become more concerned about the interests of their respective company, which now, to a greater extent, would be also their interests.

More recently the debate on investment wages has started again. A senior member of the Federal Constitutional Court recommends, as above-mentioned, complementing worker co-determination by worker co-ownership of the enterprises<sup>41</sup>, and no less a person than Federal President Horst Köhler demands "a more extensive co-ownership of workers"<sup>42</sup>. At the moment the two ruling parties, the Christian Democratic Union CDU and the Social Democratic Party SPD develop new schemes of co-ownership. A main reason for that is the fact that for years capital income has been considerably more increasing than earned income and wages. All over the world demand for capital is much higher than demand for work, which can be met by an immense reservoir of millions, who are unemployed. The globalization process massively intensifies this trend. So the gap between capital income and wages becomes bigger and bigger. The medium-left wing Social Democrats propose one nationwide fund "Deutschlandfonds", in which the employees are supposed to invest parts of their wages and hold shares. The medium-right wing Christian Democrats favour the promotion of existing investment trusts. To combine both proposals, economists recommend "investment trusts aligned with industrial branches". By investing in their respective branches these investment funds "would stimulate the interest of the employees in the enterprises wherein they work" and, at the same time, "spread and minimize the capital risk"<sup>43</sup> in case of bankruptcy of enterprises. The future will disclose whether this new debate on investment wages and the current efforts of the political parties have been successful or not.

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<sup>41</sup> See note 34

<sup>42</sup> See note 37

<sup>43</sup> Norbert Walter (2007), Jedem Mitarbeiter steht eine Erfolgsbeteiligung zu, in: Rheinischer Merkur, No. 35, 30 August, 11

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