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ON GENERATING
EMPIRICALLY REFUTABLE HYPOTHESES
ON CO-DETERMINATION IN GERMANY

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Introduction

The purpose of this paper is a very modest one. I do not want to perform a single empirical (*viz.* econometrical) test; to the contrary, I simply want to compile empirically refutable hypotheses on co-determination in Germany under its various institutions¹⁾, but in particular on co-determination according to the act of 1976 as endorsed by the Supreme Court of the Federal Republic in 1979²⁾; the purpose of the paper being to lay the groundwork for empirical research on co-determination.³⁾

Empirical research on co-determination, however, for a number of reasons is a particularly tricky area. Part one is devoted to an explanation of some of the peculiarities of why empirical research on co-determination is difficult, and especially so. As a consequence of this discussion, an unusual proposal for generating empirically testable hypotheses is made. Part two, by far the largest one, consists of a number of series of empirically testable hypotheses on co-determination generated by the procedure explained in part one. This compilation includes a critical survey of the theoretical background, from where the hypotheses stems as well as remarks on how the test can possibly be performed.

1) This refers to the following acts of the German Federal Parliament (Bundestag):

- a) Gesetz über die Mitbestimmung der Arbeitnehmer (MitbestG) of May 4th 1976;
- b) Gesetz über die Mitbestimmung der Arbeitnehmer in den Aufsichtsräten und Vorständen der Unternehmen des Bergbaus und der Eisen und Stahl erzeugenden Industrie (Montan-MitbestG) of May 21st 1951; as amended by
- c) Gesetz zur Ergänzung des Gesetzes über die Mitbestimmung der Arbeitnehmer in den Aufsichtsräten der Unternehmen des Bergbaus und der Eisen und Stahl erzeugenden Industrie (MitbestErgG) of August 7th 1956;
- d) Betriebsverfassungsgesetz 1952 (BetrVerfG 1952) of October 11th 1952, §§ 76, 77, 77a, 81, 85, 87, but not the Business Constitution Act of 1972. There are English translations of b) and d) in *Farnsworth* 1975.

Sometimes, the theory on which a hypothesis is based can be interpreted more generally as its author might be prepared to admit; then, various and sometimes competing hypotheses may be derived. Sometimes, the material surveyed includes hypotheses which logically contradict the theories from which their authors propose to derive them. In this case, the theory can of course, nevertheless be tested since *ex falso quodlibet*, a correct hypothesis may be derived from a faulty theory. But the contradiction will, of course, nevertheless be mentioned. Finally, the second part is not completely without repetitions. The reason is a matter of exposition convenience. Since a series of hypotheses is derived from a coherent body of thought, different bodies of thought surveyed allow for the derivation of distinct series of hypotheses, which may partly *overlap*. It is, however, important to retain the original structure of a particular theory, the interdependence of its hypotheses and the connection between hypotheses and body of thought (theory), on which it is based.

The final part is devoted to summaries, and conclusions.

2) BverfGE 50290 ff.

3) An extensive compilation of hypotheses generated by the procedure discussed in this paper is given in my paper "Empirically Testable Hypotheses on Co-Determination: A Compilation", available on request.

I

Difficulties of generating empirically testable hypotheses on co-determination in Germany stem from two quite distinct reasons. The first reason is a rather more practical one. It is by no means clear why co-determination should have an observable effect at all. As I try to explain in the next paragraphs, co-determination may either have effects, which are not observable; or it may not have any effect at all. In either case the task of performing empirical tests is a rather more tedious one.

When deriving empirically refutable hypotheses on co-determination, however, one has to take into account another problem as well. Care has to be taken that the hypotheses, although perhaps significant, may not be misleading and convey an incomplete or even rather false image of what co-determination is about. I want to discuss this theoretical puzzle immediately before returning to the more practical issues referred to above.

Bloxham in a "Note on Publication and the Value of Significance Tests" discusses the problem as follows:

"Suppose twenty identical experiments are performed (or tests or trials or whatever); we can on the whole expect one of them to report a significance level of better than 5%. Thus, the discovery of one such outcome among twenty is quite compatible with the null-hypothesis (and to the general outcome that consists in the fact that we do not succeed in finding one such result we would attribute a significance level somewhat in excess of 50%). Suppose now a person brings to his reading of a published paper the special knowledge that other similar work has yielded nothing of comparable statistical significance, and therefore lies unpublished elsewhere. Then he is entitled to take into account this private data, say, the nineteen inconclusive experiments, in performing any statistical test. And that is the simple reason why his summary conclusion differs from the entirely proper "rejected at five percent level" belonging to the limited study appearing in the journal he reads".

The conclusion which we want to derive from this theoretical puzzle is, of course, not - as *Gordon Tullock* has suggested - that we should reiteratedly repeat empirical studies of a certain kind; to the contrary, the puzzle is apt to warn us to be wary of the significance of empirical results and to take notice of the circumstances under which they are usually published and under which empirical research is normally conducted and communicated.

This, however, lies at the heart of the problem with which we are confronted when studying the economic and social effects of co-determination in industries in Germany. Obviously, co-determination is a major social and political issue, and we are not likely to encounter neutral and impartial opinion wherever we want to look⁴⁾. Much less, we are likely to encounter "evidence" in the proper sense of the word. Therefore, when trying to generate empirically testable hypotheses on co-determination, it is useful to design a procedure which takes care of the effect described. Obviously, the question isn't one of changing the communication networks in academia. In our case, application of the puzzle reported leaves us with the following situation: Co-determination, being a politically hot potatoe, stimulates research. But not any result of empirical research is going to be *s u r p r i s i n g* enough in order to find its way into the professional media of publication. Actually, since we can not reckon with an impartial public, "surprising" isn't really an apt characterization. There are two kinds of results which are likely to be overestimated. First of all, the protagonists of co-determination have incentives to report beneficial effects of co-determination on economy and

4) This has, by the way, been one of the most recurrent themes of the Kassel symposion, where quite a few researchers even showed hostility towards the idea of "impartial" or "neutral" research on co-determination, active partisanship for further development of co-determination being one of the objectives of their research.
See also p. 3 of the report on the Kassel symposion by *Diefenbacher und Nutzinger*.

and society. Historically, this is not what we have witnessed. To the contrary, as I want to point out a little later, protagonists were prone to deny more or less any discernible effect at all - which, of course, in terms of political argument puts them into a slightly peculiar position. On the other hand, antagonists of co-determination, and there are quite a few, are likely to point out most disastrous effects which are bound to damage the economy. Again, results corroborating this hypothesis, are more likely to be publicized than research pointing out effects irrelevant to the political debate.

Which ever may be the underlying currents of political debate, it is quite likely that published results of empirical research on co-determination will give a more or less disturbed representation. Circumventing this problem calls for two strategies. First of all, it is important to generate a large enough set of hypotheses, including "unsurprising" ones, even at the expense of dullness. This is the strategy of not omitting particular hypotheses on *a priori* grounds. Secondly, the set of hypotheses to be tested has to be drawn from a fairly large sample of theoretical constructions evenly distributed over an issue dimension between *pro* and *con*. This is not to imply that there cannot be impartial theoretical knowledge on co-determination once and forever. But as far as the published literature on the specific issue of co-determination is concerned, attribution to the conflicting political viewpoints is not too difficult.

Thus, the political conflict over co-determination renders the study - both theoretical and empirical - of this reform experiment in industrial structure difficult; the source of the problem, however, entails a chance for its resolution too. A political conflict which even includes the challenge of a disputed law before the Constitutional Court generates a diversity of opinions, which not only blurs our knowledge of the factual side of what is disputed, but also enables us to systematically compile what ever there is in terms of factual state-

ments potentially to be submitted to empirical testing. This is the simple approach proposed and illustrated in this paper.

One of the sternest critics of co-determination, who in his theoretical analysis does not avoid notions like "crisis" and "chaos" when considering the economic and political consequences of co-determination, nevertheless surprises us with the following remarks:

"It is not difficult to account for the limited effectiveness of co-determination as the policy has been developed in Europa over the past decade or so. But the present lack of success in reducing private property rights in capital does not imply that the participatory approach is fundamentally incapable of effecting profound changes in traditional capitalist organization or of altering dramatically the way in which a market system functions. The important element in the program is public acceptance of the idea that it is legitimate and proper for the state to limit the decision making power of those who supply capital funds to the firm and assume the risks of production. Once this principle is established, the extent of reorganization depends largely on the political process and on the determination of those who are the prospective gainers to bring about effective implementation of the new scheme". *Furubotn* (1978) p. 133 (My emphasis added)

Apart from the political rhetoric it is quite obvious that the author proved to be unable to present any empirical evidence whatsoever for economic consequences of co-determination, preferably bad ones. This is not a singular situation. The report of the expert commission on the analysis of the experiences with co-determination in Germany, which was headed by *Kurt Biedenkopf* and finished its work in the early 1970ies is replete of similar examples. To quote but one concerning investment policies of the firm:

"46 On the basis of the hearings the commission has received the impression that worker representatives in the supervisory board have never really caused management any difficulties with its investment decisions. The intentions of the management, as far as the policy

of investment is concerned, was never, as far as can be seen, really questioned by worker representatives ... According to our experience with co-determination up until now we can say that co-determination of labour representatives in the supervisory board has not caused any substantial change of the investment policy of enterprises". (My translation, J.B.)

Similarly, the Constitutional Court in forming its decision on the constitutionality of the co-determination act of 1976 reiteratedly pointed out that the opinions submitted for consideration by the Court did not allow for any "serious comprehensive forecast of the economic and political consequences of co-determination"⁵⁾.

We can distinguish two quite different reasons why it may be impossible to find any discernible economical or political effect of co-determination. The first reason is pretty simple. If co-determination has no major economical or political effects, it will be hard to trace any down. In that case, it is, however, by no means clear why co-determination should be such an embattled issue. The second reason is a slightly more intricate one. As I have tried to argue elsewhere (*Backhaus* 1980) it is quite likely that co-determination renders the operation of enterprise more efficient by improving on its internal organization. In that case, there will be no behavioural changes of the enterprise under co-determination, e.g. as far as its investment policies are concerned; under co-determination, there will mainly occur a reduction in the difficulty of big enterprises to take decisions in an efficient way on matters which are far removed from the top and center of decision taking. And there is also likely to occur a qualitative difference in decisions which, without necessarily entailing major negative consequences on investment costs or the costs of operation, may improve upon the quality of the work life etc. Since

5) BVerfGE 290 (332)

co-determination universally affects a particular group of big industrial enterprises in Germany, it will be hard to separate this kind of economic and socio-political effect of co-determination from other characteristics and influences which these enterprises share among each other. In particular, these intra-firm effects will be much harder to be shown empirically than those which have been proposed in the course of the political debate and struggle over the imposition of the co-determination act of 1976.

Leaving this problem aside, I should now like to turn to an exemplary survey over some of the main arguments advanced in the debate and to a discussion of some of those hypotheses generated by the procedure explained in part I.

II

It is one of the strange experiences of this debate to note that protagonists of co-cetermination have been very reluctant in proposing hypotheses relating to economic effects of co-determination and claiming that co-determination might have beneficial consequences for the welfare of society in general or some major components of the economy or polity in particular. More to the contrary, protagonists have been busy to *r e - b u t* those proposals which antagonists of co-determination have been successful in making popular during the process of raising second thoughts about the co-determination act of 1976; in particular among politicians and leading members of the business and political communities.

There is, however, one single major contribution which we can not only easily read between the lines but which is one of the leading issues when discussing topics in favor of the co-determination issue. (*Frankfurter Gutachten*). I am referring here to the wisdom that two different processes for settling disputes between labor and management can play a complementary rôle. This is on the one hand the familiar process of *c o l l e c - t i v e b a r g a i n i n g*, which is constituted by the legislator in order to give an arena for settling disputes about *d i s t r i b u t i v e i s s u e s*.

In Germany, however, the legislature has introduced another set of institutions, which enable the parties engaged in collective decision taking as between labour and employers to settle issues in their mutual interest. These are not issues concerning what in economics might be referred to as zero-sum-game situations, but issues instead which require an active and creative rôle from all participants to the game. That is, only those proposals will be likely to prevail as decisions which entail a set of suggestions which, for each party in the procedure, promise positive net benefits. This is an extreme requirement, but, at the same time, it leads to peace and mutual understanding - *nilly willy*, perhaps.

The reasons for partisans of co-determination not to advance hypotheses concerning the beneficial effects of this institution are not very easy to reconstruct. Inasmuch as economic efficiency (*i.e.* welfare) is thought to contradict economic justice, the underlying reason for this belief and for not insisting on showing the positive economic effects of co-determination is an immediate consequence of ignoring the functional properties of market processes. As far as this string of argument reaches, antagonists of co-determination like *Pejovich* can only be applauded in rigorously attacking the notion that deliberate reconstitutions of the economy on the part of the legislature are to be welcomed in their own right.

Not any reconstitution of the economy by act of parliament is deliberate though. The co-determination act of 1976, *e.g.* in Germany can be quoted as an example to the contrary. What we can observe by analyzing this experiment is a premeditated effort to offer two different mechanisms for reaching - partly delicate - decisions as between labour and capital. The first such mechanism is, of course, the familiar procedure of collective bargaining. The second mechanism, however, is an absolutely singular effort - as far as the international experience is concerned - constitutes a harmony-oriented procedure for day to day dealings between employers and workers, and their representatives respectively, to reach decisions in their mutual interests.

Why was this experiment started and who did so? The ideological basis for these structures is, of course, deeply rooted in the German historical tradition (*Monissen* 1978). It was, however,

ironically enough a mandatory statute issued by the North German Iron and Steel Control Board, an administration set up by the Allied Forces' Occupation Administration, in 1947 which introduced "parity" in the supervisory boards of undertakings in the iron and steel producing industries. The same statute introduced the labour director as a member of the management (*Vorstand*) of these enterprises. Decree # 27 of the Allied High Commission extended this to the mining industries as well. When the Allied High Commission was dissolved, trade unions were ready to strike for their acquired rights, and this prompted the young and shaky Federal Government to introduce the first co-determination act in the *Montan*-industries in 1951.

When the 1976 act, which gives labour representatives a somewhat more limited influence in the supervisory boards and none at all in management decisions, came under constitutional review, critics questioned the entire workability (*Funktionsfähigkeit*) of this system on the grounds that it would require firms to behave in way according to the PRINCIPLE OF RESTRAINED PROFITABILITY .

The principle of restrained profitability directly constrains possibilities for reducing operating costs, as far as the factor labour is concerned. (*Prosi* 1978, 17)

From this follow a number of hypotheses.

HYPOTHESIS # 1

HIGHER LEVEL OF OPERATING COSTS IN CO-DETERMINED INDUSTRIES

Since according to the principle of restrained profitability cost reductions which would affect labour inputs cannot be realized, the level of operating costs in co-determined industries will be higher than the level of operating costs in comparable industries which are not subject to co-determination.

And:

HYPOTHESIS # 2

PRICE LEVEL

As a consequence, product prices in co-determined sectors of the economy will tend to be higher than prices charged by firms in comparable sectors which are not subject to co-determination schemes. (*Prosi* 1978, 17)

These hypotheses can be readily tested. Up until 1976, when

the 1976 co-determination act which extended co-determination to all undertakings with at least 2'000 employees came into force, only the *Montan* industries were subject to co-determination. Therefore, the hypothetical effect should be observable in those industries as compared to the remaining ones. Likewise, we should be able to observe both the cost effect and the price effect after july 1rst of 1976, when the 1976 act came into force.

Labour, under co-determination, will try to raise both the real wage and the quality of the working conditions (*Furubotn* 1978). Since this has to at the expense of profits (*ibidem*), profits will be manipulated in order not to exceed a level marked by "reasonable profits". (*Prosi* 1978, 19) Thus we derive

HYPOTHESIS # 3

EQUALIZATION OF PROFITS

We expect to observe a standardization of profits at the somewhat lower level of "reasonable profits".

Again, this hypothesis is readily testable. It is, however, not at all conclusive. If profits are indeed nailed down at low levels, it will no longer be possible to raise capital by issuing stock or bonds. Therefore, the supply of capital will have to come from either self-financing or from external suppliers, *i.e.* banks. These financial agents will be able to threaten the stability of jobs by refusing to extend credits subject to conditions which are not competitive with those charges they can realize when dealing with firms not subject to co-determination. Therefore, as long as substantial sectors of the economy remain not being subject to co-determination, the hypothetical effect is not likely to occur. Still, the hypothesis can be tested.

Labour, in its effort to improve upon the terms of the labour contract for those already employed, will, as in the *Illyrian* case described by *Benjamin Ward*, try to impose the requirement that new labour is hired only when the marginal productivity of the last labourer newly employed equals the average benefit instead of the marginal benefit. Under the assumption of familiar cost curves, this implies a smaller number of workers actually being employed in co-determined firms. From this follows

HYPOTHESIS # 4

CHANCES FOR OUTSIDERS TO FIND EMPLOYMENT IN CO-DETERMINED industries will be smaller than in industries not subject to co-determination.

This hypothesis can be tested on the basis of data compiled by the unemployment insurance system. The overall economic effect, if the hypothesis should turn out to hold true, is however, not obvious. If there is a substantial number of younger people who are unable to find a job, it is more likely that entrepreneurs will enter the market and create small firms, thus absorbing the unemployed who remained jobless in the co-determined industries. Probably, they would not have to conform to salary and wage agreements effective in the co-determined sectors of the economy, which were brought about as the result of collective bargaining as between trade unions and employers' associations. Consequently, the new entrepreneurs should be able to be more competitive than those bigger industries, at least in specialized markets. This effect would necessarily curtail the effects of all those hypotheses mentioned up until now.

Another set of hypotheses which are frequently proposed in the literature turn on the effect of co-determination on the management of co-determined industries. As pointed out above, co-determination does not call for any participation of workers or their representatives in the management of the respective industries. Instead, direct labour influence is confined to decision taking in the supervisory boards of these firms. Still, some indirect effects are frequently suggested.

For the management to be appointed by the supervisory board, each candidate will normally need two thirds of the entire vote cast. If he fails to get two thirds in the first round, an absolute majority will suffice in the second. Should the labour representatives, however, oppose a candidate who has the unanimous vote of the capital representatives, the chairman of the supervisory board in the third round will have two votes and in this way be able to help the candidate being finally appointed, even if the labour representatives unanimously oppose the appointment.

Prosi (1978, 22 sequ.) needs three additional assumptions in order to propose another detrimental effect of co-determination.

The first assumption requires that the chairman's double vote will not normally influence voting behaviour from the very beginning of the entire procedure. The second assumption postulates an inherent conflict of interests between labour and capital in the supervisory boards. The third assumption claims that it is not in the best interest of an enterprise if "insiders" are appointed to management positions. The argument, on the basis of these additional (implicit) assumptions then runs as follows.

Since candidates for management positions will normally try to secure a broad majority, they will come up with peculiar programs bridging the gap between the two conflicting interests. This will be only possible for *i n s i d e r s*, since outsiders will not be able to rely on the requisite information. For this reason, either only those candidates will be elected who claim the PRINCIPLE OF RESTRAINED PROFITABILITY to be their management objective, or there will be a proportionate appointment of members of the managing board according to the differing interests and their weights acting in the supervisory board. Thus, parity in the supervisory board will be reproduced in the policy making boards of co-determined firms. From this, we can deduce the following hypotheses.

HYPOTHESIS # 5

INSIDERS

After July 1st of 1976, we can observe a significant increase in insider appointments to managing positions in those industries which were subjected to co-determination by the 1976 act.

HYPOTHESIS # 6

CAREER BACKGROUND OF APPOINTEES

After July 1st of 1976, we can observe a significant increase in candidates being appointed to management positions in the co-determined industries who have a labour-oriented career background; this may either be a close association with the trade unions or with the internal structure of workers' representation according to the Business Constitution Law. More specifically: we should finally be able to observe a reproduction of parity between labour and capital in the managing boards as in the supervisory boards; or management policies should have markedly different objectives in firms subject to co-determination and comparable firms not subject to this legislation.

From the assumption that parity in the supervisory boards in co-determined industries will be reproduced in the managing boards of these firms follows a conception of the decision taking process at the top of these firms which foresees long deliberations between the management and the supervisory board when risky decisions are to be taken. From this follows HYPOTHESIS # 7

INNOVATION

Innovation will be less likely in co-determined industries than in industries not subject to co-determination. (Following *Prosi* 1978, 26).

A test of this hypothesis has to follow the lines indicated by innovation research in industrial organization. It is not sufficient to simply quote R&D costs, since innovative output - not input - is what the hypothesis is aiming at.

On investment in co-determined industries, antagonists of co-determination like *Prosi* follow a most peculiar line of reasoning. The *Biedenkopf*-Commission had found no conceivable difference in investment policies as between co-determined firms and enterprises not subject to co-determination. At one instance, the Commission even stated, that labour representatives seemed to be more likely to favour investment proposals made by management than the representatives of the capital owners (Commission report p. 83 in the Stuttgart edition). *Prosi* takes account of this empirical fact in explaining that labour does not share any of the risks of investment while capital, in his view, has to assume the burden of all of these risks. Consequently, labour can be seen as a free-rider in the investment process, and will always press for over-investment accordingly. This does, of course, not take into account labour's enormous stake in the investment process. While capital is mobile, labour is not - or not to the same extent. Lack of investment in the firm endangers job security and as a consequence human capital investment as well as household capital investments already made by single workers. These "private" investments are, of course, the reason for workers' immobility. (See *Backhaus* 1980, "Arbeitsverhältnis" ch. I.2.3, II). If seen from this perspective, capital will be the free-rider if labour's investment is not matched by capital investment respectively.

Behind this difference in emphasis lies more than a terminological quarrel. *Prosi* concludes:

HYPOTHESIS # 8

INVESTMENT BEHAVIOUR OF CO-DETERMINED FIRMS

There will be l e s s i n v e s t m e n t in co-determined firms than in firms not subject to co-determination, since capital will be more reluctant in investing in firms the property rights of which it does not fully control. (1978, 29)

If we follow the reverse type of explanation, we arrive at

HYPOTHESIS # $\bar{8}$

COMPLEMENTARY INVESTMENT BEHAVIOUR

A decline in capital investment in co-determined firms will be followed by a decline in employees' investment, leading to a higher mobility of workers in co-determined industries than in those where capital investment is certain to be made.

Again, these hypotheses are clearly testable. There exist data on both investment outlays and mobility.

Finally, I should like to address possible consequences of co-determination on collective bargaining. Antagonists of co-determination normally presume that, since they postulate an influence of the supervisory boards on management, trade unions will be able to influence decisions of their adversaries during the process of collective bargaining. Hence, both labour and capital will form a coalition at the expense of the consumer.

This leads us to

HYPOTHESIS # 9

PRICE LEVEL

Wages will be higher in co-determined industries and this will be reflected in the price level of these industries.

This hypothesis corresponds to hypothesis # 2. For this coalition between labour and capital to be a viable strategy, antagonists of co-determination assume that the government will lend support to the cartel. These assumptions are, by both *Prosi* and *Gallaway* immediately turned into predictions, and thus we derive three further hypotheses.

HYPOTHESIS # 10

ANTI-TRUST IMPLICATIONS

In order to protect co-determined industries from more efficient competitors government will grant exemptions from anti trust legislation.

HYPOTHESIS # 11

TRADE POLICY IMPLICATIONS

In order to protect co-determined industries from more efficiently organized foreign competition, government will close home markets or at least render access to home markets of co-determined industries more difficult.

HYPOTHESIS # 12

INFLATION

In order to smooth the redistributive process consequent to co-determination (following the cartel between labour and capital at the expense of the consumer) government will indulge in inflationary policies. (*Prosi* 1978, ch. 7; see also *Gallaway* 1978)

It is fear of these major political consequences which prompts antagonists of co-determination to question the legitimacy of the legislator to interfere with the economy and change the constitution of its business companies. Still, the puzzle remains why co-determination, up until now, has not had these drastic consequences some of which I have listed above.

The discussion of some of these hypotheses has already revealed a tendency of antagonists of co-determination to analyze only part of the change without doing due justice to both reality and the analytical tools used. Most of the analysis can be explained in terms of THE ECONOMICS OF PROPERTY RIGHTS as advanced in particular by *Pejovich* and *Furubotn*, which rests on the simple but powerful supposition that economic agents will behave so as to maximize their utility, and that they will consequently react to changes in their environmental constraints when maximizing their individual satisfaction. *I.e.*, when property rights are taken away economic agents will not act as if the transfer had not taken place. The reverse also holds true. Agents who have received property rights as a consequence of the redistributive process, which process may have been initiated by parliament, will also not continue to behave as if they were not in possession of these newly acquired rights. Therefore, if it is not claimed that property rights have been destroyed or somehow dissolved, one has to consider that the new owners of transferred property rights will make every attempt to protect and use them in their own interests. They will rely on their property rights in trying to attain their political, social, economical or personal goals.

If co-determination consists in a transfer of property from capital to labour - which in reality it does to an only very limited extent or not at all - labour will assume its position as a new though partial owner and will protect its property from, *e.g.* losing its value. Obviously, the value attributed to some title of property depends on the utility function of the owners who attributes. Labour as a locationally immobile investor will maximize the value of a firm subject to the constraint of the continued existence of the firm in the same location. Capital, to the contrary, will maximize the wealth of the legal unit operating the firm, irrespective of where the plant is finally located. If we include these simple conjectures into the previous considerations, we are not likely to arrive at conclusions pointing to economic and political chaos and crisis; instead, one is led to expect stability and growth as a consequence of the institutional change analyzed.

These theoretical bits and pieces being - bits and pieces, the most reasonable strategy seems to resort to empirical testing on a broad scale and to constructing a coherent theoretical body on the solid basis of factual evidence.

III

In this paper, a somewhat unorthodox way for generating empirical hypothesis on the likely effects of co-determination in German industries was proposed. This procedure aims at carrying out empirical research on co-determination not only despite the strong ideological bias of (academic) discussions, on the subject. It tries to profit from these biases. In an exemplary way and on the basis of a brief description of history and institutions of co-determination in Germany, a dozen hypotheses were derived and discussed, including strategies for practical testing of these propositions. The paper concludes with a brief sketch of some clues to an alternative theory of the co-determined enterprise to be formulated in the future.

When examining the hypotheses mentioned, the reader should be aware of the enormous wealth of similar, contradicting, and complementary hypotheses generated in the course of the debate over the introduction of co-determination in Germany as well as in the course of similar debates concerning comparable institutional developments in other western industrialized countries. This wealth of testable hypotheses, up until now, dramatically contrasts with the poverty of factual evidence. This paper should therefore be taken as a very modest attempt to prompt empirical research on co-determination.

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