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## Coordination and organization: The two dimensions of nonliberal capitalism

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MAX-PLANCK-INSTITUT FÜR GESELLSCHAFTSFORSCHUNG  
MAX PLANCK INSTITUTE FOR THE STUDY OF SOCIETIES



MPIfG Discussion Paper 07/12

**Coordination and Organization**

The Two Dimensions of Nonliberal Capitalism

Martin Höpner



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**Coordination and Organization: The Two Dimensions of Nonliberal Capitalism**

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## **Abstract**

This paper suggests a two-dimensional concept of nonliberal capitalism: coordinated capitalism (as described in the varieties of capitalism framework) and organized capitalism. While the coordination function of institutions canalizes individual maximization strategies of firms in order to adjust for collective action problems, the organization function transcends maximization strategies and adjusts them to collective interests beyond maximization. Political economies are highly organized when firms are not only the private business of owners and insiders but, in addition, quasi-public infrastructures and, therefore, highly constrained in their economic decisions by institutionally sanctioned collective interests (such as sectoral interests, class interests, or political interests). I construct an index on organized capitalism by combining data on ownership structures, board level codetermination, the density of employers' associations and trade union density in order to allow for comparison between varying extents of coordination and organization in 20 OECD countries. The German example is used to demonstrate the analytical usefulness of the coordination–organization distinction in qualitative terms. The distinction allows for differentiation between two forms of liberalization: declining coordination and disorganization.

## **Zusammenfassung**

In diesem Beitrag werden zwei Dimensionen des nichtliberalen Kapitalismus unterschieden: koordinierter Kapitalismus (im Sinne des „Spielarten-des-Kapitalismus“-Konzepts) und organisierter Kapitalismus. Die Koordinationsfunktion von Institutionen kanalisiert Maximierungsstrategien von Unternehmen und trägt damit zur Lösung von Interaktionsdilemmata bei. Die Organisationsfunktion hingegen transzendiert Strategien und passt sie an kollektive, oberhalb der Unternehmensebene angesiedelte Interessen an. Ein hoher Grad an Organisation liegt vor, wenn Unternehmen nicht nur Privatsache ihrer Eigentümer und Insider sind, sondern – darüber hinaus – quasi-öffentliche Einrichtungen. Im letzteren Fall setzen institutionell sanktionierte, kollektive Interessen (sektorale Interessen, Klasseninteressen, politische Interessen) den wirtschaftlichen Entscheidungen von Unternehmen enge Grenzen. Um die Grade an Koordination und Organisation in westlichen Industrieländern vergleichbar zu machen, wird ein Index für zwanzig OECD-Länder konstruiert, der Daten zu Eigentümerstrukturen, zur Mitbestimmung auf Ebene der Leitungsorgane der Unternehmen und zur Stärke von Arbeitgeberverbänden und Gewerkschaften kombiniert. Das deutsche Beispiel wird herangezogen, um die analytische Fruchtbarkeit der Unterscheidung zwischen Koordination und Organisation vorzuführen. Die Unterscheidung ermöglicht zudem die Abgrenzung zweier Dimensionen wirtschaftlicher Liberalisierung: rückläufige Koordination und Desorganisation.

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## Introduction

In recent years, several research projects at the Max Planck Institute for the Study of Societies have analyzed the liberalization of German capitalism and have described change as essential, transformative and irresistible.<sup>1</sup> This finding is far from undisputed in the “comparative capitalism” discussion. The large companies are still codetermined. Ownership structures are still concentrated. Export statistics confirm that the German economy has not forfeited its comparative advantages.<sup>2</sup> So why path deviance? Why transformation?

Different views on the amount of change might be due to controversy over empirical matters. For example, perceptions of the extent of company network erosion differ (compare Kogut/Walker 2001 with Beyer 2004 and Höpner/Krempel 2004). Different accounts might also be caused by differing degrees of attention to incremental change that nevertheless adds up to path deviance (Thelen 2003; Streeck/Thelen 2005). However, I argue that the main cause for the dispute over transformation lies neither in measurement problems nor in controversy over incremental, yet still transitory change. It lies in theory, in conceptual decisions about the relative importance of different *dimensions* of change.

National and historical forms of capitalism can be distinguished along different dimensions. Theoretical tools reduce complexity. They determine what we perceive as key features of complex configurations. Using Germany as an example, I will discuss the distinction between “organized capitalism” and “coordinated capitalism.” In their seminal “Introduction to Varieties of Capitalism,” Hall and Soskice (2001) have distinguished forms of capitalism with respect to the extent to which institutions support strategic coordination between and inside firms. I suggest a second dimension that refers to the status of firms in society, i.e. to the extent to which collective interests beyond the firm level interfere with firm-level maximization strategies. Rather than playing the two dimensions off against each other, I will argue that they both embrace important – but different – features of nonliberal capitalism.<sup>3</sup> The distinction between organized and coordinated capitalism also leads to the analytically helpful distinction between two dimensions of liberalization. The current transformations of European capitalism, I argue, can be interpreted as different combinations of two forms of liberalization: disorganization and declining coordination.

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- 1 See, for example, Beyer/Hassel (2004), Beyer (2004), Hassel (1999), Hassel/Rehder (2001), Höpner (2007), Jackson et al. (2005), Streeck (1996), Streeck/Trampusch (2005), Streeck/Thelen (2005), Trampusch (2005).
- 2 Since 2000, Germany has continuously generated large trade surpluses. In 2005, the trade surplus equalled around 123 billion euros. See Sachverständigenrat (2006: 521).
- 3 I use “nonliberal capitalism” (Streeck/Yamamura 2001) as an umbrella term that comprehends both organized and coordinated capitalism.

I will proceed as follows. In the first part of the paper, I will discuss the distinction between coordination and organization in theoretical terms and I will pay attention to the institutionalist foundations of the coordination–organization distinction. Then I will introduce an index on organized capitalism in 20 OECD countries that allows comparisons to be drawn with Hall and Gingerich’s coordination index. In the second part of the paper, I will discuss the usefulness of the two-dimensional distinction in qualitative terms. The section will show that observers judge liberalization of German labor relations and corporate governance differently depending on whether they focus on economic organization or on the capacity to coordinate strategically.

### **Coordination and organization: Different functions of institutions**

What is the purpose of institutions in the varieties of capitalism (VoC) model?<sup>4</sup> Certain forms of production require specific investments on the part of firms. They, in turn, rely on long-term coordination between managements, stakeholders and other firms. Because of interaction dilemmas, coordination is inherently unstable and therefore requires institutionalization across different spheres of the political economy, including labor relations and corporate governance. The impetus of coordination is basically voluntaristic. It enables firms to set up successful strategies. The main institutions of coordinated market economies (CMEs), in other words, can be interpreted as efficient solutions to coordination problems. And the presence or absence of such institutions – and, in particular, their coherence across the different spheres – is one of the determinants of economic success and distributional outcomes. This is the essence of VoC’s contribution to comparative political economy. I fully accept the distinctive usefulness of the VoC concept, and I agree that coordination is a decisive distinguishing feature of empirical forms of capitalism. My point is that another dimension of nonliberal capitalism exists as well that must be distinguished from coordination for analytical reasons and that offers additional insights in the analysis of liberalization.

Historical and regional forms of capitalism can be distinguished with respect to the status of firms in society. The distinctive feature is the extent to which economic matters inside firms, beyond firm-level rationality, are in the service of collective interests beyond the firm level. At the one end of the spectrum, firms are the private business of their owners and insiders. At the other, they are quasi-public infrastructures and, therefore, constrained in their economic decisions by institutionally sanctioned collective

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4 Compare Hall/Soskice (2001) and Hall (2007). See also Martin/Thelen (2007), who distinguish two varieties of coordination: enterprise coordination and macro-corporatist coordination. For an overview of different approaches in the “comparative capitalism” discussion, see Deeg/Jackson (2006).

interests. Empirical cases are located in between these two extremes, i.e. they are characterized by differing degrees of collective interference in the economic affairs of firms.

For this definition, it makes no difference whether firm-level actors are obliged to serve collective interests or whether societal actors successfully ensure the self-commitment of owners and insiders. The crucial point is that the behavior of insiders is institutionally sanctioned (cf. Streeck/Thelen 2005: 9–14). Also, collective interests do not necessarily refer to society as a whole. They may be the interests of employers as a class, of workers as a class, of managerial networks or of sector-based interests; they may be nationally, regionally or transnationally settled. But they need to be based above the level of the firm. Therefore, organized capitalism always affects the tension between firms and society. Consider Friedman's famous claim that "the business of business is business." Both the coordination function and the organization function of institutions constrain the firm in its free choice of economic action. However, in the coordinated capitalism perspective, this does not affect the aim of the firm (to raise profits); in fact, in the VoC description of CMEs, institutions help to overcome coordination dilemmas precisely in order to raise profits. In contrast, in the organized capitalism perspective, it is *the mission of the firm itself* that is transcended (for good or ill).

Firm-level codetermination, for example, is certainly a typical feature of nonliberal capitalism. It is reasonable to treat works councils mainly as a coordination mechanism. In contrast, supervisory board codetermination, and the mandatory participation of external trade unionists in particular, impose collective interests *beyond* the firm level – those of employees as a class – *upon* the firm. This institution cannot be explained as a solution to the problem of making profits. It is an answer to the tension between firms and society and reflects power relations at decisive historical moments.

The extent to which the economic affairs of firms are cogoverned by collective interests obtaining above the firm level must not be confused with the extent or the depth of economic regulation. Modern economies, irrespective of the status of firms in society, rely on rules. In addition, it has often been emphasized that liberalization implies (re-) regulation (see, for example, Lütz 2005). A complex body of regulation is necessary to make firms the private business of owners. This applies especially to situations in which ownership is dispersed (Shleifer 1997). Regulation may imply organization as well as disorganization. The same holds true for the CME–LME distinction: the extent of regulation alone does not tell us whether a political economy is a coordinated or a liberal market economy.

Similarly, organized capitalism must not be confused with economic sociology's insight that neither single economic actors nor firms can be treated as atomized units. Rather, they "are so constrained by ongoing social relations that to construe them as independent is a grievous misunderstanding" (Granovetter 1985: 481). They can only be understood by considering the social relations they are embedded in. Yet this holds true for nonliberal capitalism as well as for pure market economies, since market transactions as



well as all other forms of economic action are necessarily socially embedded (Granovetter 1985: 495). Even financial markets are fundamentally socially structured (Abolafia 1997). Therefore, the social embeddedness of economic transactions exists irrespective of the balance between firm-level rationality and obligations from above the firm level.

Isn't the distinction between pure firm-level rationality and varying degrees of sanctioned collective obligations meaningless as soon as one accepts that in capitalism every firm has to generate profits in order to survive? In other words, isn't the degree of freedom for other objectives than generating profits an unrealistic fiction? In fact, I expect the status of firms in society to affect profitability (though, first, not every economic decision that serves collective interests rather than firm-level rationality necessarily diminishes profitability in the long run and, second, the absence of economic obligations from above the firm level is not a sufficient condition for high profitability). But this does not make the proposed distinction irrelevant. The profit rate can be broken up into different parts. Every private-sector company in the long run has to be able to generate cash flows equivalent to its own capital cost. This "profit rate of sustainability" is different from the maximally possible profit rate (compare Höpner/Jackson 2001: 12–14). This difference creates room for different combinations of company objectives and these, I argue, are conditioned by the organization function of institutions.

Neither the proposed distinction nor the label "organized capitalism" is a new invention. Each figures prominently in the historic self-reflection of German capitalism. In the 1920s, Rudolf Hilferding used the term "organized capitalism" to describe shifts in the balance of power between the firm and society. "The management of the firm," said Hilferding in his famous SPD convention speech in 1927, "is no longer the private affair of the capitalist but societal business" (Hilferding 1927/1982: 217). Following Hilferding, Fritz Naphtali's commission on "economic democracy" described organized capitalism as the "firm's integration into ... societal commitments above the firm level" (Naphtali 1928/1969: 26–27). It is important to note that "societal" referred not only to the general public interest, but also to particularistic interests such as the interest of the capitalist class or one of its factions. Similar descriptions of German capitalism can be found in the work of economic historian Werner Sombart (1932/1987: 401) and of Friedrich Pollock (1933/1975), a representative of the early Frankfurt school. Without explicitly referring to the German theory tradition, Shonfield (1965) described the "modern" corporation in a way that is much nearer to organized capitalism than to coordinated capitalism. The subtitle of his famous book – "The Changing Balance of Public and Private Power" – demonstrates the affinity between his concept and organized capitalism.

In the 1970s, German historians such as Jürgen Kocka (1974), Hans-Ulrich Wehler (1974) and Heinrich August Winkler (1974) revived the concept of organized capitalism in order to provide an alternative to the Marxist-Leninist "state monopoly capitalism" approach (Autorenkollektiv 1965; Boccara 1973). However, over the years, even historians lost interest in the concept. In the comparative capitalism discussion that has

taken place since the early 1990s, explicit links to the concept have been virtually absent, irrespective of the fact that the term is sometimes used as a synonym for coordinated capitalism.

### The institutionalist foundations of the coordination–organization distinction

The distinction between coordination and organization corresponds with two traditions of institutionalist research: rational choice institutionalism (RCI) and sociological institutionalism in the tradition of Durkheim (SI).<sup>5</sup> While RCI treats institutions as solutions to coordination problems of self-interested actors (bottom up), SI puts emphasis on the collectively enforced infusion of the self with orientations beyond – and in conflict with – self-interest (top down). In the RCI perspective, a logical reductionism allows us to trace institutionalized rules back to individual maximization strategies (of, in our case, firms). According to SI, such rules are phenomena *sui generis*.

Above I have argued that the impetus of coordination is basically voluntaristic and that the coordination function of institutions helps to overcome interaction dilemmas. This function of institutions can be described with the RCI tool kit and does not require any return to Durkheim. The collective rationality that RCI institutions impose can be traced back to individual rationality. The main difference between the two rationalities is that collective rationality is not just the sum of individual rationalities but also takes the collective action problem into account. Interaction dilemmas are constellations of collective action in which individual strategies, although self-interested, lead to collectively suboptimal outcomes. Such situations require coordination. Coordination costs belong to transaction costs, and transaction cost economists agree on the notion that coordination problems grow with the amount of specific investment: “Transactions that require specific investments ... require a contract or practice to protect the investor against early termination or opportunistic recognition of the terms of the production relationship” (Milgrom/Roberts 1992: 31). In short, in the RCI view, institutions have a corrective purpose (just as they have in the SI view). But they correct only insofar as it is necessary to minimize transaction costs in order to maximize the aggregate benefits of self-interested individual actors.

Organization goes beyond coordination. It obliges firms to act in accordance with collective interests that cannot be traced back to the microeconomic interest of the individual firm. The coordination function of institutions *canalizes* individual maxi-

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5 I do not think it would be helpful to introduce historical institutionalism (HI) as a third alternative. HI differs from RCI and SI methodologically and with respect to the problems it deals with, but it possesses no institutional theory that distinguishes it from SI and RCI. Applications of the HI tool kit can tend more toward the RCI perspective (Mares 2003) or the SI perspective (Streck/Thelen 2005).

mization strategies in order to adjust for collective action problems. The organization function, in contrast, *transcends* individual maximization strategies and adjusts them to collective interests beyond maximization. Let us recall how Shonfield (1965: 377) described the large firm in modern capitalism: it serves “functions distinct from making the maximum profit, and sometimes not even compatible with it” (the same notion is to be found in Keynes’ early essay on “the end of laissez-faire”).

Since the organization function of institutions cannot be understood by aggregating the microeconomic interests of firms, two ways of thinking about its origins are possible. The first is to continue to stick to explanatory reductionism while introducing other actors, either by disaggregating the firm and pointing to distinctive self-interests of, for example, managers (Berle/Means 1932; Burnham 1941) or by introducing (collective) actors outside the firm such as, for example, banks, politicians, etc. Accordingly, the collective rules imposed upon firms could still be deduced from the interests of single actors (in the sense of a mixed-motive game).

The second way would be to abandon the idea that collective rules can necessarily be traced back to individual interests. In this sense, the organization function of economic institutions corresponds with the top-down view of SI. Institutions, Durkheim wrote, “force the individual to act in view of ends which are not strictly his own, to make concessions, to consent to compromises, to take into account interests higher than his own” (Durkheim 1893/1964: 227); “they can only penetrate us by imposing themselves upon us” (Durkheim 1895/1982: 52). RCI and SI may share the view that institutions are collectively sanctioned rules that societies impose on its constituencies. But in the Durkheimian tradition, they are phenomena *sui generis* and cannot be deduced from the utility functions of the individuals.

For the rational choice institutionalist, it is hard to accept that collective rules may be something that exists outside and even independently of the individuals involved – “they constitute,” Durkheim wrote, “a new species” (Durkheim 1895/1982: 52). *Emergence* refers to the sociological, philosophic and natural scientific phenomenon that the whole, both methodologically and ontologically, cannot always be explained with reference to its parts (Mayntz 2007). Consider the biological cell: it consists of molecules, but the functioning of the cell can by no means be traced back to the features of the molecules. According to SI, the same holds true for the collective rules that societies impose on their constituencies. Explanatory reduction – the search for the “micro logic” – may therefore not lead to a satisfactory understanding of the nature of the rules. Applied to organized capitalism: phenomena such as certain institutionalized business ethics, employer solidarity, etc. may be, in part, not understandable by looking at the maximization strategies of firms or other (single or collective) actors.

*Emergence* thus has far-reaching consequences for the nature of enforcement. In both RCI and SI, institutions require collective enforcement and sanction mechanisms.<sup>6</sup> But it makes a difference whether the aim of enforcement is to reduce transaction costs in the service of a population of like actors such as firms or to set goals that would not be set voluntarily. As a consequence, the problem of collective enforcement and its relationship to legitimacy is much more severe once an SI view is applied.

However, one may object that the tension between the individual and collective rationality vanishes as soon as individuals internalize collective orientations and consider them as a part of their own identity.<sup>7</sup> Durkheim emphasized that internalization actually occurs. But this does not imply that enforcement vanishes. Rather, even if enforcement becomes redundant, its existence continues in the shade of hierarchy. “Undoubtedly when I conform to [collective rules] of my own free will, this coercion is not felt or felt hardly at all, since it is unnecessary. None the less it is intrinsically a characteristic of these facts; the proof of this is that it asserts itself as soon as I try to resist.<sup>8</sup> ... Hence we are the victims of an illusion which leads us to believe we have ourselves produced what has been imposed upon us externally” (Durkheim 1895/1982: 51, 53). Internalization, in other words, does not make the tension between the individual (in our case: the firm) and society disappear.

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6 North, for example, points out that private property rights require collective sanction mechanisms (North 1990). The reason is simply that deviant behavior can be rational. Therefore, Streeck and Thelen’s criticism that RCI misjudges “the possibility of a gap between the institution as designed and the behavior under it” (Streeck/Thelen 2005: 11) may in fact point to a gradual rather than to a substantial difference between SI and RCI.

7 It is hard to decide whether or not internalization occurs in concrete empirical cases. If compliance with collective rules is expected and collectively enforced, the person concerned may pretend to be intrinsically motivated even if the gap between individual rationality and the imposed rule is huge. Consider, for example, corporate social responsibility (CSR) strategies: Firm insiders will always insist that CSR is intrinsically motivated while, in fact, it may exist only because of the expectations of the public.

8 Note that the notion of resistance logically presupposes the possibility of extra-institutional, non-socialized preferences. In my view, the idea that RCI and SI are distinguished by whether they treat preferences of individuals as endogenous or exogenous to institutions may obscure more than it explains. There has to be a desire beyond the imposed duties; only then can the duties be “duties ... that we did not desire” (Durkheim 1893/1964: 214). The possibility of non-socialized, extra-institutional preferences was a crucial point in Durkheim’s moral philosophy. He analyzed the emerging anomie of his time. The individualism of the modern economy, Durkheim argued, had produced a moral vacuum that he hypothesized could be filled by *Korporationen* of professions (compare the introduction to the second edition of “On the Division of Labor”). Therefore, *institutionalization* in the sense of Durkheim is much closer to Polanyi’s notion of embeddedness than it is to Granovetter’s economic sociology (Granovetter 1985, 1992). For Granovetter, embeddedness is an essential feature of every economic action. For Durkheim and Polanyi, in contrast, the “stark utopia” (Polanyi 1944/2001: 3) or the “sociological monstrosity” (Durkheim 1893/1964: 28) of an underinstitutionalized society consisting of undersocialized, purely self-interested individuals – we could also call it: a perfectly disorganized capitalism – was at least a possible trajectory.

## Towards a quantitative assessment of organized capitalism

In order to assess the scale of economic liberalism in countries, does it make any difference whether non-liberalism is measured in terms of strategic coordination or economic organization? Similar to strategic coordination (Hall/Gingerich: 2004), the organized capitalism dimension is accessible for international comparison and quantitative measurement. I suggest an index that covers the 1990s, consists of four components and derives from crossing two distinctions: first, the company level and the level of associations; second, the capital side and the labor side (see Table 1).

The first component concerns firm ownership. Rather than evincing ownership concentration as a whole, organized capitalism is indicated by ownership structures that establish links between the firm and structures above the firm level, such as company networks and the state. Therefore, using the data on national ownership structures (averaged over the twenty largest national firms in each country) provided by La Porta et al. (1998: 59), I add up the percentages of state ownership and ownership by corporations (but not family ownership) (about which, see Column 2 in Table 1). This data covers the mid-1990s. The second index component relates to codetermination at the board level (as distinguished from codetermination by works councils). The board-level codetermination index has four ranks (1=no board-level codetermination at all; 4=more than one third of supervisory board or management board seats goes to employee representatives). It covers the 1990s and 2000s and was developed in Höpner (2004a) (Column 3 of Table 1).

The third and fourth index components cover the strength of employer associations and trade unions as representatives of the sectoral and class-based interests of the respective sides. Traxler et al. (2001: 55) provide data on the density of the largest employer peak organization (defined as the percentage of employers organized by the peak within its domain) for the year 1996 (Column 4 of Table 1). Data on union density also derive from Traxler et al. (2001: 82). Union density is defined as employed union members as a percentage of the labor force in dependent employment. This index component covers the year 1995 (Column 5 of Table 1).

I compute the index by standardizing (normalizing)<sup>9</sup> the four components, averaging them and standardizing the resulting index again (Column 6 of Table 1). In order to allow for comparison between organized and coordinated capitalism, I also standardize Hall and Gingerich's scale on strategic coordination and provide the data, too (Column 7 of Table 1).<sup>10</sup> In addition, Column 8 of Table 1 provides information about the nominal differences between the standardized version of Hall and Gingerich's coordination

9 The resulting scales have sums and means of 0 and standard deviations of 1.

10 Hall and Gingerich's index on strategic coordination in the early 1990s combines data on shareholder power, dispersion of corporate ownership, size of the stock market, level of wage coordination, degree of wage coordination and labor turnover.

index and the organization index developed here. Positive values indicate that countries are more coordinated than organized, i.e. the concept of coordination treats them as more nonliberal than the concept of organization. Conversely, negative values mean that countries appear more economically liberal in terms of coordination than they do in terms of organization, i.e. they are more organized than coordinated. For example, the value of  $-0.57$  in the case of Australia means that the concept of coordination treats this country as 57 percent of one standard deviation more liberal than the concept of organization does. Figure 1 displays a scatterplot with coordination at the horizontal axis and organization at the vertical axis. When countries are positioned close to the diagonal line, their coordination and organization index values are similar. The further away they are located from the diagonal line, the larger the discrepancy is between coordination and organization.

What can be learned from comparing the indexes? First, it is not surprising that both scales are highly correlated (Pearson's  $r=0.69$ ,  $p=0.001$ ,  $n=20$ ). In ten out of twenty cases, the discrepancy between organization and coordination is smaller than the half of one standard deviation: Both concepts arrive at similar assessments of the degrees of economic liberalism in the respective countries. This holds true for six of the nonliberal countries: Austria, Germany, Norway, Belgium, Denmark and the Netherlands. Furthermore, both concepts agree that the USA, Canada and Ireland are liberal market economies, and that Spain is located in the middle between economic liberalism and nonliberalism. In two of the cases mentioned, however, discrepancies are very close to half a standard deviation: both Ireland and the Netherlands are a little bit more organized than coordinated.

In the other ten cases, discrepancies are more manifest. Three countries from the English-speaking family of nations are more organized than coordinated (although they clearly do not belong to the group of eminently organized economies): the UK, New Zealand and Australia. In New Zealand and Australia, both trade unions and employer associations are much more influential than in the American case. Likewise, while disorganization of collective wage bargaining has occurred in nearly all continental European countries since the late 1980s, wage determination became more centralized in Australia and Ireland (but not in the UK and New Zealand) (Traxler et al. 2001: 114). Two of the Scandinavian countries, clearly cases of nonliberal countries, are – according to the data covered – even more organized than coordinated: Sweden and Finland.

The cases that combine relatively high levels of coordination with relatively low levels of organization are interesting, too. Japan and Switzerland have always been the countries that were most difficult to categorize in wage determination and corporatism research due to their combination of employer coordination on the one hand, but weak trade unions (and the lack of mandatory company-level codetermination rights in combination with strong *de facto* microcorporatism) on the other (compare, for example, Compston 1994: 128f. and Schmitter 1981: 66f. on Switzerland; see also Crouch 1990: 68f. and Pempel/Tsunekawa 1990 on Japan).

Table 1 Organized Capitalism and Coordinated Capitalism Compared, 20 OECD Countries, 1990s

	Corporate ownership by companies and by the state, mid-1990s	Employee co-determination at the board level, 1990s and 2000s	Density of the largest peak employer association, 1996	Trade union density, 1995	Index on economic organization, 1990s	Hall and Giniger's coordination index, 1990s	Discrepancy between coordination and organization
Australia	0.30	1.00	75.00	33.10	-0.14	-0.71	-0.57
Austria	0.80	3.00	100.00	43.30	1.87	1.47	-0.40
Belgium	0.45	1.00	72.00	49.70	0.34	0.58	0.24
Canada	0.15	1.00	0.00	34.30	-1.36	-1.50	-0.13
Denmark	0.25	3.00	37.00	78.30	0.71	0.45	-0.26
Finland	0.55	3.00	43.00	78.40	1.28	0.51	-0.77
France	0.20	2.00	74.00	10.00	-0.36	0.41	0.77
Germany	0.40	4.00	72.00	29.10	0.94	1.30	0.36
Ireland	0.25	1.00	39.00	46.20	-0.48	-0.95	-0.47
Italy	0.65	1.00	40.00	37.70	0.05	1.03	0.98
Japan	0.05	1.00	40.00	23.80	-1.17	0.58	1.75
Netherlands	0.50	3.00	79.00	25.70	0.80	0.31	-0.49
New Zealand	0.45	1.00	90.00	28.20	0.23	-1.22	-1.45
Norway	0.50	3.00	31.00	57.70	0.70	0.65	-0.04
Portugal	0.45	1.00	34.00	26.80	-0.54	0.51	1.06
Spain	0.50	1.00	72.00	18.60	-0.09	0.00	0.09
Sweden	0.30	3.00	56.00	87.60	1.20	0.41	-0.79
Switzerland	0.10	1.00	37.00	25.20	-1.10	-0.20	0.90
United Kingdom	0.00	1.00	54.00	32.10	-0.93	-1.70	-0.77
USA	0.00	1.00	0.00	14.90	-1.93	-1.94	0.00



**Definitions and sources of variables in Table 1**

Corporate ownership by companies and by the state: This variable adds up shares held by the state, by widely held financial companies, by widely held non-financial companies, and by miscellaneous shareholders (non-widely held financial and non-financial companies fall into the latter category). Averaged over the 20 largest national corporations. Data cover the mid-1990s. Source: Computed by adding up Columns 4, 5, 6 and 7 in Table II of La Porta et al. (1998: 59). n=20.

Employee codetermination at the board level: Index on the existence of mandatory employee codetermination at the board level of large companies in the private sector. 1=no codetermination rights at the board level; 2=participation without voting rights; 3=participation (including voting rights) up to one third of the board seats; 4=participation (including voting rights) larger than one third of the board seats. Data cover the 1990s and 2000s. Source: Höpner (2004: 378). n=20.

Density of the largest peak employer association: Percentage of employees organized by the peak within its domain. Data cover the year 1996. Source: Column 8 in Table II.4 of Traxler et al. (2001: 55). n=20.

Trade union density: Employed union members as percentage of the labor force in dependent employment. Data cover the year 1995. Source: Column 5 in Table II.11 of Traxler et al. (2001: 82). n=20.

Index on economic organization: Computed by standardizing (normalizing) and averaging columns 2, 3, 4 and 5. The outcome was standardized again. The index covers the 1990s. n=20.

Hall and Gingerich's coordination index: Standardized (normalized) version of Hall and Gingerich's composite index on strategic coordination. The index combines data on shareholder power, dispersion of corporate ownership, size of the stock market, level of wage coordination, degree of wage coordination and labor turnover. The index covers the early 1990s. Source of original data: Hall and Gingerich (2004). n=20.

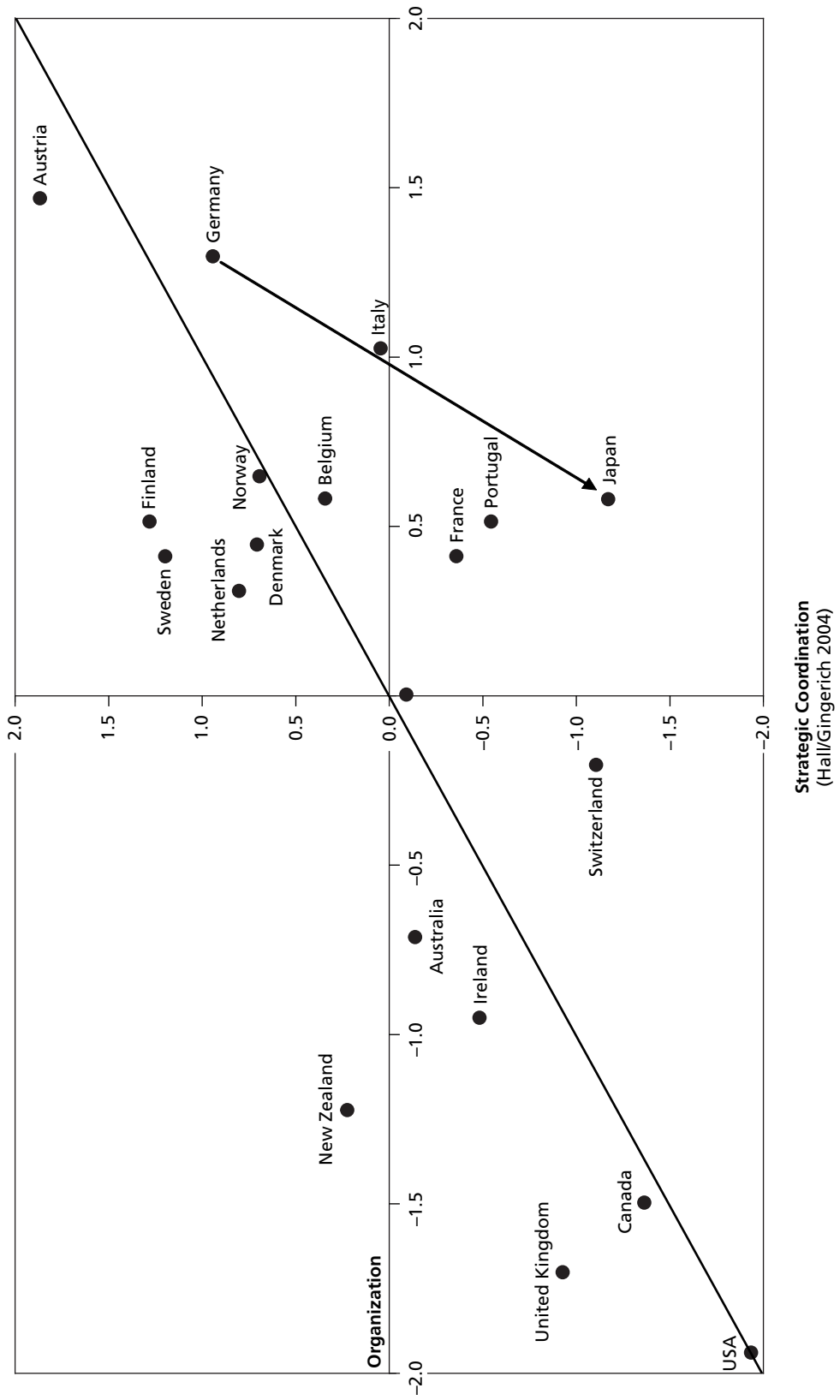
Discrepancy between coordination and organization: Column 7 minus Column 8. Positive values mean that countries are more coordinated than organized (and vice versa). n=20.

Switzerland and Japan combine coordination with features of disorganization. France and two Southern European countries, Italy and Portugal, are the other countries for which coordination is more typical than organization. Italian and Portugal's "family capitalism" may be treated as nonliberal capitalism in terms of (informal) coordination, but organizational features beyond the firm level are less pronounced than in countries like Germany. In the case of France, experts disagree whether this country should be treated as a coordinated market economy (compare Soskice 1999: footnote 8 with Hall/Gingerich 2004).

Let us, just for the moment and for the purpose of illustration, suppose that liberalization in Germany could be described as economic Japanization (see the arrow in Figure 1) – which surely is not the correct term to describe change in German corporate governance but picks up some aspects of change in the labor relations sphere of large companies (see Altmann 1992; Sako/Jackson 2006; Silvia 1997, and the section on labor relations in this paper). If this were true, should this be described as an act of funda-



Figure 1 Coordination and Organization, 1990s, 20 OECD Countries



mental change or of flexible institutional reproduction? If we look at the horizontal axis of Figure 1, we may conclude that Germany's institutional features remain, by and large, intact. Germany minimally moves to the left but clearly remains in the group of coordinated capitalisms. If we compare this to the country's movement on the vertical axis, however, we perceive change as much more dramatic and – although we defined German liberalization as Japanization only – from this theoretical perspective, liberalization drives Germany much farther in the US direction. This illustrates that it depends on theory whether we perceive a given amount of liberalization as a phenomenon on the surface of the matter or as crucial path deviance.

### **Beyond coordination: Organized capitalism in Germany**

Which characteristics of the traditional German economy made it an example of organized capitalism as distinguished from coordinated capitalism? I distinguish organization on the capital side from organization on the labor side and start with the capital side. Historically, German companies established a dense network of capital and personal ties that developed after late industrialization. The company network has convincingly been identified as a tool for coordination (see Culpepper 2005; Soskice 1999: 104–105). However, from the perspective of *organized* capitalism, the crucial point is not the entanglement of companies but the fact that – unlike the segregated company networks in Japan (Aoki et al. 2007) and South Korea (Scott 1999: 17) – only *one* hierarchically organized and virtually encompassing network existed (Windolf/Beyer 1996; Beyer 2004; Höpner/Krempel 2004). The network core consisted of the largest financial firms, above all Deutsche Bank, Dresdner Bank and Allianz, which traditionally cooperated rather than competed. Hilferding described this structure of the German economy in his early book *Das Finanzkapital* (Hilferding 1909/1923: 220–296). Because banks in the network core acted as creditors for a large part of the German economy, they became “opponents of any downward competition that might put their customers at risk, endanger their credits and put an end to their business opportunities” (Hilferding 1931/1982: 242). Therefore, they boosted industrial cartels and developed a macroeconomic orientation, i.e. they took care of German industry as a whole rather than single firms and forced firms to take care of each other (de facto risk pooling) (Beyer 2004). An analogy between the company network and Germany's strong associations exists and, in fact, it has been shown empirically that employers' associations and industry associations recruited their executive staff from the circle of multiple directors (Windolf/Beyer 1995: 21–23).

State regulation supported the organization of capital after the 1880s. The 1884 Stock Corporation Act, like its precursors, institutionalized a weak shareholders' meeting vis-à-vis a strong two-tiered board, and the supervisory board was appropriated as a tool for forging links between companies (Jackson 2001: 132). The German economy, in

fact, is characterized by a long tradition of regulated competition in which the idea that different firms should compete with the same product has been seen as rather “unecological” (this quote from Kurt Hansen, the CEO of Bayer in the year 1965, is to be found in Abromeit 1990: 63).

Self-organization was supplemented by close cooperation between banks and the state. Shonfield (1965: 262) described the German banks as “almost para-statal,” as “the natural and trusted ally of public authority in managing any intervention that is to be made in the private sector of the economy,” as something that was not entirely private but not altogether public either. The state used private, hierarchical organization to secure the compatibility of company decisions with public interests: above all, the interest in maintaining a high level of employment in the industrial sector, but also, during the Nazi dictatorship, in war preparation and, after World War II, post-war reconstruction. In general, organized capitalism operated in the shadow of hierarchy, in the context of a state that often remained passive, but was capable of intervening in private economic affairs.

At the firm level, the organization of capital has implied a high preference for growth (and stability) in the conflict of aims between company growth and profitability. This was achieved by steady cross-subsidization of company units with below-average profitability and, therefore, by permanent non-adherence to the basic rule of shareholder-oriented company policy: “(I)nvest only in opportunities with credible potential to create value and return cash to shareholders when value-creating investments are not available” (Rappaport 1986/1998: 94). As a consequence, many German companies were among the world’s largest companies but, at the same time, remained relatively unprofitable (Höpner/Jackson 2001: 12–14).

The absence of hostile takeovers was a necessary precondition for the promotion of company growth while only generating what can be called a “sustainability profit rate.” If a company operates below the attainable profit rate, raiders may buy in, restructure, raise the profit rate and, afterwards, sell the shares again (Manne 1965). Capital markets and takeover markets have different economic functions. Shareholders tend to value every anticipated unit of profit (or cash flow) with the same share price. Therefore, liquid capital markets will make the ratio between share prices and forecast profits (or cash flows) more or less converge, which allows different levels of profitability to persist. Liquid capital markets are compatible with organized capitalism as long as the sustainable minimum rates of return are generated. In contrast, markets for corporate control put pressure on lower-than-possible profitability.

Internally, hostile takeovers were virtually absent until the 1990s. Any attempt would have been met with the collective imposition of sanctions. But the German economy, being open both for trade and financially, had to be protected against hostile takeovers from outside. In the logic of organized capitalism, it is not surprising that this happened through collaboration between the company network core and the state. In the case of unwanted share acquisitions from outside, banks and industrial firms were ready to put

their own microeconomic rationality on hold and to intervene by acquiring the shares of threatened companies. Protection against outside influence was therefore a precondition for internal organization.

While works councils may mainly be interpreted as tools for *coordinating* with core employees, supervisory board codetermination points to interference in the economic decisions of firms and, therefore, *organization*. It is noteworthy that only two pages of Naphtali's famous book on economic democracy concerned firm-level codetermination (Naphtali 1928/1969: 162–164). What interested the early theorists of organized capitalism was the rising influence of trade unions, the “macroeconomically oriented forces” of the labor movement (Naphtali 1928/1969: 58), over company-level decisions. Traditionally, works councils and trade unions collaborated closely (and we will see later that their relationship is now subject to profound change). The Coal, Iron and Steel Codetermination Act of 1951 (*Montanmitbestimmungsgesetz*) and the “general” Codetermination Act of 1976 (*Mitbestimmungsgesetz*) redistributed supervisory board seats not only to internal employees, but also to external trade union officials in order to stabilize the macroeconomic orientation of codetermination.

The Federation of German Trade Unions (Deutscher Gewerkschaftsbund, DGB) was constructed as an integrating umbrella organization with the aim of representing the interests of all employees. The DGB member organizations did not compete against each other but enjoyed discrete sectoral responsibilities. Centralization was also the dominant attribute of wage determination. By law, German wage determination took place at the sectoral level (see, for example, the classification of German wage determination in Traxler et al. 2001: 114). However, due to the wage-setting leadership of IG Metall in its pilot district Nordwürttemberg-Nordbaden, wage determination was de facto centralized and oriented towards macroeconomic developments. We will see that exactly these indications of organization came under pressure in the phase of liberalization from the early 1990s onward (see also Thelen/Kume 2006: 11–42).

### **Liberalization of labor relations**

In this section, I show that even where strategic *coordination* between managements and core employees persists, *disorganization* on the labor side goes on. In the past, the meso and macro dimensions of codetermination were much more important than they are today. Works councils have strengthened their position in their interactions with trade unions, wage determination has become increasingly decentralized and the trade union umbrella organization, the DGB, has lost influence vis-à-vis its member organizations, which increasingly compete against each other in terms of both their sectoral responsibilities and their political orientations.

I start with the changing relationship between works councils and trade unions. On both the labor side and the capital side, company-based interests can be distinguished from sectoral and class-based interests. Until the 1980s, trade unions were successful at integrating different producer interests on the labor side and, thereby, establishing a labor movement with strong perspectives beyond the firm level (Streeck 1992: 92–94). The 1990s, however, witnessed a countermovement. While *coordination* – the formation of strong cross-class coalitions at the firm level – might even have increased, trade unions lost their ability to commit works councils to perspectives beyond the firm level (*disorganization*). I use two examples to illustrate this: first, labor’s reactions to Krupp’s attempt to acquire Thyssen in 1997; second, the failed strike in Eastern Germany in 2003.

When Krupp launched its attempt at a hostile takeover of Thyssen in March 1997, IG Metall’s strategy was to brand hostile takeovers as parts of an illegitimate management strategy that did not fit with the German economic culture. Therefore, IG Metall abstained from staging its big protest demonstration on March 25 at Krupp’s headquarters in Essen. Rather, the demonstration took place at the twin towers of Deutsche Bank in Frankfurt. IG Metall hoped that the employees of the two steel companies would focus on their common class interests. However, this strategy failed completely. The Krupp employees tended to sympathize with the takeover attempt, and not even the works councils of Krupp attended the Frankfurt demonstration. The works councils and employees of both companies defined their interests as company-based interests. Neither was the class dimension the prevailing part of their collective identity (anymore), nor was IG Metall strong enough to force its members – if only for the purpose of symbolic action – to set their dominant orientations aside and to articulate collective goals. The consequence is that, since 1997, the German labor movement can no longer be treated as a barrier against hostile takeovers.

The Eastern German strike in 2003 was lost for similar reasons: the balance between works councils and trade unions as representatives of class-based employee interests had changed more than trade unionists expected. In June 2003, IG Metall aimed at implementing the 35-hour week in Eastern Germany. It had always been typical for strikes to have distant effects on non-striking firms. What was new was that works councils from non-striking firms sided with their managements rather than with striking employees. The Eastern German strike started at Volkswagen in Chemnitz in early June. In the beginning, Western works councils did not show much interest. This changed when distant effects occurred. In the third and fourth weeks of the labor dispute, around 10,000 employees of BMW in Dingolfing, Landshut, Munich and Regensburg had to work on a reduced basis because they lacked supplier components. In addition, workers were on short hours at Volkswagen’s main factories in Wolfsburg for two days. The protests of Western works councils, expressed most strongly at an IG Metall works councils conference on June 24 in Frankfurt, undermined the credibility of the trade union’s strategy. First, IG Metall allowed several Eastern German suppliers to abstain from the labor dispute in order to limit the distant effects for large Western automobile produc-

ers; then, IG Metall moved away from demanding immediate working time reductions and acceded to more flexible solutions; finally, on June 28, IG Metall stopped the strike and announced that it had lost the labor dispute.

The end of the labor dispute resulted in fierce quarrels between the “traditional” and “modern” factions of IG Metall, led by Jürgen Peters and Berthold Huber respectively. However, both sides agreed that the strike was lost in the West rather than in the East of Germany. “I would never have thought it possible that individual works councils would stab their striking colleagues in the back like this in the middle of a labor dispute,” said Eastern German IG Metall representative Hasso Düvel (Spiegel online, June 7, 2003). “The trust in discipline and formal solidarity was too high,” IG Metall board member Klaus Lang analyzed (Einblick, July 21, 2003). The defeat was caused by an altered balance of power between company-based interests and representatives of the macro dimension of the labor movement, i.e. by disorganization. It demonstrated that IG Metall lost its room for maneuver in pay policy once the interests of powerful works councils were involved;<sup>11</sup> also, it demonstrated a surprising degree of cohesiveness of cross-class coalitions inside large firms.

The events of 2003 seem to indicate a general loss of power of labor vis-à-vis capital. This loss really did occur. However, in June of 2003, IG Metall replicated a case of disorganization that its opponent on the employer side, Gesamtmetall, had already experienced in the fall of 1996 (a detailed description of which can be found in Thelen 2000). In that year, the Christian Democrat/Liberal government changed the Sick Pay Act (*Entgeltfortzahlungsgesetz*) in order to lower the wages payable in the event of sickness from 100 to 80 percent. Trade unions, in particular IG Metall, reacted by trying to implement full sick pay in collective agreements. Large companies – apparently, in order to demonstrate solidarity with smaller companies – encouraged Gesamtmetall to stand firm against IG Metall’s demands. However, after some initial warning strikes, the big companies abandoned their resistance immediately. Gesamtmetall was disgraced at it was shown to lack the ability to make the big companies engage in a struggle for a long-lasting demand from the employers’ associations.

The general decentralization of German wage determination has been well documented (see, for example, Hassel 1999, Hassel/Rehder 2001, Rehder 2003, Streeck/Rehder 2003). Indications of the strengthening of the firm level in pay policy are the declining coverage rate of central collective agreements<sup>12</sup> and the increasing degree of freedom for firms covered by the agreements. Whereas firm-based “alliances for jobs” were an exception to the rule in the early 1990s, now they are a quite normal feature in both

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11 Interestingly, employer demands in the current German codetermination debate also imply *disorganization* rather than declining *coordination*. Their main point of attack is not employee codetermination as a whole but the mandatory participation of trade unionists.

12 In 1998, 76 percent of employees in the West and 63 percent in the East were covered by central collective agreements; in 2006, the respective numbers (further) declined to 63 percent (West) and 54 percent (East). Data: IAB Betriebspanel.



small and large firms. It is true that trade unions maintain a certain amount of control over the decentralization of wage policy, especially in the big companies (“controlled decentralization”). However, it would be misleading to conclude that the balance between the firm level and above-firm agreements remains intact. The actual alternative to controlled decentralization is not recentralization but uncontrolled decentralization; and uncontrolled decentralization takes place where central collective agreements have lost their formative function.

Another indication of disorganization on the labor side is the decline of the umbrella organization, the DGB. Just as labor power at the firm level has increasingly come to dominate over meso and macro forces of the labor movement, the DGB has forfeited influence over member organizations. Here, the crucial point is not that the number of trade union members organized in unions inside the DGB is on the decline<sup>13</sup> while, for example, the civil servants’ union *Deutscher Beamtenbund* is on the rise, that Eastern German employers take out collective agreements with the “Christian Union Federation” (*Christlicher Gewerkschaftsbund*) and that, to cite another example, occupation-based unions are on the rise at the periphery.<sup>14</sup> Decisive disorganization derives from rising competition between trade unions inside the DGB and their strengthened position compared to their increasingly useless umbrella organization.

Since the mid-1990s, a wave of mergers between trade unions inside the DGB has occurred. Rather than following any sectoral logic, the mergers have followed the logic of political closeness. Consequently, three blocks of German trade unions can now be distinguished: IG Metall on the left, the service sector trade union ver.di (*Vereinigte Dienstleistungsgewerkschaft*) at the center (but closer to IG Metall) and the former chemical-sector trade union IG BCE (*Industriegewerkschaft Bergbau, Chemie, Energie*) on the right. Since the 1990s, IG Metall and IG BCE in particular have been drifting apart from each other. In 2003, the DGB was unable to integrate the diverging positions of the two trade unions in the context of the labor market reforms debate. IG BCE, Transnet (the rail union) and NGG (food, restaurants) published jointly formulated demands regard-

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13 In 1991, the DGB trade unions had 11.8 million members (7.9 million members in the West). The total number of members went down to 7.8 million members in 2000 and 6.6 million members at the end of 2006 (data: Deutscher Gewerkschaftsbund). This implies that the German net organization rate is now significantly below 20 per cent, which may be 8 or 9 percent behind the British organization rate.

14 In the 2000s, air-traffic controllers, pilots, doctors, and train conductors have successfully pushed for collective agreements outside the agreements signed by the DGB. (To date, in December 2007, the dispute over the train conductor agreement is not yet decided.) Hitherto, the number of professions pushing for higher wage increases outside the central collective agreements is too low to change the main logic of the wage bargaining system. However, if the process continued, it would constitute a serious threat to both *organization* and *wage coordination*: The DGB would have no other option than to also push for higher nominal wages in order to protect a constant share of value added for its members. This is precisely what Calmfors and Driffill’s famous model predicted for centralized wage bargaining systems that move to the middle of the U-curve (Calmfors/Driffill 1988).

ing labor market policy that were much more moderate than those of IG Metall. “We just seek to demonstrate that different positions exist inside the DGB,” IG BCE head Hubertus Schmoldt stated (Wirtschaftswoche, May 22, 2003).

The traditional principle “one sector, one union” has given way to increasing competition among trade unions. This holds true especially for the growth sectors of the 1990s and 2000s: services, computing/applications, and telecommunications. It is remarkable how many trade unions signed collective agreements in the telecommunications sector in 1999 (Wagner/Schild 1999: 93): *Deutsche Postgewerkschaft* (DPG, postal services) at Deutsche Telekom; *Eisenbahner-Gewerkschaft* (GdED, railways) at Mannesmann Arcor; IG Metall at Mannesmann Mobilfunk; IG BCE (chemicals) and ÖTV (public services) at o.tel.o; ÖTV at VEW-Telnet; IG BCE at Viag Intercom; HBV (banks, trade) at Talkline and some other smaller, companies. Similar examples could be cited for the service and computing sectors. In the latter case, IG BCE and IG Metall also battled for leadership at the very same company, the German section of IBM. In general, the wave of mergers and acquisitions since the 1990s has increased the number of companies for which more than one trade union is responsible.

The de facto centralization of German wage bargaining originally existed because the leadership of IG Metall was based in one particular district, Nordwürttemberg-Nordbaden (the district where Daimler is located). This leadership function has eroded as well. 2001 and 2002 were the first two years in which, unlike the 30 years before, IG BCE signed collective agreements before IG Metall did. At the same time, increasing competition occurred within IG Metall. Since 2000, collective agreements with pilot functions – in addition to Nordwürttemberg-Nordbaden – have been signed in North Rhine-Westphalia, Lower Saxony and Bavaria.

It would be exaggerated to conclude that the non-competitive character of German trade unions has completely vanished. However, compared to the 1980s, German trade unions now represent a hybrid between unified unionism and competing organizations. This corresponds to an ongoing weakening of the umbrella organization, the DGB. As the small trade unions have merged with larger ones, the DGB has lost its allies in its struggles with the large unions, which, in turn, no longer need an umbrella organization. This is because they are umbrella organizations themselves, having to deal with rising internal heterogeneity and, increasingly, developing distinct political orientations of their own. Likewise, the DGB has been unable to moderate the struggle concerning hegemony over growth sectors. Nor has it been able to integrate the different political attitudes regarding labor market reforms. In sum, in the 1990s and 2000s, German labor relations have been characterized by a combination of two developments: a strengthening of works councils in their interaction with trade unions and continuous cross-class coalitions inside large firms on the one hand, and a weakening of the macro forces of the labor movement and its ability to impose its interests upon firms on the other.



## Liberalization of capital relations

Similar to labor relations, changes in the sphere of corporate governance indicate significant disorganization. The remaining capacity to coordinate, however, is more difficult to assess, and I conclude that in German corporate governance – in contrast to labor relations – *both* organization and coordination are on the decline.

Early indications of rising tensions within the German company network can be traced back to the 1970s.<sup>15</sup> At that time, unlike in the 1990s and 2000s, it was not Deutsche Bank but Dresdner Bank that defied the rules of organized capitalism. In 1974, for example, Dresdner Bank CEO Jürgen Ponto helped the Quandt group sell Mercedes-Benz shares to investors from Kuwait. Representatives from other companies, politicians and the public blamed Ponto for his “rough” business methods; and, in contrast to Deutsche Bank, Dresdner Bank advised cooperating industrial companies not to implement unequal voting rights in response to the “petrodollar” threat. The commonly shared, national and macroeconomic orientation – which, I argue, is practically absent today – was increasingly called into question. In the 1980s, indications of rising competition in the financial sector evolved. After the mid-1980s, at the latest, the degree of interlocking directorates between the 100 largest companies was on the decline. The disintegration of the capital network, however, started later. It began in the mid-1990s and speeded up in the late 1990s and 2000s. Between 1996 and 2004, the number of capital ties between the 100 largest German companies declined from 168 to 44, and it is still on the decline.<sup>16</sup>

In the section above, I treated the market for corporate control, as distinct from a liquid capital market, as an institutional feature that is incompatible with organized capitalism. Beside the disorganization of the cartel-like structure of German capitalism, the dissolution of the company network implies a reduction of protection against hostile takeovers. First, shares that formerly were in the hands of cooperating companies become available for hostile bidders. Second, as the banks abandoned their traditional roles as “house banks,” they lost their interest in preventing hostile takeovers; in contrast, in the course of adopting investment banking strategies, the mergers and acquisitions market – including hostile takeovers – became an interesting business sector for them (Beyer 2004; Dziobek/Garrett 1998). The takeover battle concerning tire manufacturer Continental in 1990–1993 was the last time that Deutsche Bank behaved as an executive authority of Germany, Inc. The year 1997, in which Deutsche Bank for the first time supported a hostile takeover attempt (Krupp vs. Thyssen), therefore marks a watershed in the history of German capitalism. During the takeover battle between Vodafone and Mannesmann in 2000, both financial and industrial companies refrained from adopting any protective measures.

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15 For a more detailed description of the history of the German company network and a discussion of the reasons for its decline, see Höpner/Krempel (2004).

16 Data: Monopoly Commission reports.

At the company level, the dissolution of the company network and the emergence of a market for corporate control have resulted in increased acceptance of shareholder-oriented strategies. Indications of rising shareholder orientation are the implementation of profitability targets for company segments, internal competition for investments, international accounting and international ratings, share buybacks, intense investor relations activities, adoption of the “one share, one vote” rule, stock options and the fact that German companies themselves are increasingly undertaking hostile takeovers. Operatively, shareholder orientation has resulted in decreasing internal cross-subsidization and, therefore, in a reorientation in the conflict of aims between company growth and profitability. Rising shareholder orientation is a widespread phenomenon among German firms; it is especially pronounced in internationalized firms with a high dispersion of ownership.

Although the disorganization of capital relations concerns the sector of large companies only, it would be incorrect to assume that small, family-owned firms remain unaffected. To the contrary, changes might affect the *Mittelstand* sector in a particularly painful manner. German banks have traditionally offered the same interest rate to small and large firms irrespective of their different credit risks. As banks move towards shareholder value and increasingly prevent cross-subsidization, they apply individual calculation of credit risks to their customers. This results in increased capital costs for small firms (and we may speculate that they react to cost pressure by revolting against employers’ associations and central collective agreements which, too, implies disorganization). Similar developments are under way in insurance. Therefore, as the *Mittelstand* absorbs an above-average share of the domestic labor supply, the growing shareholder orientation of the largest companies may lead to a declining employment capacity on the part of German industry in general. In addition, the wave of share acquisition of small firms by financially oriented funds since 2003 has made it clear that the disorganization of capital affects small and large firms alike. For the very first time, this has led to a public debate about the shady side of the transformation of German finance, referred to as “the locust debate” (*Heuschreckendebatte*).

The state may have supported the existence of the German company network longer than actually desired by its main proponents. In 1974, the Social Democrat/Liberal coalition reacted to the Herstatt crisis by setting up a banking reform commission, which published its report in 1979. The commission proposed prohibiting banks from holding industrial share blocks larger than 25 percent of the respective shares (Studienkommission “Grundsatzfragen der Kreditwirtschaft” 1979: 267). This happened in the context of a highly politicized public debate on the power of banks in which both the Left and Liberals called for restricting the influence of banks over industrial firms. After the 1980 elections, Social Democrats and Liberals announced a prohibition act aimed at keeping banks from holding more than 15 percent – not, as the banking commission had recommended, 25 percent – of industrial firms. The large banks were not at the forefront of the protests: presumably they hoped that a prohibition act would be combined with preferential tax treatment of the profits from share block sales, which would have

allowed the activation of “hidden reserves.” In the 1970s, Deutsche Bank had already started to handle industrial share blocks more flexibly. It was only the change of government in 1982 that halted the discussion on politically initiated capital disentanglement. It was not to re-emerge until the next government change in 1998.

By the late 1990s at the latest, it was obvious that the large banks no longer wanted to perpetuate the company network. In line with the preferences of the company network core, and against the protests of the Christian Democrats, the Red-Green government opted for the total abolition of the tax on profits from the sale of large share blocks (without hurting the banks with any prohibition acts). Other aspects of disorganization on the capital side were supported politically, too (Deeg 2005; Lütz 2000, 2005). In 1998, before the government change, the Corporate Governance and Transparency Act had already abolished unequal voting rights and legalized share buybacks and stock options. Since late 2001, Germany has a takeover law that regulates friendly as well as hostile takeovers.

The reorientation in the conflict of aims between profitability and contradictory measures such as employment protection does not, however, necessarily imply declining *coordination*. As long as coordination generates profits, coordination and disorganization might not conflict with each other. Also, ownership structures of German companies remain comparatively concentrated (though concentration is declining significantly; see Clark/Wójcik 2007: 110–124). Many of the elements I have described as indications of organization have also been discussed as tools for coordination (see Hall and Soskice 2001: 22–24) – above all, the existence of the company network and the lack of a market for corporate control. But since the extent to which coordination from below requires institutionalization from above is an open question, the degree to which German firms have forfeited their ability to coordinate strategically is difficult to assess.

First, it is possible that certain stimulus thresholds have to be crossed before a more flexible variant of coordinated capitalism adopts LME logic. Second, it is difficult to distinguish empirical cases of institutional complementarity from institutional redundancy. *Ex ante*, every element of a production regime that fits nicely with its other institutions – whether by virtue of structural coherence or on the basis of fruitful tensions (Crouch/Farrell 2002; Crouch 2005) – looks complementary. *Ex post*, subsequent to liberalization, one may discover that the respective institutions were not complementary, but redundant: their coordination capacity could be turned off without there being any significant overall implications. For example, German traditional accounting fitted well with industrial monitoring by banks, lack of shareholder protection, negotiated rather than hostile takeovers, etc. Nevertheless, it is conceivable that German accounting, although perfectly compatible with other institutional features, was institutionally redundant rather than complementary, i.e. it was not a necessary condition for coordination of the production regime as a whole.

However, let us consider the widesweeping changes in both institutional structures and operational practices in the German corporate governance sphere: legal changes not

only in accounting but also in takeover regulation and in overall shareholder protection; the dissolution of the company network and the growing interest of banks in an active M&A market; shareholder-oriented restructurings that were often the largest in the respective company's history; the growth of institutional investors (including hedge funds) and their, sometimes brutal, activism; stock options, American-style investor relations activities, implementation of profitability targets; changing management career patterns, the rise of a managerial labor market, etc. It is hard to imagine that all these changes, with respect to coordination, concern institutionally redundant parts of the German production regime. Therefore, I am inclined to conclude that in German corporate governance, liberalization affects *coordination as well as organization*, although I admit that here, the decline of the latter dimension of nonliberal capitalism is more ambivalent than the decline of the former.

## Conclusion

In this paper I have shown that two dimensions of nonliberal capitalism can be distinguished: coordination (as described in the varieties of capitalism framework) and organization. I have referred to concepts in the tradition of Hilferding in order to approach organized capitalism theoretically. Coordination implies that firms solve collective action problems to raise profits. Being organized implies that microeconomic goals are amended by collective goals beyond firm-level rationality. In the latter case, Friedman's dictum that "the business of business is business" does not hold anymore; in the former, nonliberal institutions are sustained precisely because "the business of business is business." My point is not that coordination and organization are conflicting concepts. Rather, coordination and organization refer to different functions of institutions and vary between spheres (such as industrial relations and corporate governance), between sectors, regions and nations (varieties of capitalism), and between points in time (phases of capitalism).

What is the coordination–organization distinction good for? First, it sheds more light on the heterogeneity of nonliberal capitalisms as it allows us to describe them as different mixtures of institutionalized coordination and organization. Second, we still lack a good theory of liberalization, and I argue that it is helpful to apply a two-dimensional concept of liberalization: liberalization as disorganization and liberalization as vanishing strategic coordination. In the paper, I have discussed the German case in detail and come to the conclusion that both forms of liberalization actually occur. However, disorganization has gone further than the decline in the capacity to coordinate strategically. The latter form of liberalization is more prominent in corporate governance than in labor relations.

Third, I argue that the coordination–organization distinction is helpful for understanding some of the remarkable political dynamics of liberalization. Elsewhere I have discussed the “paradoxical” observation that social democracy in some countries proposed more far-reaching liberalization of corporate governance than its political neighbors to the right did. In one paper, I used theoretical writings, parliamentary debates, manifestos, etc. to trace the preferences of the German labor movement regarding the ideal form of capital relations back to the 1880s (Höpner 2004b). The main finding was that fascism caused a disruptive preference change: in the perception of the labor movement, capital’s capacity to organize was one of the main reasons for the fall of the Weimar Republic; not Durkheimian anomie, but over-organization on the capital side was perceived to be the crucial problem. After World War II, the labor movement discovered the market as an instrument with which to politically civilize private property. The liberal attitude expressed by Social Democrats and trade unions when they pushed corporate governance liberalization in the 1990s and 2000s is a reflection of this tradition. When the Social Democrats pushed for the dismantling of “Germany, Inc.,” what they had in mind was capital’s (political) organization rather than its (economic) coordination.

Comparative political economy has developed an elaborate set of tools for comparison of national capitalisms (Amable 2003; Hall/Soskice 2001). This, however, must not obstruct our view of the commonalities that exist between them and of the emerging impulses that transform them all (Pontusson 2005). Some of the changes we observe, such as technological change in financial markets, the growing role of institutional investors, international diversification of investments, demographic changes and the growth of the service sector affect managerialism as well as organized capitalism. For our understanding of the internal logic of political economies, phases of capitalism are as important as the existence of national varieties (Amable 2000: 74–79; Boyer 2005: 29–30), and comparative political economy has to deal with the complex interactions between overall phases and their empirical manifestations in national and regional varieties. I suggest that the distinction between declining coordination and disorganization is a suitable starting point for the comparative analysis of the current liberalization phase.

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