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# Changing Ideas: Organised Capitalism and the German Left

HELEN CALLAGHAN and MARTIN HÖPNER

*What determines party positions on issues of economic governance? Most previous research has pointed either to the presumed material interests of the parties' clienteles, or to the political institutions that shape electoral competition. Both approaches do well in explaining cross-national variation, but neither can adequately account for changes over time. This article documents German Social Democrats' policy preferences and the underlying discourse on organised capitalism from 1880 onward to highlight the crucial role of historical context. The interests reflected in party positions cannot simply be read off the material environment. Instead, as suggested by constructivist work on preference formation, they depend on theories regarding the causal effect of alternative policy measures. Following Peter Hall, we treat the evolution of such theories as a 'process structured in space and time', by illustrating how 'context factors' affect the relative salience of the multiple considerations pertaining to organised capital.*

Germany's 'organised capitalism'<sup>1</sup> – characterised by dense cross-shareholding networks, close ties between companies and banks, and high ownership concentration – has begun to unravel due to political reforms initiated in the mid-1990s (see Beyer and Höpner 2003). Changes to the tax code, the adoption of international accounting standards, stricter transparency requirements, a ban on certain poison pills and other corporate governance initiatives all contributed to the unwinding of *Germany Inc.* and to the emergence of a market for corporate control.

The change is significant because Germany's strong economic performance throughout most of the post-war period owed much to employers' capacity to cooperate rather than compete. According to the literature on production regimes, limited competition on the capital side, combined with complementary features such as worker participation in corporate governance and collaboration among trade unions and employers, allow companies to excel in production strategies that require long-term

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investments, stable labour relations and a high-skilled workforce (Hall and Soskice 2001; Streeck 1991).<sup>2</sup>

The party politics of the reforms has drawn scholarly attention because it does not conform to conventional left–right patterns. During the 1990s, Social Democrats rather than Conservatives drove efforts to break up market-restraining relationships between companies, and sided with minority shareholders in conflicts over corporate governance reform (Cioffi and Höpner 2006; Höpner 2007a). Where this institutional sphere is concerned, the Social Democrats are no longer the party in favour of ‘politics against markets’ (Esping-Andersen 1985) – by contrast to the sphere of industrial relations, where they continue to support market-restraining institutions. If these spheres are complementary, as suggested by production regime theories, then this ideological mix is not just incoherent, but potentially self-defeating.

The present article extends the time frame of previous research by mapping the political discourse on cartels from its beginnings in the 1880s, when the issue first appeared on the agenda. We show that the pro-market, pro-competition stance of the German Left was neither an aberration of the 1990s, nor an immutable dogma. What Cioffi and Höpner (2006) refer to as the ‘political paradox of finance capitalism’ has characterised German party politics throughout the post-war period. However, it represents a radical reversal of policy preferences held prior to World War II. What explains the puzzling post-war attitude, and the timing of the change?

We resolve the puzzle by treating ‘politics as a process structured in space and time’ (see Hall 2011) and by illustrating how ‘context factors’ (Falletti and Lynch 2009) interact with multivariate preferences to affect how actors view their interests. Organised capitalism appears conducive to leftist aims as long as the focus is on its contribution to *economic coordination*, and this explains the supportive attitudes of the German Left up to the early 1930s. However, besides economic coordination, organised capitalism also affects *political organisation*, as German labour leaders learnt painfully during the Nazi period. The radical reversal of attitudes after World War II reflects updated beliefs regarding the political consequences of organised capitalism, and the greater weight assigned to political over economic considerations.

Our article contributes to recent work on the politics of corporate governance by drawing attention to the role of ideas. Previous efforts to explain party positions on corporate governance issues, which focus either on the presumed material interests of the parties’ clienteles, or on the political institutions that shape electoral competition, do not adequately account for changes in policy preferences over time. We show that the interests reflected in policy preferences cannot simply be read off the material environment. Instead, as suggested by constructivist work on preference formation, they depend on theories regarding the causal effect of alternative policy measures, and such theories need to be actively developed (see Abdelal *et al.* 2010; Hall 2005: 135–7; Katznelson and Weingast 2005; Wildavsky 1987: 5–8). Drawing

on recent work on institutional change, we illustrate how ideas, like institutions, evolve in incremental steps, change radically at critical junctures and are redirected to serve new purposes (see Thelen and Mahoney 2010; Streeck and Thelen 2005; Thelen 2003).

The article first documents the puzzling contrast in social democratic party positions regarding organised capital before and after World War II. It then discusses the discourse underlying these policy preferences, to show that they were shaped by ideas that developed over time. Next, it identifies elements of the historical context that contributed to the paradigm shift after World War II. The conclusion highlights what our case study contributes to recent research on preference formation and institutional change.<sup>3</sup>

### Party Positions before and after World War II

Far from being a fleeting phenomenon, leftist support for competition policy and market-enhancing corporate governance reforms has characterised German party politics throughout the post-war period. The Basic Law of the Federal Republic had not even been written when, in August 1946, a trade union conference held in the British sector called on the occupying forces to eliminate private monopolies, as had been decided at the Potsdam Conference (Mielke and Rütters 1991: 726–7).<sup>4</sup> During the ‘seven-year cartel battle’ that led to the toothless competition law of 1957, the Social Democratic Party (Sozialdemokratische Partei, SPD) supported the liberal ideas of Chancellor Ludwig Erhard from the Christian Democrats (Christlich-Demokratische Union, CDU), unlike the majority of CDU/CSU<sup>5</sup> representatives. The joint-stock law reform of 1965, which ended up smaller than intended, featured a similar constellation. In 1968, Social Democrats promoted the transparency act, while CDU/CSU – and CSU party leader Franz Josef Strauss in particular – did all they could to water it down. In 1973, the SPD-led government tightened the competition law in the face of CDU/CSU opposition.<sup>6</sup> The same SPD-led government forced the de facto cartelised private banking sector into competition by strengthening the Landesbanks. Passage of a company network dissolution act that would have limited bank shareholdings in industrial companies was only prevented by the SPD’s removal from office in 1982. In 1998, during debates over the Control and Transparency Act (*Gesetz zur Kontrolle und Transparenz im Unternehmensbereich* – KonTraG) introduced by Helmut Kohl’s conservative-liberal coalition, Social Democrats emerged as more favourable to radical corporate governance reforms than the Christian Democrats. In order to prevent ‘Sovietisation of the German economy’ and an ‘entanglement and incrustation’ of the German corporate landscape,<sup>7</sup> the SPD called for a network dissolution act that would prohibit banks and insurance companies from possessing more than a 5 per cent stake in industrial corporations. In 1999, after their return to power, the Social Democrats promoted network dissolution by repealing taxes on the sale of

shares. Edmund Stoiber, leader of the CSU, promised to reintroduce the tax if the CDU/CSU were returned to office. In 2001, during negotiations on the Takeover Act, the SPD turned down CDU demands to strengthen managerial defences against hostile takeovers.

However, these policy preferences, though long-standing, only took hold after World War II. Until then, the German Left *opposed* political efforts to dismantle the economic structures of organised capitalism. The SPD first issued a resolution on the cartel question at a party conference in 1894, calling ‘trusts, cartels and similar large-scale capitalist organisations... a step toward making socialism a reality’ (Mielke and Rütters 1991: 210; see also Könke 1987: 49). In 1902, party leader August Bebel wrote that the SPD expected a swift process of concentration ‘in which we go from cartels to trusts, and from trusts to the nationalisation of the entire industry and the coming of socialism’ (cited in Blaich 1973: 212). During the last years of the Kaiserreich, the Social Democrats supported a resolution introduced by the Zentrum (a party representing Catholic workers), which, though calling for a national authority to monitor the abuse of monopoly power, explicitly defended cartels as ‘much more in accordance with our objectives than the struggle of every man for himself that is fomented by free competition’.<sup>8</sup>

The prevailing materialist approaches to preference formation do not adequately account for this change over time. Previous efforts to explain party positions on corporate governance issues have focused either on the presumed material interests of pressure groups or voters, or on political institutions that shape electoral competition. For example, Callaghan (2009) and Schnyder (2011) identify the structure of corporate ownership as a determinant of the material interests and policy preferences of workers, managers, shareholders, and their respective associations. Gourevitch and Shinn (2005), Pagano and Volpin (2005), and Iversen and Soskice (2006) all point to electoral systems, and, in particular, to the varying credibility of long-term political commitments under majoritarian versus proportional representation. These interest-based and institutionalist accounts are consistent with the observed stability of SPD opposition to organised capitalism throughout the post-war period, but they do not explain why the German Left supported organised capitalism before World War II. The economic and political structures of pre-war Germany differed from those of the Federal Republic, but even in the Kaiserreich and during the Weimar period, corporate ownership was relatively concentrated (Rajan and Zingales 2003: Tables 3 and 5), and the electoral system featured proportional representation.

We contend that this failure to adequately account for long-term changes reflects problems with the ontological model that underlies not just the explanations reviewed above, but much of comparative political science – problems that cannot be fixed by simply adding more variables to the equation. Instead, our analysis follows Peter Hall’s (2011) eloquent

call for dropping the assumption that the behaviour of political actors is conditioned only by ‘variables that change fluidly across time and space’, and by ‘preferences that arise unambiguously from the material world’ (cf. Hall 2011, pp. 2, 15). As shown below, the German ‘Left’ – broadly defined to include Marxist, socialist and social democratic intellectuals, party leaders and union functionaries – had multiple goals that evolved gradually and varied in salience depending on context factors that are unique to Germany. Two aspects of this evolution are especially worth noting. First, the ‘material’ economic advantages, drawbacks and distributional consequences of organised capital are far from obvious. Assessing them requires theories about causal effects, and such theories are contestable and subject to revision. Second, economic implications are not the only relevant dimension. Organised capital also affects the distribution of *political* power. The relative weight assigned to the economic and political dimensions varies over time.

### The Step-wise Evolution of Ideas

Following Wehler (1974: 38–9), we date the birth of organised capitalism to the end of the so-called Founders’ Crisis (*Gründerkrise*). Sparked by a stock market crash in 1873, this crisis lasted until 1879 and caused major changes in company finance and corporate governance. Since then, the ideology of the German Left underwent several changes before it arrived at the surprisingly market- and competition-oriented positions expressed during the 1990s and 2000s. Five phases can be distinguished.

#### *Phase 1: Exploration of a New Phenomenon*

During the first phase, which lasted from the 1880s until the turn of the century, the labour movement struggled to formulate a position on the emerging cartelisation of the German economy. The debate was exploratory rather than controversial and served mainly to identify different aspects and implications of a previously unknown phenomenon.

Marx died too early for a full-fledged analysis of organised capitalism.<sup>9</sup> However, *Das Kapital* does touch on the joint-stock company – an entity that would later come to be described as the nucleus of the cartel.<sup>10</sup> Marx regarded the separation of ownership from control as ‘the abolition of capital as private property within the confines of the capitalist mode of production itself’ (Marx 1894/1981: 567),<sup>11</sup> but unlike some of his successors, he never saw the joint-stock company as a challenge to capitalist rationality.

Engels took an ambivalent stance. On the one hand, he regarded cartels as too fragile to be of lasting significance, believing that

these experiments can be pursued only in a relatively favourable economic climate. The first storm is bound to bowl them over and



show how, much as production does need regulating, it is certainly not the capitalist class that is called to this task. (Engels in Marx 1894/1982: 215, note 16)

On the other hand, he believed that cartels would accelerate the transition to socialism: ‘competition has been replaced . . . by monopoly, thus preparing in the most pleasing fashion its future expropriation by society as a whole, by the nation’ (ibid.).

The first full-blown Marxist analysis of the cartel system, published in 1890 by Bruno Schönlank, was similarly ambivalent. As drawbacks, Schönlank (1890: 524–37) identified the pricing policy of cartels, resulting increases in unemployment, and the enhanced ability of companies to jointly combat the labour movement. Nevertheless, he objected to ‘petit bourgeois’ calls for their regulation and wanted to see them preserved because they ‘carried the seeds of a new economic model’ (ibid.: 519). Anticipating one of the core ideas of Hilferding (1927/1982: 218) and Naphtali (1928/1966: 19), Schönlank (1890: 537) believed that the process of economic concentration could, in principle, serve political ends:

Integration of individual capital by means of the cartel delivers the best conditions for a thorough overhaul of trade regulations. . . . Social legislation is thus the *necessary complement* of the increasing syndication of industry. (Emphasis added)

Tentative formulations based on limited empirical evidence also characterised the early non-socialist literature on the phenomenon. Friedrich Kleinwächter (1883) obtained his knowledge of cartels mainly from employers who had joined them. His overall assessment is correspondingly positive. According to Kleinwächter (1883: 126–7), cartels served to ‘eliminate unbounded competition among companies and more or less regulate production to ensure that it at least comes close to matching demand; in particular, cartels aim to avoid potential excess production’.

Kleinwächter’s interview partners also reassured him with regard to their pricing policy:

I also asked them whether there was a danger that cartel members would misuse their organisation during good times to unduly reduce production and obtain monopoly prices. . . . This danger – thus the replies – is no cause for concern . . . (Ibid.: 159)

Based on his analysis, Kleinwächter (ibid.: 172–3) saw no need for intervention. Instead, he recommended that the government

simply twiddle its thumbs and calmly watch the natural development of things. If free competition is the appropriate form of economic life,



economic life itself will ensure that the workings of competition are undisturbed.

In return for not setting competition policy, he suggested that the state impose obligations on the cartels, such as requiring them to 'employ their workers for life; . . . provide for widows and orphans of deceased workers; in short, grant workers the same status as civil servants' (Kleinwächter 1883: 195).

### *Phase 2: Competing Positions Emerge*

During phase 2, which lasted roughly until the early years of the Weimar Republic, two well-defined competing positions emerged within the German Left. Both sides took it for granted that socialism would come to replace capitalism, both viewed organised capitalism as closer to socialism than the previous, competition-based form of capitalism, and both therefore regarded competition policy as a reactionary attempt to delay the inevitable. They disagreed passionately on how and why the transition to socialism would come about.

Revisionists, represented by Eduard Bernstein, saw organised capital as conducive to a smooth, crisis-free transition to socialism. In a book that sparked heated discussions, Bernstein (1899/1993) suggested that the cartel system, combined with the internationalisation of production, would stabilise the business cycle, so that 'at least for some time, general trade crises similar to the earlier ones are to be regarded as unlikely' (*ibid.*, 84). To dispute that cartels were crisis-proof was to 'deny the superiority of organization over anarchic competition' (*ibid.*: 94).

Orthodox Marxists, including Rosa Luxemburg, Karl Kautsky, and the early Rudolf Hilferding, believed that organised capital would cause economic crisis and thereby intensify the class struggle. Luxemburg (1899/1970: 10) explained that

when evaluated from the angle of their final effect on the capitalist economy, cartels and trusts fail as 'means of adaptation'. They fail to attenuate the contradictions of capitalism. On the contrary, they appear to be an instrument of greater anarchy. They encourage the further development of the internal contradictions of capitalism. They accelerate the coming of a general decline of capitalism.

Kautsky, the most important theorist of the Second International and a representative of the anti-revisionist majority of the SPD, argued similarly in his polemic *The Road to Power* (1909/2007), as did Hilferding (1909/2006) in his monumental work *Finance Capital*.<sup>12</sup>

Meanwhile, the bourgeois enthusiasm for cartels began to display distinct nationalist overtones. According to Schmoller's (1908) economics textbook,

Germany has experienced a stronger cartel development than other countries for the same reasons that have put Germany, alongside England, at the head of the cooperative movement [*Genossenschaftsbewegung*]. The character of our people and our history has made us into the most disciplined people: we are able to fall into line in economic life as well and collaborate of our own free will. (Cited in Blaich 1973: 294)

*Phase 3: An Ideological Attitude ‘Locks In’*

In phase 3, which lasted until the end of the Weimar Republic, the revisionist position, now represented by the late Hilferding, Naphtali, and many others, became a stable, largely uncontested ideological attitude.<sup>13</sup>

Building on Bernstein (1899/1993), Hilferding reformulated his theory during the Weimar Republic, now arguing that organised capitalism had not just socialist potential but actually *already contained* socialist elements. Beyond a Marxian-style socialisation of production, Hilferding claimed to discern a reorientation of company strategies towards a higher rationality detached from microeconomic concerns. At the SPD party conference in 1927, he declared that

today, we all have the feeling that private businesses, and management by individual businessmen, have ceased to be private affairs... [The] administration of a business is no longer the private affair of the businessman, but a societal matter. (Hilferding 1927/1982: 217)

Cartels and capital entanglements were interpreted as socialist elements in a capitalist environment that should not only be tolerated, but actively promoted. As Hilferding explained to the Reichstag in 1926:

Because capitalism entails socialism, because capitalist organisation must ultimately turn into democratic control of the economy by the great mass of producers, because of this we say:... We champion a state that prepares for and broadens these societal controls. (Cited in Michaelis and Schraepfer 1960: 152–3)

Demands to dissolve the cartels were accordingly perceived as parts of a reactionary program (e.g. Sombart 1932/1987: 401).

This revisionist view was adopted by party and trade union congresses. As member of a commission appointed by the General German Workers Association (*Allgemeiner Deutscher Gewerkschaftsbund* – ADGB), Naphtali (1928/1966: 35–6; emphasis added) wrote that: ‘We believe that this development will result in an impulse for the development of economic

democracy, and *we believe that this development has already begun*'. In a keynote address to the 1927 SPD party conference, Hilferding (1927/1982: 218; emphasis added) argued that

organised capitalism substitutes the capitalist principle of free competition *with the socialist principle of planned production*. This planned economy, deliberately managed, is far more amenable to deliberate influence by society.

The Committee of Works Councils and Company Representatives of the German Metalworkers Union (*Reichsbeirat der Betriebsräte und Vertreter größerer Konzerne des Deutschen Metallarbeiter-Verbands*) declared in December 1926 that

[t]he workers recognise the merging of industry into trusts and the spread of cartels and similar organisations, which strive for a monopolistic dominance of the market in the national and international economy, as an expression of the development of high capitalism, which in its early stages will be visible as the victory over anarchic production through a regulated economy. (Cited in Kukuck and Schiffmann 1986: 851–2)

Support for organised capitalism and opposition to competition policy extended beyond the German Left. Walther Rathenau (1918), a prominent industrialist and co-founder of the liberal German Democratic Party (*Deutsche Demokratische Partei – DDP*), saw the modern joint-stock company as 'half way between private enterprise and public administration' (Rathenau 1918: 32) and called for state-supervised occupational associations that would implement a semi-public 'supermonopoly' (Krause and Rudolph 1980: 344).

Mainstream economists of the time saw cartels as both modern and 'natural'. A standard economics textbook, written by Robert Liefmann in 1924, explained that cartels were

an inevitable result of our whole economic development, that they have become quite indispensable and that to suppress them, even if this were possible, would mean sacrificing the economic progress which we have seen them promote. (Liefmann 1924/2001: 210; see also Tschierschky 1928)

Eugen Schmalenbach (1928: 243–5), one of the founders of modern business economics, regarded cartels as the appropriate response to changes in the cost structure of industrial production.<sup>14</sup> 'If I saw any way to go back to the old free economy, I would certainly advise taking it', he wrote (Schmalenbach 1928: 246). Given the circumstances of the time,

however, he saw the cartelised economy as superior to competitive capitalism, despite its drawbacks and bureaucratic tendencies. Schmalenbach (1928: 249), like Kleinwächter (1883), believed that the economy would develop toward something akin to the guild system, with each business sector receiving its monopoly from the state in return for accepting certain obligations. 'Essentially, what are we experiencing other than the fulfilment of the predictions made by Marx, the great socialist?', he asked (Schmalenbach 1928: 242). Hans Wilhelm Ritschl (1928) set forth reasons why Germany found itself in the process of transformation from a highly capitalist to a 'late capitalist or early socialist' economy (cited in Smaldone 2000: 147). Werner Sombart (1932/1987: 401) saw large banks as 'predestined to become regulatory organs of the national economy charged with administering a credit policy that is rational from the view point of economic planning' (ibid.: 402). Like Joseph Schumpeter (1942/2003), Sombart associated late capitalism with a degree of routinisation and bureaucratisation that would weaken and eventually replace the capitalist spirit of private entrepreneurs. Moritz Julius Bonn, another leading economist and a member of the liberal German Democratic Party, wrote, in 1932, that organised capitalism uniquely suited the German people:

The peculiar social history of Germany has to some extent preordained that it would be a land of great organisational possibilities, not of great organisers... Only in Germany does the individual not lose interest in the initiative when he is being coerced and knows it. Quite the contrary: coercion releases broad sections of the population from any responsibility and gives them the opportunity to put all of their strengths into striving for the goals set by others. A uniquely strict, authoritative capitalism has resulted, in which order replaces freedom, monopoly appears more natural than free competition... and above all, many elements that anywhere else would be seen as elements of capitalism are missing. (Documented in Fleming *et al.* 1979: 356)

#### *Phase 4: Radical Reversal*

After World War II, the German Left adopted a radically different interpretation of organised capitalism. What they had previously considered the highest form of capitalism was now seen as a reactionary mutation. Economic democracy was suddenly thought to require not only nationalisation of core industries and worker co-determination, but capital disentanglement and an enforceable anti-cartel policy. This paradigm shift occurred before the West German Left dropped its commitment to nationalising the means of production in the late 1950s. The goal had

not changed, but cartels were no longer viewed as a promising path towards it.

The change of ideas and policy preferences resulted primarily from new beliefs regarding the political implications of organised capital. In 1945, Kurt Schumacher, the first post-war leader of the SPD, wrote of cartels, trusts and monopolies as

the very same capital that always opposed any social advancement of the masses, thus preventing necessary social redistribution, and . . . that finally handed Germany to Nazism and thus to its demise. (Documented in Flechtheim 1963: 9–13, quotation from p. 10)

At the 1946 party conference in Hannover, Victor Agartz (1947: 68–80) asserted that

Social Democracy has personally experienced fascism as the most dangerous manifestation of late capitalism . . . National Socialism was financed exclusively by industrial circles. Employers thereby built up and fostered a movement that, apart from pursuing purely imperialist goals externally, destroyed all social facilities and organisations of the labour force. This political movement has led not just Germany but all of Europe to the brink of the economic and cultural abyss.

Hans Böckler, the first chairman of the German Trade Union Federation (*Deutscher Gewerkschaftsbund* – DGB), insisted that

it must never again be allowed that economic concentration, translated into political power, destroys the structures of a democratic state, as happened to the German republic and its Weimar constitution. (*Deutscher Gewerkschaftsbund* 1949/1989: 202)

The reformist Marxist economist Karl Kühne wrote in 1954 that

[o]ligopoly . . . creates the conditions for an encroachment of the economic sphere upon the political sphere . . . [O]nly the influence of the large oligopolist enterprises on the state can explain why the state has all too frequently allowed itself to be degraded to stirrup holder of their creatures, the cartels . . . Far from effecting the transition to socialism, [cartels] turn out to be instruments for controlling the state on behalf of capitalist interests, and doing so far more directly and efficiently than was ever feasible for a bourgeois small firm sector splintered into thousands of atoms. (Kühne 1954: 524–5)

Beyond that, the economic implications of organised capitalism were also radically reassessed. The dominant revisionist view that cartels could

mitigate the anarchism of market capitalism had already begun to crumble in the early 1930s, when Fritz Naphtali, Franz Neumann, Adolph Löwe and others began to draw lessons from the Great Depression (see Kühne 1954: 530). Along the same lines, Schumacher wrote in 1945 that

[w]hen capitalism evolves from market capitalism to monopoly capitalism, it loses its automatic self-steering capacity. Industrial monopolies destroy the steering mechanism, and the rudderless ship of the economy drifts into an unforeseeable fate under the sign of massive unemployment and the destruction of economic value. The term 'economic anarchy' takes on its literal meaning under monopoly capitalism. (Documented in Flechtheim 1963: 9-13)

#### *Phase 5: Redirection to a New Purpose*

In phase 5, the embrace of competition policy also proved compatible with the post-war programmatic reorientation. Until 1959, the SPD had still called for the nationalisation of banks and main industries, and competition policy was seen as a means to this end. With the 1959 Godesberg programme, the SPD dropped the commitment to nationalisation. Liberal competition policy was now endorsed as an end in itself. Reflecting this conversion, the 1963 Düsseldorf Programme of the German Trade Union Association (DGB) stated that 'monopolies and cartels lead to the reduction and elimination of competition in the market economy. Competition law should therefore be made more effective' (1970: 22). This programmatic shift survived until the 1990s and the 2000s, as we have shown above. When corporate governance reappeared on the political agenda in the second half of the 1990s, the operative SPD party manifesto was the 1989 Berlin programme. It declared that

[e]conomic democracy can only develop on the foundation of a functioning competition policy, a breaking up of banks and large-scale enterprises and a strengthening of codetermination rights. [...] In order to roll back the influence of banks and insurance companies on basic economic decisions, we want to reduce their power over companies by breaking up capital ties. (SPD 1998: 46)

### **The Paradigm Shift in Historical Context**

What explains the paradigm shift documented above, and the gradual evolution of ideas before and after World War II? Variable-centred approaches cannot adequately answer this question because they neglect crucial aspects of time and space. A full rehearsal of the relevant context

factors is far beyond the scope of this article and is better left to historians (for excellent treatments, see e.g. Abelshauser 2004; Winkler 1984). Nevertheless, selected aspects are worth mentioning to illustrate that idiosyncratic events and experiences affect issue salience and thereby contribute to shaping policy preferences of actors confronted with multi-dimensional issue spaces.

Support for organised capitalism among the German Left climaxed at a time when organised capitalism was thought to promote labour interests in *political as well as in economic* terms. Advancements in social policy, employer pronouncements, and gains in political representation all contributed to the impression that, before capitalism could be broken, it could also be bent (as Naphtali wrote in 1928/1966: 19).

With regard to social policy, the Stinnes–Legien Pact of November 1918 represented a first major breakthrough. Signed during the revolutionary turmoil in the immediate aftermath of World War I, this pact between peak representatives of capital and labour provided for employer recognition of unions and their collective bargaining agreements, the introduction of works councils and the eight-hour working day, and the creation of a central working group (*Zentralarbeitsgemeinschaft*) of unions and employers (Feldman 1984: 100–127). Welfare state reforms between 1924 and 1929 restored and expanded on achievements of the revolutionary years that had been lost in the economic crisis of 1923 (Abelshauser 1989: 17f). They included the return of the eight-hour working day and the three-shift system for major industry, new laws on accident insurance, healthcare, and protection against dismissal. In October 1927, the Job Placement and Unemployment Insurance Act (*Gesetz über Arbeitsvermittlung und Arbeitslosenversicherung* – AVAVG), a milestone in the development of the welfare state, was passed by a large parliamentary majority. Trade unions and the SPD also began to look favourably upon state-brokered wage arbitration, which they had initially viewed with scepticism (Bähr 1989: 240–42; Mai 1987: 44f.; Winkler 2000: 440f.).<sup>15</sup> Clemens Nörpel, the ADGB's expert on labour law, reported in March 1929 that '[a]rbitration signifies the trade unions' influence on the state; it signifies the politicisation of wages' (cited in Bähr 1989: 241).

Conciliatory employer pronouncements provided further grounds for believing that organised capital could benefit labour politically. The parliamentary system of the Weimar Republic had initially encountered resistance from the National Association of German Industry (*Reichsverband der Deutschen Industrie* – RDI) and from the Confederation of German Employers' Associations (*Vereinigung der Deutschen Arbeitgeberverbände* – VDA) (Blaich 1987). The RDI had opposed the universal right to vote, and many of its members had wanted to bring back the authoritarian-patriarchal governance structures of the German Empire. During the mid-1920s, however, there were signs of change. In 1926, Paul Silverberg, deputy chairman of the RDI, declared that employers had shed their once



firmly-held antidemocratic views and were now ‘unanimously backing the state’ (Michaelis and Schraepfer 1960: 165). In the same much-discussed speech, he expressed the view that ‘government should include Social Democrats, whom the overwhelming majority of German workers regard as their political representatives’ (ibid.: 169). Hilferding (1926) took Silverberg’s statement as evidence that economic changes brought about by cartels were undermining employer resistance to workers’ demands. Using the example of IG Farben, a newly-founded cartel in the chemical industry, Hilferding explained that

[new production processes] ensure such extraordinary excess profits that the wage level loses all significance and uninterrupted production becomes far more important . . . The attitude toward workers’ organisations is [therefore] different and more inclined toward compromise.

Moreover, for party and trade union officials, opportunism may also have contributed to the success of Hilferding’s paradigm. As Leontiev (1929: 680) remarked in his critique of organised capitalism:

Once [the SPD and trade union officials] are admitted as components of the bourgeois machinery of the ruling class, they tend to confuse their inclusion into the capitalist apparatus with the transition from capitalism to socialism.

None of these grounds for a positive assessment of organised capitalism survived the collapse of the Weimar Republic. Political inclusion of the labour movement? The Nazi dictatorship had crushed the party and trade union organisations. Officials had been exiled, imprisoned, or sent to concentration camps. The end of business cycles? The economic crisis that began in 1929 falsified predictions of a smooth, crisis-free transition to socialism. More ‘civilised’ employer attitudes? The hopes stirred by Silverberg’s speech were shattered in 1928, when the employer associations, displeased about the SPD’s strong electoral performance in parliamentary elections, returned to confrontation. By organising a lockout of no fewer than 200,000 workers, they forced the government to reverse an arbitral verdict in a wage dispute concerning the iron and steel industries (Bähr 1989: 250–74).

But the above disappointments were of minor significance compared to the painful disillusion regarding the relationship between organised capitalism and economic democracy. In 1926, Hilferding (1926: 293) had still rejoiced that ‘[t]he utopia . . . that trade unions and Social Democrats could be destroyed is no more . . . The economic foundations of German nationalist policy have been ultimately removed’. The collapse of the Weimar Republic proved the opposite, at least in the eyes of German labour leaders. For them, organised capitalism had brought not economic

democracy, but fascism, and with it the authoritarian version of Pollock's state capitalism (1941/1975). The extent to which private enterprise did indeed contribute to the rise of the Nazi dictatorship has been controversially discussed among historians (e.g. Czichon 1970; Hallgarten and Radkau 1974: 196–8; Kuczynski 1966: 120f.; Turner 1972, 1974). In the labour movement, however, few questioned the historical guilt of the 'class enemy'.

Beside the experience of Nazi terror, other aspects of the historical context also contributed to the change of ideas in the early post-war period. Left-leaning intellectuals returning from exile faced a divided Germany and the new ideological front-lines of the Cold War. Many of those who chose to settle in the Western zones maintained close ties to non-Marxist socialist organisations in Scandinavia and the US (including, most notably, the American Federation of Labor and Congress of Industrial Organizations, AFL–CIO), thereby importing liberal and Keynesian economic ideas (Abelshauser 2004: 101). In the 1950s, electoral imperatives also played a role. The 'economic miracle' associated with the ordoliberal policies of the conservative Ludwig Erhard was popular with voters and forced the SPD to adjust its programme or risk political marginalisation. Karl Schiller, who would later serve as economics minister in Kiesinger's Grand Coalition government, was a key figure in promoting this change. As he explained in 1954,

The strongest and most violent impulses have come not from theory and ideology, but from society: the sinister and cruel experiments of totalitarian socialist systems in the recent past and present are exposing the dangers of an attitude that is motivated solely by 'power grabbing' [*Machtergreifung*], and that, through limitless execution of a few seemingly sensible dogmas, wants to impose societal change by way of command. This totalitarian attitude forced the western socialists to reappraise the value of freedom. (Schiller 1964: 18)

The citizen of today does not yearn for the roaring noise of revolutionary overthrow, but for the tangible results of solid day-to-day politics: The era of the great utopias is over. We live in an age of disillusionment. The people do not want to know what the distant future holds in store for them. Instead, they want practical improvements of their lives today and tomorrow, without the risk of a dangerous social experiment. (Ibid.: 34)

Likewise, the SPD-led corporate governance reforms of the 1990s and the 2000s owe as much to context as to ideological tradition. The privatisation of Deutsche Telecom in 1995 temporarily increased the number of small shareholders, several high-profile corporate scandals raised awareness of corporate governance issues, and the European Commission was pushing

for company law harmonisation as part of its effort to complete the Single European Market. By promoting shareholder-oriented reforms, the SPD could tap into a long-standing tradition of hostility toward 'big banks' and industrial cross-ownership networks while simultaneously casting itself as a modern, business-friendly party along the lines of Britain's New Labour (Cioffi 2002; Ziegler 2000).

The significance of historical context further underscores our argument that party positions cannot reliably be deduced from abstract theories regarding the material interests of pressure groups or voters.

### **Conclusion**

In sum, our article promotes a view of 'politics as a process structured in space and time' (Hall 2011) and thereby contributes to rethinking the ontological foundations of mainstream political science. Two elements of the approach are worth highlighting. First, in line with recent constructivist work (see Abdelal *et al.* 2010; Campbell 2002) we show that the policy preferences reflected in party positions cannot simply be read off the material environment. The multiple effects of every possible political position make the formation of a consistent attitude a non-trivial, complicated matter (see Hall 2005: 235–137; Wildavsky 1987: 5–8). On the one hand, the concentration of production in cartels can be thought of as representing a more civilised, less anarchical variety of capitalism, in which companies are subject to the 'deliberate influence of society' (Hilferding 1927/1982: 218). On the other hand, it may have disastrous power-political consequences. The market power of cartels is equally difficult to assess. On the one hand, it can be seen as a means of 'avoiding potential excess production' (Kleinwächter 1883: 126–7) and thus aiding economic planning. On the other hand, monopoly prices are detrimental to consumers. Faced with a multidimensional issue space, SPD and trade unions struggled to formulate appropriate responses until halfway through the Weimar Republic. Similar struggles are likely to ensue in future. Just like their predecessors in the Kaiser Reich and the Weimar Republic, today's Social Democrats represent voters in their roles as consumers, employees, political citizens, and, not least, even as shareholders, and the recent financial crisis has demonstrated once again that the consequences of economic governance structures are difficult to predict. Of the many different ways in which ideas may influence politics under such conditions, our case study highlights their role in providing a 'prism through which policy-makers [see] the economy as well as their own role within it' (Hall 1993: 280).

Second, in a further departure from materialist, variable-centred approaches, we emphasise the importance of context effects. The SPD faced different challenges in the 1920s and in the 1950s. The collapse of Weimar, Nazi terror, war, emigration, occupation, and the division of

Germany all affected the composition, outlook, and priorities of the party leadership. The point may seem trivial in our case because World War II is as stark a critical juncture as one can imagine. It is worth stressing nevertheless, because it pertains to the study of party politics across countries and time periods. The overall, long-term pattern we describe conforms well to Hall's general description of 'history as a syncopated process' that is not well explained by reference to a few structural factors (Hall 2011: 21, 33).

Beyond offering mere confirmation that critical junctures punctuate periods of relative stability, our case study shows that the cognitive framework in question evolved gradually in a step-wise process that is potentially generalisable. We discern five distinct phases. In phase 1, the previously unknown phenomenon of organised capitalism triggered a gradual, tentative development of theories regarding the likely consequences of competition policy. In phase 2, competing groups struggled to impose their views. The 'revisionist' and 'orthodox' factions of the German Left offered competing prisms even though they agreed both on the goals of policy (socialism) and on some of the instruments (abstention from competition policy): one saw organised capitalism as a step in the crisis-free transition to socialism, while the other welcomed it as a means of intensifying the class struggle that would lead to socialist revolution. In phase 3, the revisionist view seemed to have 'locked in' (Pierson 2000). In phase 4, the experience of Nazi terror was so shockingly incompatible with existing beliefs that a paradigm shift took place. In rejection of both the revisionist and the orthodox world views, it was now believed that organised capitalism might not lead to socialism at all. The paradigm that took hold in the immediate post-war years went even further, by depicting it as counterproductive. This was achieved through a shift of emphasis from the economic to the political consequences of concentrated ownership. In phase 5, another, more subtle change took place that might be labelled as conversion. Competition policy was no longer seen as a means to the end of socialism, but as an end itself.

By tracing the gradual evolution of ideas, our article displays several points of tangency with recent work on institutional change (see Thelen and Mahoney 2010; Streeck 2009; Streeck and Thelen 2005). First, we show that cognitive frameworks, like formal institutions, do not fall from the sky but are continuously contested and can be redirected to new purposes. Just like institutions, programmatic ideas may – in rare situations – change abruptly, as the German leftist post-war ideological shift has shown. But this is an exception to the rule. Usually, ideational change occurs in small, cumulative steps over long historical periods. Second, we explore how ideas causally contribute to a change in preferences regarding institutions (including the formal rules governing competition policy, and the more informal structures of corporate cross-ownership). Other recent efforts to identify the causes of gradual institutional change (e.g. Thelen and Mahoney 2010) have sought to

bring agency back into the analysis but still mostly assume that ‘change agents’ respond mainly to material incentives.

Regarding the survival prospects of coherent, competitive non-liberal forms of capitalism, our findings provide grounds for hope as well as despair. The bad news, for admirers of the ‘German model’, is that political parties do not base their policy preferences on theories of institutional complementarity offered by the literature on production regimes. Whether certain combinations of rules regarding corporate governance and labour relations do indeed contribute to superior economic performance is subject to debate. But even if it were universally accepted, political support for these rules could not be taken for granted, because economic efficiency is not the only criterion that matters in the political arena. Previous critics of the functionalism implicit in Hall and Soskice (2001) have made this point abstractly (e.g. Callaghan 2010; Howell 2003; Pontusson 2005; Streeck 2011). Our article provides empirical evidence.

The good news is that social learning does take place. The recent financial crisis has provided ample reason for a new look at the benefits and drawbacks of organised capitalism. Are left-of-centre parties in Germany and elsewhere about to reassess their liberal attitude towards corporate governance and competition policy, perhaps by rediscovering the ideas developed by Hilferding and others some 80 years ago? So far, there is no clear sign of this happening, but the historical evidence related above shows that people learn through experience and can change their minds.

## Notes

1. Our use of the term organised capitalism refers exclusively to organisation *on the capital side*, at the intersection of competition policy and corporate governance. The term was first used by Rudolf Hilferding (1927/1982: 218), who defined organised capitalism as an economic system in which the principle of capitalist competition was replaced by the principle of planned production, mainly through cartelisation and the power of banks (cf. also Hilferding 1909/2006). Note that by using the term we do *not* refer to organisation on the labour side (trade unions, employees’ co-determination, etc.) or the welfare state.
2. In the Varieties of Capitalism literature, the German brand of non-liberal capitalism is labelled as coordinated, to highlight the degree to which institutions support strategic coordination between firms (see Hall and Soskice 2001). By using the label ‘organised’, we highlight a different dimension to the competition-restricting structural features of non-liberal capitalism, namely the status of firms in society, i.e. the extent to which collective interests beyond the firm level interfere with firm-level maximisation strategies (see Höpner 2007b).
3. We have used English translations of books and documents wherever available. Where German sources are quoted, the translations are our own.
4. The Federation of German Trade Unions (*Deutscher Gewerkschaftsbund*) voiced similar demands at its founding conference in Munich (Leminsky and Otto 1974: 248; regarding the SPD: Huster 1978: 189–71).
5. The Christian Social Union (Christlich-Soziale Union, CSU) is the Bavarian sister of the CDU.

6. A spokesman for the peak industrialists' federation (*Bundesverband der Deutschen Industrie*) saw the law as turning Germany 'from a social market economy to a socialist Marx economy' (quoted in *Spiegel*, 2 November 1977: 58).
7. Hans-Martin Bury, SPD, in the parliamentary debate on 3 May 1998.
8. Minutes of a debate in the Reichstag on 3 May 1908; quoted is Dr Mayer (Zentrum), who introduced the resolution.
9. After the end of the Founders' Crisis, Marx had only four years to observe the process of capital organisation from his London exile.
10. For example, Engels wrote of the cartels that they represented 'the second and third degree of stock companies' (Engels in Marx 1894/1974: 437).
11. From the beginning, the German joint-stock company sought to limit the influence of its shareholders, granting only weak control rights to the shareholders, by contrast to those granted to the board of directors.
12. Whereas the debate had hitherto centred on cartels, Hilferding described the interconnected aspects of capitalist organisation, including the joint-stock company, the cartel system, and the banks.
13. The Marxist Left within the SPD acquiesced (Könke 1987: 110–12), though Soviet critics such as Leontiev (1929) and Bucharin (see Smaldone 2000: 145) continued to advance the orthodox view.
14. Specifically, Schmalenbach (1928) argued that a rise in fixed costs relative to marginal costs due to increasing capital intensity meant that a decrease in the volume of production was no longer the appropriate response to a decline in productivity, because it would not result in significant cost savings.
15. State-brokered arbitration and its universally binding nature had been introduced via the demobilisation regulations of January 1919 and entered into the arbitration code of 1923.

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