The Political Economy of Finance in Germany

Actors, Coalitions, Institutions, and Power in Times of Global Financial Integration

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Abstract

The dramatic growth of global financial markets in recent decades has unleashed common pressures on diverse political economies with deep repercussions for the coherence of national financial systems. These dynamics are particularly pronounced in Germany, where a rise in actor plurality and competing interests within the financial sector has put the cohesion of domestic institutions into peril.

To this date, comparative political economy often considers financial sectors homogenous, well organised, and powerful, while the importance of actor plurality and sectoral infighting for policymaking processes tends to go unheeded.

In this dissertation, I challenge this common notion and explore how the pressures of global financial integration are mediated politically and filtered through existing institutions in Germany by the actors operating under them. In three papers I use a range of qualitative methods as well as network analysis and process tracing to investigate the pressures that global financial integration entails, the political conflicts it creates between dominant actors, and when and how the political resolution of these conflicts leads to institutional reform. I argue that financial integration is not an inexorable process, but deeply political with profound distributional implications. In this context, the political power of financial actors is contingent on the successful formation of coalitions with other producer groups, as well as on the alignment of interests with the electoral agendas of political decision makers.

Putting the focus on actors as the bearers of institutional logics, this dissertation concludes that the viability of a capitalist model depends not simply on the effective exploitation of institutional complementarities, but on its political capacity to mediate conflict between dominant actors should complementarities begin to unravel. It contributes to debates in comparative political economy by demonstrating the relevance of coalition building for the political power of financial actors, and by investigating the logics, strategies, and objectives of international asset managers, and the degree of their dominance over domestic models of capitalism.

Declaration

I certify that the thesis I have presented for examination for the PhD degree of the London School of Economics and Political Science is solely my own work.

I declare that my thesis consists of approximately **58,825** words.

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List of Abbreviations

AG	Aktiengesellschaft
BaFin	German Federal Financial Supervisory Authority
BAWe	Bundesaufsichtsamt für den Wertpapierhandel
BDA	Bund Deutscher Arbeitgeber
BDI	Federation of German Industries
BNP	Banque Nationale de Paris
CDO	Collateralised debt obligation
CDU	Christian Democratic Union of Germany
CEO	Chief Executive Officer
CME	Coordinated market economy
CPE	Comparative political economy
DAX	Deutscher Aktienindex
DGB	German Trade Union Confederation
DSW	Deutsche Schutzvereinigung für Wertbesitz
EMU	European Monetary Union
EPA	Environmental Protection Agency
ESG	Environmental, Social, Governance criteria
ETF	Exchange traded fund
FDI	Foreign direct investment
FREP	Financial Reporting Enforcement Panel
GCGC	German Corporate Governance Code
GDP	Gross domestic product
GFC	Global Financial Crisis
IPE	International political economy
KonTraG	Gesetz zur Kontrolle und Transparenz im Unternehmensbereich
LME	Liberal market economy
M&A	Merger and acquisition
MBS	Mortgage-backed securities
MNC	Multi-national corporation
NFC	Non-financial corporation
QCA	Qualitative content analysis
REER	Real effective exchange rate
SEC	American Securities and Exchange Commission
SME	Small and medium-sized business
SPD	Social Democratic Party of Germany
VoC	Varieties of Capitalism
WpÜG	Wertpapiererwerbs- und Übernahmegesetz

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One of the more awkward questions a PhD student can be asked is “What do you do all day?”—“Well”, I would sometimes answer in lack of a more creative response, “you know… write, do research, those things…”. I now think that it is no wonder PhD students are often thought to live an eremitic life. But that couldn't be any further away from reality. In fact, it wouldn't have needed a global pandemic with its lockdowns and social distancing measures to make palpable what was clear all along: Writing a PhD is a profoundly social endeavour. It requires colleagues, friends, like-minded thinkers and critics, interview partners, and thought leaders to shape and bring to paper what is in the end, and in the best case, then, considered an innovative argument. I consider myself most fortunate for having had the support from all the above. My gratitude goes out to too many to name them all, but especially to those who follow.

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Für Fritzi

1

Introduction

1.1 Ambiguity and change in Germany's financial model

In January 2017, when Donald Trump was inaugurated as the 45th president of the United States of America, few observers expected that his tumultuous presidency would also shine a new light on the state of the German financial system. But as prosecutors, regulators, and democratic lawmakers began to develop an interest in the President's personal finances, attention soon fell on his most important "lender of last resort": Deutsche Bank. As it turned out, Germany's largest bank had lent Trump more than 2 billion US dollars over the course of two decades towards the development of his myriad—and often unprofitable—real estate investments, when the "default-prone" commander-in-chief "was no longer able to get loans from most mainstream financial institutions" (Enrich 2020a). This "special relationship" with Deutsche Bank, as he would call it, went well-beyond extending simple loans. Deutsche Bank fabricated complex financial instruments that would allow Trump to engage in risky investments without providing sufficient equity. Deutsche Bank's managers made introductions to wealthy private investors, often Russian, who were eager to buy his real estate. They packaged and sold more than 400 million US dollars' worth of junk bonds off his failing casino projects to clients, and they helped shield his finances from the public eye in the aftermath (*ibid.*; Enrich 2020b).

This is just one of countless stories showing Deutsche Bank's transition from provincial house bank to world-renowned financial troublemaker. If there ever was a report on a prominent financial scandal in the last 15 years, one could be almost dead certain it would feature Deutsche Bank; be it for selling toxic synthetic subprime products in the run-up to the US financial crisis, “manipulating international currency markets; playing a central role in rigging a crucial benchmark interest rate known as Libor; whisking billions of dollars in and out of Iran, Syria, Myanmar and other countries in violation of sanctions; laundering billions of dollars on behalf of Russian oligarchs, among many others; and misleading customers, investors and American, German and British regulators” (Enrich 2020a). In its attempts to be recognised as global financial powerhouse, Deutsche Bank developed a stark reputation for engaging in the riskiest of financial deals, which eventually led it to be labelled “the most important net contributor to systemic risks” by the International Monetary Fund (2016).

The curious trajectory of Deutsche Bank is emblematic of the ambiguity that has characterised the German financial system during the last three decades. Above all, Germany’s steadfast integration in the global financial system since the turn of the millennium has increased the plurality of national and international actors in the domestic financial sector and corporate governance system with myriad interest groups and factions of capital competing for economic and political dominance. A mere twenty years ago, leading political economy scholars worried that this type of deep financial integration “could be the string that unravels coordinated market economies” such as Germany’s (Hall and Soskice 2001: 69). In practice, these existential concerns did not materialise: While the German financial system did change in fundamental and undeniable ways, its political economy did not disintegrate and converge on a liberal trajectory altogether. This thesis investigates these changes in the German model of finance and explores how financial and non-financial actors—*as the actual bearers of social change*—interact with institutions to redesign the system when necessary and shield it from more radical change where possible.

Ambiguity is usually not the first term that comes to mind when pondering the German model. On the contrary, political economists often portray Europe's largest economy as an exceptionally stable case where things tend to stay as they are, even when faced with formidable challenges. Considering the prominence of high-end manufacturing, the grandeur of the car industry, the plethora of "hidden champions" still mostly in German families' hands, or the relative ease by which it managed the Global Financial Crisis and the Covid-19 pandemic, this tale seems not entirely unfounded. But fixation on what works in the German model can obscure the view at other sectors of the political economy where frictions are the norm rather than the exception. The dominance of the export sector also signifies that the German model of capitalism is heavily unbalanced and to sustain its international competitiveness requires unconventional, and at times even counterintuitive, macroeconomic policy (Höpner 2019).

These ambiguities become perhaps nowhere more apparent than in the financial sector. On the one hand, the financial sector—and foreign capital, in particular—need to be kept at bay to ensure the competitiveness of German export goods. Macroeconomists measure competitiveness by the real effective exchange rate (REER), which describes the value of a country's currency in relation to that of a trading partner. A competitive REER requires, above all, restrained household consumption and wage moderation (Höpner 2019; Jacoby 2020). Large financial sectors can hamper export-led growth because the extension of credit to households has a direct positive effect on domestic consumption. Also, household credit is most often used to finance mortgages which means that bank lending correlates with increasing house prices. Indirectly, this can affect the ability and willingness of unions to moderate wages in an effort to guarantee their members continued access to homeownership (Baccaro and Höpner 2022; Johnston *et al.* 2021). Export competitiveness and unhinged domestic credit growth are therefore (at some point) mutually exclusive.

On the other hand, Germany's financial sector also plays a major role in sustaining the export-led model by pumping profits earned abroad out of the country (Klein and Pettis 2020). This is necessary "because the repatriation of capital would necessarily trigger an adjustment mechanism […] that would bring the current account back into balance" (Jones 2021: 429). Through these lenses, the success of Germany's export model depends as much on the financial sector as it does on the manufacturing sector. And the greater the profits of the latter, the heavier the "workload" for the former (Braun and Deeg 2020). Here, export competitiveness is reliant on finance.

As such, it becomes clear that the financial sector plays an ambiguous role in export-dominated economies such as Germany's. The suppression of credit restricts the domestic supply of assets and can eventually spur a profitability crisis for banks in home markets. At the same time, banks' role as capital pumps creates a tendency to internationalise the banking system, which exposes financial institutions to heightened international market risks (Braun and Deeg 2020; Jones 2021). Brought together, these dynamics create a paradoxical situation where a lack of domestic assets gradually undermines banks' business models at home, while the role of financial institutions as international investors grows (rather than shrinks) in tandem with the success of the exporting industry. This structural imbalance has important implications for actor dynamics in the German political economy. Indeed, it suggests that an entire sector may face structural disadvantages, despite playing a vital role in the overall operation of the model of capitalism.

Political economy scholarship has for a long time blended out the financial contradictions in the German model, because it was focused much more on the *structural* conditions of institutions than on the *actors* operating within them. As a result, a rich comparative political economy (CPE) literature continues to depict Germany as a timid case where institutional stability remains the norm (*cf.* Hall and Soskice 2001; Baccaro and Pontusson 2016). Despite profound changes to the international financial environment, the banking system stays firmly embedded in the social context of domestic institutions, which are themselves determined by the production logic of the export-manufacturing sector (Zysman 1983). Powerful institutional complementarities and path dependencies align agents' interests and preserve existing equilibria even in the face of disruptive external forces (Milgrom and Roberts 1992; Hall and Soskice 2001). With its analytical bias to see systems in equipoise, this view remains relatively insensitive to institutional ambiguity.

In contrast to this comparative political economy view stands a school embedded in the international political economy (IPE) literature. Here, global financial integration is typically considered a unitary process which is seen to lead to the convergence of distinct models of capitalism on a liberal, market-friendly trajectory (Strange 1998; Hardie *et al.* 2013). From this viewpoint, finance has the capacity to escape institutional constraints and regulatory efforts and evolves into an external, independent, and dominant vector of capitalist transformation. But here too, a lack of specific attention to factional conflict and interest group dynamics risks overplaying the ability of finance to dominate other sectors of the economy and to generate influence over policymaking. Throughout this introduction, I will employ the term "pluralist gap" to designate a relative lack of import paid to actors and factions of capital—and the implicit assumption of finance as a largely homogenous and internally conflict-free sector.

Building on these two key literatures, the main contention of this thesis rests on the idea that a political-economic system does not simply impose itself in a linear way. Instead, a political economic system is constituted by the strategies and decisions of *actors as the bearers of systemic logics* who find themselves in a constant struggle over institutional preservation and change. Whichever incentives and constraints structural forces produce, they still require—in a classical Gramscian way—a social bearer who is willing to put up a political fight over institutional change and its distributional consequences and engages in tactical manoeuvres with allies that can help leverage their position. Three thesis papers explore which particular combination of actors have brought about (or prevented) financial system change in Germany, as well as the political dynamics underlying coalition building. A deliberate focus on the interactions between financial and non-financial actors allows us to understand not simply *what*, but *who* shapes the financial system. Arguably, this becomes all the more critical in the context of a capitalist model so severely unbalanced as the German one. As mentioned above, it does not require much imagination to see that such a model creates structural disadvantages for certain actors and therefore fragilities that require political mediation to keep the political economy on course. What is the nature of these frictions? And how are ensuing conflicts resolved?

Three self-standing but complementary papers demonstrate both conceptually and empirically that finance in Germany has changed in many ways since the 2000s and explain how interest coalitions actively reorganise (or defend) institutional complementarities when established routines become endogenously untenable or challenged by exogenous pressures. Together, the papers make (at least) two main contributions: (1) They explore and theorise the internal logics[1] guiding various types of financial and non-financial actors and their choices in a constraining but also dynamic institutional environment. Thereby, they show the (increased) pluralism that characterises the German financial model since the Global Financial Crisis; (2) Empirically, they show how institutions and interest coalitions interact to mediate instabilities, and how the power of financial and non-financial groups becomes amplified (or weakened) in cross-sectoral coalitions. When the effects of international financial integration change the payoff calculations of key actors, to a point where the coalition becomes destabilised, they create favourable conditions for institutional change. However, as long as this is not the case, strongly aligned

[1] Following Jackson and Deeg (2008: 703), I understand 'logics' as comprising "the typical strategies, routine approaches to problems and shared decision rules that produce predictable patterns of behavior by actors within the system".

incumbent coalitions retain the ability to neutralise the political power of international financial challengers.

With its focus on actors and political entrepreneurship in the political economy, the broader message of this thesis is that the viability of a capitalist model depends not simply on the effective exploitation of institutional complementarities *per se*, but rather on its capacity to mediate conflict between dominant actors should complementarities begin to unravel (*cf.* Amable and Palombarini 2009: 129). The focus of political-economic analysis should therefore lie not so much on the persistence of a model's (economic) competitiveness, but rather on the politics underlying the realignment of complementarities and the model's ability to engage in capitalist reinvention when an established trajectory becomes increasingly impassable (Streeck and Thelen 2005). By transcending the intellectual division between IPE and CPE approaches, and by bringing in actors and interest groups as the actual bearers of social change, we can arrive at an improved understanding of the pressures that global financial integration entails in Germany, the political conflicts and tensions it creates, and when and how the resolution of these conflicts leads to institutional reform.

The remainder of the introduction will unpack this agenda step by step. The next section contrasts classical IPE and CPE literatures and their respective views on the dominance of finance in modern political economies. While early political economists were pessimistic about the social, political, and economic ramifications of finance, comparativists trusted that organised capitalism could integrate the financial sector in benign ways. Building on this genealogy, Section 1.3 explores a set of regulatory changes to the German financial model and relates them to a comeback of more pessimist views which consider the financial sector a structural, and essentially, inexorable force. In Section 1.4, I present my argument in more detail and provide brief outlines of my three thesis papers. Section 1.5 concludes this introduction.

1.2 From financial to organised capitalism (and back?): Tracing the genesis of the "pluralist gap"

The unconcerned observer of contemporary debates about financial dominance might easily get the impression that phenomena like "financialization", "too-big-to-fail banks" or "structural power of financial markets" are somehow parts of a distinctly novel development. But as it turns out, the question of what exactly constitutes finance capital and how it relates to other forms of industrial organisation has interested political economists since the very inception of the discipline. As this section will highlight, the development of modern capitalism since the industrial revolution and throughout the post-war "Golden Age of European growth" (Temin 2002) is characterised by constant tension between financial and non-financial interests, but also, by striking levels of coordination and cooperation.

I review and contrast two influential schools of thought and their respective views on the power of finance in modern capitalism: the more "optimistic" CPE school, which sees finance as firmly embedded—and therefore relatively constrained—in domestic institutional settings; and the perhaps more "pessimistic" IPE school, which considers finance an independent steamrolling force that will come to dominate diverse models of capitalism. My brief genealogy of the German financial model yields two insights. Firstly, I structure my literature review of the nature and power of finance around real-life policy changes in German financial regulation to show that the intellectual balance of power between the aforementioned schools shifts forth and back in lockstep with actual domestic and global developments. Specifically, I identify three distinct phases in the literature: early IPE views from the late 19th and early 20th century worried about the spectre of financial monopolisation (Section 2.1); the CPE school confident in the strength of organised capitalism (Section 2.2); and a modern IPE strand that discerns the convergence of diverse models of capitalism in light of global financial integration (Section 3.3).

Secondly, I argue that the pluralist gap—which is equally endemic to both schools—is a consequence of highly structuralist conceptions of sectoral dominance and class struggle which tend to blend out heterogeneity among actors and cleavages between factions of finance.

1.2.1 The "early pessimists" view: The spectre of finance capitalism

As with many historical reviews of political economy scholarship, mine begins with Karl Marx. Marx was among the earliest thinkers of modern finance capitalism. His conception of finance capital, which he developed in the third volume of *Das Kapital*, built the basis for many of the most influential contributions to follow. Starting with the market's general tendency to produce division of labour, Marx identifies finance capital in the formation of a distinct social group occupied with the "separation and monopolization of capital-money transactions" (Manigat 2020: 687; Marx 1894). Not only does this specialised class of merchants (money traders, or "usurers") obtain control over the money-capital cycle (monopolisation). It also fully autonomises the infrastructural activity of money circulation and carries out this function not just for the capitalist ruling class, but for society at large (Marx [1905] 2010: 535, cited in Manigat 2020). Thus, for Marx finance capital is both, the process and the outcome of a functional differentiation between different spheres of production that gives a particular type of corporations—banks and related financial institutions—autonomous control over the circulation of money-capital. This leads to the birth of the financial class.

The rise of an autonomous financial class and the commercial division of labour in modern capitalism naturally create producer group conflict and struggles over political power. Alas, for a long time, Marxist scholars did not pay too much attention to this relationship, if any at all. Reasons for this lack of interests are at least twofold. Firstly, Marxist scholars tended to regard financial concerns as exclusively bourgeois, meaning as a source of conflict between factions of the capital-bearing classes that largely transcends the (in their view much more important) relationship between capital and labour. Secondly, until the rise of global financial integration and the emergence of high-skilled knowledge-based service sectors during the last three or four decades, the distributional struggle between different factions of dominant capitalists did not seem to have much bearing on the general condition of the working class. As a result, the social implications of finance capital as functionally differentiated from other types of capitalist interests were met with relative disinterest (Manigat 2020).

It was Austrian economist Rudolf Hilferding, who first alerted us to the conflictual dynamics of finance capitalism. Hilferding drafted his classical study *Finance Capital* ([1910] 1981) on the links between large industrial conglomerates, commercial banks, and monopolies at the zenith of Germany's most powerful trusts. Notably, and in contrast to modern understandings of financialization as practice (*see* Epstein 2005), Hilferding saw it as a historical phase of capitalist development characterised by a particular hierarchy of social relations within the ruling class. To this end, he effectively overwrote the functional differentiation identified by Marx: "Finance capital signifies the *unification* of capital. The previously separate spheres of industrial, commercial, and bank capital are now brought under the common direction of high finance, in which the masters of industry and of the banks are united in a close personal association" (Hilferding [1910] 1981: 301, my emphasis). Upending the more or less equal placement of financial and industrial capital, Hilferding went on to develop his thesis on the dominance of finance over industrial manufacturing.

What is the root of financial dominance according to Hilferding? Since banks' prime objective and function lies in the monopolisation of the money cycle, they obtain a central position not just in the economy as a whole, but specifically within the capitalist classes as gatekeepers to financial investment (a notion famously reiterated by Schumpeter ([1934] 2012: 126). Banks can transform this central position into power over companies by making out loans to finance investments in fixed capital. Since such "obligation can now only be liquidated over a long period of time", banks' leverage over firms becomes institutionalised: "In this relationship the bank is the more powerful party. […] It is the bank's control of money capital which gives it a dominant position in its dealings with enterprises whose capital is tied up in production or in commodities" (Hilferding 1910: 95). Understanding financialization in this way as an inexorable process that transforms the social organisation of the dominant classes leads to an unavoidable conclusion: the future of capitalism will be drawn by finance.

Hilferding's dystopic prophecy was met with staunch support from revolutionary political Marxists like Lenin, who famously identified banks as "the principal nerve centres of the whole capitalist economic system" (Lenin [1917] 1964: 333). But his historicist account also faced stark and, at times, even polemical criticism for his implicit tendency to equate transitory phenomena of capitalist development with largely irreversible structural features (Sweezy 1946: 265-9). The validity of this objection is illustrated by more comparative studies that followed—for their part—under the impression of the high noon of Fordist mass production when the pendulum of capitalist power seemed to swing back in favour of industrial capital.

1.2.2 Dawn of the optimists: Organised capitalism in comparative perspective

Comparative political economy takes a decidedly different view of financial domination. Where industrial coordination prevails, and manufacturing firms and exports power economic growth, the financial sector is usually considered not more than a passive provider of credit and equity, almost epiphenomenal to the dominant industrial production apparatus. Germany constitutes a paradigmatic case of this type of "organised", or, "coordinated" market economy (Zysman 1983; Hall and Soskice 2001; Baccaro and Pontusson 2016).

Building on Hilferding, Fritz Naphtali (1928: 11, 21) described "organised capitalism" as the result of a transition from free competition between firms to the collection of business interests in "capitalist giant-organisations" (*Riesenorganisationen*). Similar to Hilferding's assessment, the main guiding principle of this new mode of economic organisation laid in acquiring durable monopoly power. However, in contrast to Hilferding, Naphtali did not presuppose the dominance of the financial sector but instead saw industrial firms as leading actors at the heart of this process.

The relationship between banks, industrial firms, and the state was the theme of Andrew Shonfield's (1965) seminal thesis of "modern capitalism". In this Fordist version of organised capitalism, public officials, labour unions and business organisations engage in close coordination to "keep demand constantly at a very high level" with manufacturing as the main source of economic growth (Shonfield 1965: 64). This form of politically organised capitalism did not result in dystopic capital concentration but actually in dazzling economic growth rates, stability, and smoothened business cycles. Financial firms were not considered dominators of markets and policy, but rather vehicles for economic planning. Germany constituted a paragon of this benign relationship. Indeed, Shonfield (1965: 262) saw German banks as "almost para-statal" actors and 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" (*cf.* Höpner 2007: 18). Industrial coordination, managed by the state, was not a functional outcome but "required political "skill and will"" (Schwartz and Tranøy 2019: 33). Only when political bargains were credible could they result in stable income distributions that gave workers and firms the confidence to invest as planned. Banks played a key role in underwriting the stability of the economic investment apparatus. Together, this created a positive reinforcing cycle in which collective agreements guaranteed additional growth and induced continued economic investment. In this sense, Shonfield's thesis of organised capitalism accepts the empirical premise of Hilferding's analysis, i.e., the contention that modern capitalism obtains a cartelised form. However, his conclusions are almost their mirror image: While financial actors did obtain a central role in economic planning, they did not subjugate other sectors, let alone, society more broadly. Instead, in a much more optimistic notion, they were embedded in coordination and planning processes and used as quasi-public entities towards broad-based economic growth and equitable distribution of income.

Building on Shonfield's macro-view, but applying a supply-side microeconomic perspective, the embeddedness of firms and workers in distinct institutional contexts is thoroughly theorised by the *Varieties of Capitalism* (VoC) school (Hall and Soskice 2001; Hancké *et al.* 2007). VoC distinguishes different models of capitalism with regards to the degrees to which politico-economic institutions support strategic coordination. This yields two (more or less stylised) worlds: liberal market economies (LMEs) in which market-based interaction prevails and relationships between economic actors remain merely arm's-length and governed by contracts; and organised, coordinated market economies (CMEs) characterised by strategic interaction and close coordination between business, labour, banks, and governments.

Each model is underwritten by organic interactions between mutually reinforcing sub-elements which create powerful "institutional complementarities" (Hall and Soskice 2001: 35-37; Jackson and Deeg 2008: 683; Milgrom and Roberts 1992). Institutional complementarities shape the expectations and interests of economic actors and, therefore, "produce not just outcomes but durable understandings of the social meaning of those outcomes" (Schwartz and Tranøy 2019: 44). The economic success of a particular model of capitalism hinges on the degree to which institutional cogwheels mesh without creating frictions. For instance, a highly deregulated hire-and-fire labour market regime will not correspond well with a production system in which firms specialise in diversified quality production and incremental innovation (Streeck 1991). Likewise, a production system geared towards radical innovation and price competition will not produce high levels of employment protection and investment in skill formation and vocational training. This does not mean that VoC sees one model of capitalism as superior to another. Rather, it is *internal* institutional mismatches and contradictions that can create frictions, undermine complementarities, and hamper economic efficiency.

VoC explores institutional complementarities in various spheres of the economy ranging from corporate governance systems to education and vocational training regimes, interfirm relations, and labour co-determination (Hall and Soskice 2001). For our purposes, the financial dimension and the role that banks and different types of credit play in comparative perspective are of particular importance. VoC's comparative analysis of national financial systems builds on the seminal work of John Zysman (1983). Zysman distinguishes three types: a capital market-based system with competitive markets; and a set of credit-based systems operated by the government through public ownership, or by private financial institutions that orchestrate credit flows in the economy. In the VoC framework, the financial system corresponds to the comparative advantages that firms command under a particular model of capitalism. In LMEs, capital market-based systems prevail as short-term "nervous" capital from competitive equity markets corresponds well with flexible production strategies and radical innovation. As a result, corporate ties between financial and non-financial firms are rather impersonal. Information on performance indicators and balance sheet criteria are publicly available and regulated by formal contracts.

In stark contrast, CMEs are characterised by close relationships between banks and industrial firms. Banks' main task lies in the provision of patient capital to firms that specialise in the production of high-quality goods (Deeg and Hardie 2016). Access to long-term capital allows firms to allocate resources to incremental innovation with payoffs that materialise only in the medium to long run. In addition, patient capital makes it possible to invest in specialised skills and to retain this knowledge even in the event of temporary economic downturns. As a result, inter-company relations are tight and informal to allow patient financiers access to rich "inside" information (Hall and Soskice 2001: 39). Different models of capitalism can thus be distinguished, for instance, by their degree of stock market development and investor protection (La Porta *et al.* 1999) or by the role that banks play and the degree of ownership concentration (Aguilera and Jackson 2003).

Staying true to the logic of institutional complementarities, financial investors will face stiff headwinds when trying to establish their business in an incompatible institutional environment. Patient capital and close relationships between financial and non-financial firms are not conducive to a highly flexible and radically innovative production regime. Likewise, return-fixated venture capital is incompatible with a long-term oriented time horizon and an organic growth agenda. In other words, the type of capital provision in a given model of capitalism is "contingent" on the rules of the game that govern underlying institutional complementarities (Goyer 2011). While finance constitutes an important institutional sphere, it is not given pride of place but remains an *incidental* element in the broader complementary framework. From this more "optimistic" comparative perspective, the production strategies of non-financial firms determine which type of capital can obtain a predominant role in a national model of capitalism.

Of course, critics of the *Varieties of Capitalism* may rightfully point out that in its original version, the framework has always had a tendency to conflate ideal types with real cases (Hay 2020). And yet, there can be no doubt that until the turn of the millennium Germany was *the* posterchild of a coordinated market economy. At the heart of German coordination was a tight network of interfirm relationships, so thoroughly interwoven that it was nicknamed *Germany, Inc.* (or, henceforth, *Deutschland AG*). Deutschland AG was based on reciprocal cross-shareholdings between Germany's largest firms which had been cultivated over the course of more than 100 years with a handful of big commercial banks and insurers—

Deutsche and Dresdner Bank, Allianz, and Münchener Rück—sitting at the centre.

These cross-shareholdings often came in blocks of 10 percent or more and created interlocking directorates that gave the managers of large companies, quite literally, seats at each other's table. Executives in the centre of the industrial network had the ability of "controlling economic and political processes far beyond the boundaries of their own companies" (Beyer and Höpner 2003: 183). Broadly shared competencies of corporate control created an almost cartel-like network which sheltered its members from shareholder pressures and hostile takeovers, allowed for extensive knowledge exchange on supervisory boards, "and distributed power among managers, employees, investors, regional authorities, suppliers, customers, creditors and co-operating companies" (*ibid.*: 179). At the same time, financial ties between corporations also meant that their economic fortunes were deeply intertwined. This reinforced mutual commitments and increased the costs of defection. For many decades, Deutschland AG represented the epitome of German coordination and served as an effective means to solve collective action problems.

Sitting at the centre of Deutschland AG, banks played a crucial role in underwriting the network. The German government regularly availed itself of banks and their shareholdings for micro- and macroeconomic stabilisation or as bulwarks against outside pressures. Germany's banking system is compartmentalised into three pillars: (1) A few large private commercial banks, (2) public savings banks constituted of regional *Landesbanken* and local primary savings banks (*Sparkassen*), and (3) a wide range of cooperatives. Before the onset of global financial integration, a more or less clear division of labour prevailed between these three pillars. Large private banks acted as so-called "house banks" (Ger. *Hausbanken*) to industrial firms providing them with credit and financial know-how. Savings banks, in contrast, are owned by the public and governed or supervised by elected officials. They are backed by the German state, are not guided by profit maximisation principles, and provide credit mainly to small and medium-sized enterprises (SMEs) as well as working- and middle-class citizens. Each *Sparkasse* is tied to a specific geographic region and formally barred from competing outside their own territory. It is an established fact in comparative political economy that savings banks play an important facilitating role in Germany's SME-centred model of capitalism (Cassell 2020).

As the other part of the savings banking pillar, the regional *Landesbanken* are owned by state governments. Unlike the smaller Sparkassen, the Landesbanken have never occupied an exclusive business niche and instead competed with the private banking sector in commercial and investment activities. Until a ruling by the European Commission, Landesbanken had benefited from public guarantees which allowed them to pass on privileged lending conditions to their clients. Lastly, under the third pillar, credit cooperatives are jointly owned by their associates, although their retail banking business is not limited to members (Detzer *et al.* 2017: 55-70; *cf.* Hackethal 2004; Mertens 2017; Cassell 2020).

The division of labour between the three banking types does not perfectly follow a functional pattern. All banks, whether public or private, engage both in deposit and credit business, as well as in financial services and securities (although the importance of individual business fields for different types of banks has shifted, of course, as ensuing sections will show). Instead, the market is compartmentalised mainly along geographical lines and in terms of client type and size of firms.

For a long time, Germany's quintessential coordinated market economy with its firmly embedded and compartmentalised banking system lent ample justification for CPE's optimistic stance regarding the social role and political power of finance. However, even though Deutschland AG was underwritten by reliable institutional complementarities, it was not a purely functionalist arrangement, but "to a considerable extent a product of politics" (Beyer and Höpner 2003: 190). As such, the arrangement was flexible and no less susceptible to defection than any other social system

(Hall 2007). When the international financial context began to change, Germany's cartelised financial system became contested. The following sections trace two fundamental shocks to the German financial model, the regulatory changes that ensued, and the related shift in political economy literature which brought more pessimist perspectives back into the limelight.

1.3 Whither financial system change in Germany? Two systemic shocks and the rise of modern IPE

The previous section grouped twentieth-century political economy literature on the question of financial dominance in Germany into optimistic and pessimistic camps. Although their conclusions appear to be fundamentally at odds with each other, the surge of global financial integration at the end of that century was universally considered a critical force with far-reaching consequences. Even the most optimistic VoC scholars had to admit that pathbreaking transformations in the financial realm portended destabilising effects in other spheres given the logic of institutional complementarities (Hall and Soskice 2001: 69). Despite general disagreements, the working hypothesis of both camps was therefore anything but incompatible: Global financial integration will likely disrupt domestic institutional equilibria.

Against this backdrop, this section takes stock of the extent of financial liberalisation in Germany during the last three decades. It argues that—in line with scholarly concerns—Germany has not been spared from international financialization pressures. On the contrary, we record deep transformation in important institutional domains such as interfirm relations and business lending. To gauge the scope of change, this section discusses two critical inflection points that transformed the German financial model in fundamental ways. The first inflection point consists in the wave of financialization in the late 1990s and early 2000s which led to the stepwise dissolution of the German corporate network. The second inflection relates to the Global Financial Crisis of 2008 which led to the demise of the *Landesbanken*, plunged large commercial banks into a deep identity crisis, and propelled the rise of American asset managers as the new universal owners in German equity markets. Each section is complemented with relevant empirical data. I then go on to show that these deep-cutting regulatory and institutional changes are reflected in the resurgence of a more recent IPE-inspired strand of literature which posits that financial integration in even the “least-likely” case of Germany suggests the inevitable convergence of diverse models of capitalism and, thus, their end as useful comparative heuristics.

1.3.1 The first shock: Liberalisation of *Finanzplatz Deutschland*

During the 1990s, Germany became the prime venue for a clash of two fundamentally opposed systems of capitalist organisation. As discussed, for most of the post-war era the Deutschland AG model had been stakeholder-centred with voice as the central mode of corporate governance intervention, and informal coordination, mutual protectionism, and patient capital as its guiding characteristics. But when the Anglo-American version of turbo-capitalism gained importance across the globe, Germany’s trademark financial model grew increasingly out of touch with what seemed to be the new globalised financial reality (Deeg 2005).

It was a mix of three more or less interrelated factors that drove the first wave of financial system change in Germany: (1) European integration in capital markets and finance, (2) consequential shifts in domestic party politics and electoral salience, and (3) endogenous political economic pressures that changed the dynamics in the domestic loan business and destabilised the existing institutional arrangement from within. While external pressures left no option but to implement substantial reforms, it was also the prospect of claiming a bigger slice of the global financial pie that enticed economic and political elites to challenge Germany’s institutional status quo. In combination, these factors placed a significant strain on the Deutschland AG model.

European financial integration

As early as 1985, the European Commission issued a White Paper outlining its plan for the completion of the internal market, which included key provisions for the free movement of financial products between member states. The principle of 'home country control' was introduced, which implied that the approval of a financial product in one country would automatically be valid in the entire European community. Home country control served as the basic norm for a series of pathbreaking regulatory measures that culminated in the creation of the European Monetary Union (EMU) and put Germany on a new path towards international financial integration (Deeg 2001): The Single European Act of 1986 which initiated the free movement of capital, the second banking directive which introduced a single passport for financial institutions, and the Investment Services Directive of 1993, which gave authorised institutions unrestricted access to trading on exchanges in other member states. Still, European financial integration did by no means follow an ineluctable and smooth trajectory. Where new regulations clashed with long-institutionalised practices, fierce interest group opposition slowed down the process. For instance, in Germany, anti-insider trading legislation—the value and importance of which, today, is taken for granted—met staunch resistance over fears it could dismantle Germany's informal supervision system (Detzer *et al.* 2017: 100).

Despite a fair amount of political grind and opposition, European financial integration gained pace in the 1990s. Germany's trademark division of labour in retail banking came under increased stress with the implementation of the Second Banking Directive in 1992 and ensuing regulations regarding capital requirements and solvency. These Directives integrated European retail banking and exposed Germany's cartelised financial system to greater competition. The aforementioned single passport, which allowed accredited financial institutions unimpeded access to German capital markets played an important role (Mertens 2017). All in all, regulatory streamlining and intensified competition led to increased short-termism and new accounting and transparency rules, a stronger focus on earnings performance and financial targets, and a functional differentiation into high yield and low yield activities as the harbingers of growing investment banking activities (Haipeter and Wagner 2007).

Party politics and electoral salience

Efforts to reform Germany's enclosed financial system were amplified and underwritten by seminal shifts in domestic party politics (Cioffi 2006). Towards the end of the 1990s, the German Social Democratic party (SPD) began to rally in favour of pro-shareholder corporate governance reforms against the prolonged resistance of the conservative and pro-business Christian democratic CDU. This sort of political realignment was highly puzzling, not least because the reforms implied the distributional shift of resources from (formerly protected) wage earners to (newly favoured) shareholders. In addition, opening up Deutschland AG's cartel-like bulwark increased the risk of hostile takeovers and exposed workers in formerly sheltered firms and markets to international competition. But as Cioffi and Höpner (2006: 477) convincingly explain, the SPD saw in their "Nixon goes to China" manoeuvre a "means to garner support from the most powerful segments of the financial sector, broaden its appeal to the middle class, and exploit tensions within the CDU's managerialist coalition, all while maintaining its working-class base". At a time when the public grew increasingly impatient with corporate financial scandals and structural malaise that were attributed to Germany's informal and non-transparent industrial structures, the government hoped that financial reforms could increase international competitiveness and strengthen domestic capital markets while at the same time constraining the power of the largest banks in the corporate network (Beyer and Höpner 2003; Streeck 2010a). In line with the latter point, the reforms also received support from labour unions. Although corporate governance reform undoubtedly implied risks, unions saw meaningful benefits in "preventing opportunism and shirking by managers" through a stronger focus on shareholder value (Cioffi and Höpner 2006: 477). Together, these dynamics "enabled new framing opportunities to absorb liberal and leftist discontents with the old paradigm of insider control in a cross-class coalition that made finance capitalism the dominant discourse by 1995" (Röper 2018: 367).

Endogenous pressures in the banking system

A mix of external pressures and internal political realignment stirred the efforts to shift the boundaries of the German financial model. Still, Germany already complied with many European regulations before they were formally implemented. The reforms were most consequential, and therefore contentious, in the area of corporate governance and interfirm relations. Here a third disruptive factor played an important role: endogenous pressures from far-reaching changes in business lending (Braun and Deeg 2020). The rise of international market-based banking created new opportunities for Germany's large non-financial firms, most of them in the export-manufacturing sector, to finance their operations.

The importance of equity and debt financing—the main pillars of capital provision under the Deutschland AG model—declined as non-financial corporations (NFCs) tapped into international capital markets for cheaper conditions. In addition, their independence from domestic banks grew ever further as steady surpluses from successful manufacturing exports washed large amounts of cash into their accounts. This allowed NFCs to finance large parts of their international investments out of their own pockets (Edwards and Fischer 1996; Deeg 1999). Bank lending to non-financial corporations became "a shrinking slice of a shrinking pie" (Braun and Deeg 2020: 368) and net interest income of big commercial banks plummeted from a peak at over 3 percent to only just over 1 percent between 1985 and 2000 (Bundesbank 2022: 156).

As the domestic credit business became less and less profitable, additional pull factors exacerbated the situation of large private banks. Internal conflicts grew when banks began to strengthen their financial services departments and role as financial intermediaries. Seats on supervisory boards and intimate relations with target firms infringed on their impartiality and inhibited a role as neutral arbiters. At the same time, banks also saw a great opportunity in expanding precisely this business as it allowed them to offload corporate risks from their balance sheets. A series of corporate crises in venerable firms such as Metallgesellschaft, Bremer Vulkan, and Holzmann had sucked in large banks as their main creditors and manifested this realisation in rather painful fashion.

It was therefore a combination of push and pull factors that forced a gradual withdrawal of large private banks from their role in the Deutschland AG network. In the face of these challenges, banks' initial reaction was to force business in domestic retail markets, especially around the early 1990s when German unification had suddenly increased the size of the market and the demand for retail banking. However, savings banks and cooperatives with their long-established ties to local businesses dominated these markets and restricted access. A much more lucrative option for large banks was to beef up their international investment banking units. However, a series of domestic reforms were needed to rebuild and liberalise German finance capitalism according to the new reality of market-based banking.

Financial reforms and structural change in German banking

It is important to note from the outset that these reforms were not externally imposed, but instead, the outcome of "deliberate governmental policy and [...] sustained party and interest groups politics" (Cioffi 2006: 549; a theme explored in detail in thesis paper 2). Their main goal consisted in strengthening Germany's international standing as a key financial centre in the heart of Europe; a venture, designated with the catchy nickname *Finanzplatz Deutschland*. While the initiative was formally launched only in 2003, a series of preceding domestic reforms led up to its inception, supported by a troika of financial sector lobby groups, the German Bundesbank, and the Federal Ministry of Finance (Detzer *et al.* 2017: 99).

A first line of reforms intended to broaden Germany's financial product market and improve supervision. In the mid-1980s, Anglo-American financial innovations were introduced "such as zero-coupon and floating rate notes, and interest and currency swaps in deutschmark" (Deeg 2001: 25). A few years later, the German stock exchange was turned into a joint-stock corporation (Deutsche Börse AG), and the Second Financial Market Promotion Act of 1994 established the *Federal Securities Supervisory Office* (Bundesaufsichtsamt für den Wertpapierhandel, or, BAWe), a federal authority commissioned to ensure the proper and lawful operation of German securities markets.

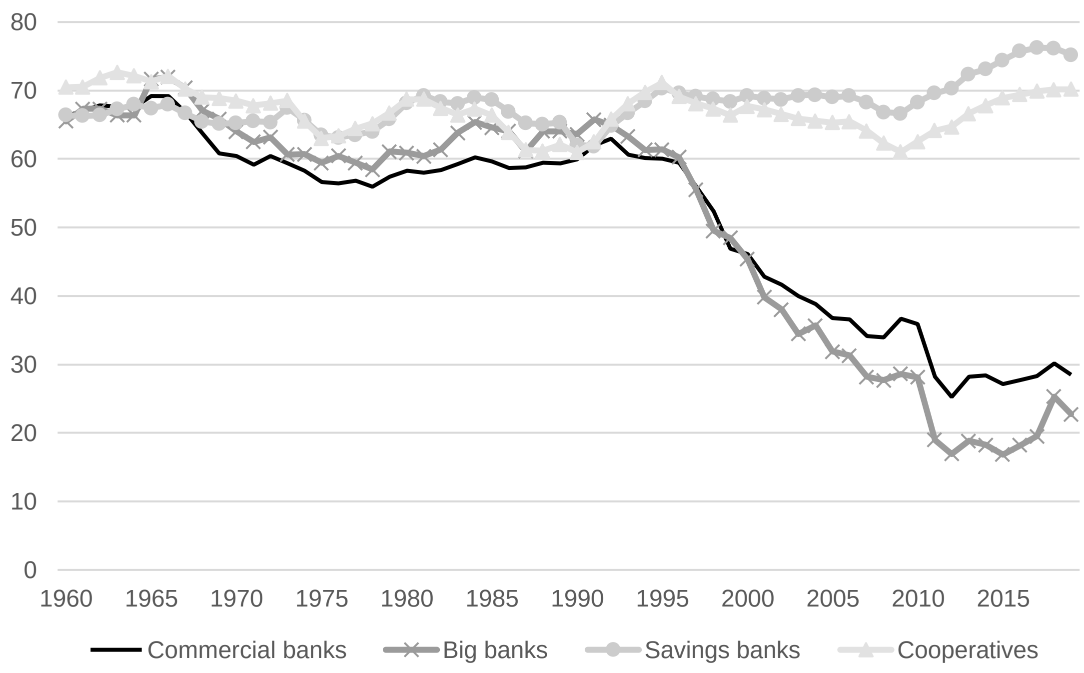
American accounting standards were introduced in 1998 in a move to open companies' books—quite literally—to foreign investors (Lütz 2000). Overall, the German financial system saw the most substantial reforms implemented in the run-up and soon after the election of the social-democratically led government in the same year (Cioffi and Höpner 2006). Two reform packages, in particular, put Germany on a new trajectory towards deeper international financial integration. The first was the *Law on Control and Transparency in Enterprises* (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich, or, KonTraG) which was implemented by Helmut Kohl's ultimate government but proposed by the SPD. It unravelled many of the informal rules, procedures, and structures that had underwritten Germany's organised post-war model of capitalism by restricting multiple voting rights and restraining the power of large block holders on company boards; measures that targeted private banks, predominantly (Clift 2014: 253). In addition, the KonTraG allowed managers to engage in share buy backs limited to 10 percent, a questionable measure frequently used in American financial markets to artificially boost the share price of a company in the short run. All in all, the KonTraG represented a decisive shift away from Germany's encapsulated version of organised corporate governance and towards a stronger and more international shareholder value orientation.

In the winter of 1999, the Schröder government complemented this law with another truly pathbreaking reform by abolishing the capital gains tax on the sale of corporate cross-shareholdings (*see* Paper 2). This reform removed the most important barrier to corporate divestment and eliminated one, if not *the*, main formal tenet of Deutschland AG. In combination with the KonTraG—and accompanied by the *Securities Acquisition and Takeover Act* (Wertpapiererwerbs- und Übernahmegesetz, or WpÜG) in 2001, which "limited anti-takeover defenses to a surprising degree" (Cioffi and Höpner 2006: 479)—these reforms reduced the insulation of insiders, weakened the bulwark qualities of Germany's corporate network, and increased the risk of hostile takeovers and the focus on shareholder value and short-termism.

The consequences of liberalising reforms could be felt immediately––an infallible sign that institutional change had long been on the agenda of some key actors. Unsurprisingly, the changes concerned mostly Germany's large private banks that had grown increasingly uncomfortable with their constraining role in Deutschland AG. However, since banks constituted a central cogwheel in German's coordinated model of capitalism, concerns among observers mounted about the sustainability and future of the organised model (Hackethal *et al*. 2005).

The harbingers of institutional change were most notable in shifting interfirm relations and in the changing business model of large private banks. Although divestment had begun in the early 1990s, the capital gains tax reform allowed for a rapid dissolution of the Deutschland AG network. Cross-shareholdings were radically reduced and seats on supervisory boards forfeited. The tenure of CEOs in large firms was also shortened (Beyer 2006: 127; Freye 2007: 65). A rising share of high-level personnel's terminations were conflictual and required legal resolution (Streeck 2010a). Together, these indicators suggest a higher degree of insecurity, conflict, and fragility after the dissolution of informal interfirm relations.

Figure 1.1 Loans to domestic non-banks (NFCs) relative to balance sheet size by type of bank (in %), 1960–2019



Source: Bundesbank, own calculations. “Commercial banks” also include “Big Banks” and regional commercial banks; annual data refer to June and December averages (*cf.* Röper 2018: 371).

Big private banks used their newly won freedom to adapt their business model. As Figure 1.1 highlights, large and smaller commercial banks began to drastically move away from traditional credit business to non-financial firms during the 1990s. Savings banks and cooperatives, on the other hand, continued to fare well in the loans and credit business and even obtained parts of big banks’ domestic customer base in the aftermath. As a result of liberalising reforms, banks’ business models began to diverge (Deeg 2005).

To conclude, the first shock to Germany’s organised model of capitalism resulted from a potent mix of internal and external pressures. These in turn triggered the rapid and thorough internationalisation of commercial banks, and, as we will see in the next section, regional

Landesbanken. Taken together, the first wave of financial market liberalisation in the 1990s and early 2000s was a decisive step towards a new era of German finance—one that seemed to begin quite rosy, but soon turned into disaster. As the next section argues, liberalising reforms amplified risk-taking and prepared the way for the global financial crisis. In other words, the effects of the two systemic shocks—the first wave of liberalisation and the financial crisis of 2008—ought to be understood in conjunction rather than separately. While the first wave of liberalisation set the stage for profound institutional change, the shock of the global financial crisis reshuffled the actor network and increased diversity within the financial sector.

1.3.2 The second shock: Global Financial Crisis and the rise of new challengers

Large banks were cheerful and optimistic when liberalising reforms freed them from their growingly uncomfortable role in the *Deutschland AG* network. Hoping for a taste of the lavish life enjoyed by American bankers, they began to wholeheartedly engage in what promised to be much more profitable investment banking. Political elites likewise were sanguine, having finally created fertile ground for a truly global German bank; a role predestined for Deutsche. No wonder that the financial crisis which ensued only a few years later came as a literal shock. As crises have it, it provided a harsh reality check for all actors involved and laid bare not just the severe vulnerability of German financial institutions in international markets, but also their active role in jeopardous financial investments.

This sub-section establishes the link between liberalisation efforts around the millennium and the role of German banks in the Global Financial Crisis (GCF) of 2008. In a nutshell, financial liberalisation (preventable or not) prepared the way for the GFC and dragged the German financial system deep into it, although it was not an epicentre of the crisis in the first place (Hellwig 2018). Structural deficiencies, competitive disadvantages, and supervisory negligence exposed German banks to severe financial market risk and made them extremely vulnerable to global financial fallouts, especially Landesbanken and big banks. In turn, the disintegration of Germany's bank-based network and the troubles of many financial institutions during the crisis created a window of opportunity for international competitors and increased actor plurality in the financial sector.

Arguably, no bank type suffered more catastrophic losses than the Landesbanken. Being state-owned, they had always been protected by powerful political networks. Until the early 2000s, Landesbanken enjoyed state-backed guarantees which automatically endowed them with AAA ratings. These ratings allowed Landesbanken to refinance themselves at radically reduces interest rates in capital markets and gave them a strong competitive advantage vis-à-vis other financial institutions (Smith 2001; Grossman 2006). Unsurprisingly, private banks saw in this guarantee an unjustified privilege and lobbied the European Commission to break the powerful political-public-financial cartel on the back of the EU internal market project (Seikel 2014; 2017). In 2001, and after a few years of staunch resistance to reform and liberalisation of its public banking pillar, it became clear to German policymakers that the state guarantees for its Landesbanken were a lost cause. Since Landesbankens' entire business model rested on refunding advantages and fresh capital injections that frequently came from states, the consequences of the reforms proved catastrophic. Their ratings plummeted close to non-investment grade as soon as guarantees were revoked (Seikel 2017: 170).

Nonetheless, Landesbanken managed to muddle through for some time. They used a transition period granted by European regulators to hoard as much cheap capital as possible before their guarantees expired indefinitely. At the same time, they expanded their international lending business by targeting foreign non-banks. Lending from Landesbanken to foreign non-banks as share of total lending to non-banks exploded from just over 10 percent in 2000 to almost 35 percent in 2008 (Röper 2018:

371). But this alone did not provide sufficient compensation. Landesbanken had to find alternative investment opportunities to place the large sums of surplus capital they had taken up during the transition period and eventually saw no other option "but to channel the surplus capital into the credit substitute business such as subprime products and CDOs (collateral debts obligations [sic])" (Seikel 2017: 170). This questionable high-risk strategy pushed the demand for mortgage-backed securities (MBS) and collateralised debt obligations (CDO), and massively backfired when American subprime markets began to falter (Fischer *et al*. 2014).[2] In the course of the GFC, Landesbanken required public bailouts exceeding €40.3bn, and many were broken up and dismantled with WestLB being the most prominent example (Reuters 2013; Finanzwende 2019). Landesbanken liberalisation ended in financial disaster (Trampusch *et al*. 2014).

Big private banks treaded a slightly different trajectory and yet ended up in a similar position of financial calamity. To beef up their investment banking divisions, Deutsche Bank acquired London-based investment houses Morgan Grenfell and Bankers Trust and recruited a team of experienced investment bankers from Merrill Lynch. Dresdner Bank mimicked this strategy with their purchase of Kleinwort Benson and the American boutique investment bank Wasserstein Perella. While Dresdner faced profitability issues from the outset, Deutsche Bank initially lived up to the expectations. Expanding its investment banking branch led to a "quadrupling of its balance sheet from about € 0.5 trillion in the early 1990s to about € 2 trillion by 2008, the only German institution to be undoubtedly globally systemically important" (Hellwig 2018: 25). Yet, Deutsche, too, soon realised that it lacked both the structural preconditions as well as the know-how to become a serious contender for American, British, and Asian market leaders in the long run. Most importantly, it never seemed to be

[2] Christoph Scherrer (2017: 244) puts the unfathomable extent of speculation into proportion: "The extreme case was Sachsen LB (Landesbank of the state of Saxony), which purchased risky securities via off-balance sheet special-purpose vehicles of more than 1100 percent of its equity capital (for comparison, it was 114 percent in the case of the private Deutsche Bank)."

able to overcome its late-comer disadvantage vis-à-vis more established competitors, and it lacked the domestic margins required to establish a solid investment base. Similarly to its public cousins, German investment banks were therefore forced to chase much riskier niche business and exposed themselves to severe balance sheet risk (Klein and Pettis 2020).

Of course, German bankers did not end up in this position through no fault of their own. Quite the opposite, in their desire for ever-greater returns, they did not hesitate to break and circumvent the law where they could. It does not need a cynic to note that Deutsche Bank had an active role in virtually every financial wrongdoing and scandal of the last 20 years (Enrich 2020b). There can be no doubt that Deutsche Bank played a major role in the expansion and excessive marketisation of stacked and packaged collateralised debt obligations in the US, and "together with a small number of other very big US and European banks […] was centrally involved in the developments which led to the onset and impact of the recent financial crisis" (Detzer *et al.* 2017: 70). Indeed, since the blockbuster motion picture "The Big Short", the role of Deutsche Bank in America's subprime mortgage crisis is known to a broad Hollywood audience. The deep entanglements of formerly domesticised German financial institutions in international investment banking explains, at least to some degree, the severe costs imposed on the public despite the country not being an immediate epicentre of the crisis (Hellwig 2018).

These two systemic shocks—financial liberalisation and the GFC fallout conjointly—had both mediate and direct implications for the structure of Germany's financial system and the emergence of new actors. As Bundesbank data show, foreign banks quickly seized the opportunity to enter and expand their business in German lending markets. Overall, foreign banks' lending to domestic non-banks increased drastically from a baseline of just 3 percent of total lending in 2000 to 11 percent in 2008. The share of foreign lending to Germany's mighty manufacturing industry, the heart of the country's industrial model and the vanishing point of former Deutschland AG, more than tripled from 3.4 percent in 2000 to 10.4 in

2008. Although the GFC and the ensuing European debt crisis put a slight dent to this development, the relative size of foreign lending further increased after 2012.

Next to a rise of foreign competitors in domestic credit markets, this thesis puts special emphasis on a more recent and still largely neglected trend in the development of German financial capitalism: the rise of so-called “passive” asset managers as the new heirs of Germany’s corporate network. American asset management firms, and especially the three largest representatives BlackRock, Vanguard, and State Street, have since the GFC established a dominant position in German equity markets thanks to the rising prominence of exchange-traded funds (ETFs). Summarily put, ETFs are pooled investment securities which track the movement of chosen indices, sectors, commodities, or other groups of assets. As such, they are both affordable (with only very low fees incurred) and presumably safe investment opportunities given natural portfolio diversification. When markets began to tumble, investors were looking for safe havens which ETFs seemed to provide. Other factors supported exuberant growth of ETFs in recent years: sober prospects for public pension systems and old-age provision; and a growing emphasis on private saving plans in middle- and even lower-income households (Sekanina 2018). As a result, the passive asset management industry has skyrocketed since the GFC from global assets under management of just around US$3tn in 2010 to over US$15tn in 2021 (Wigglesworth 2021a).

Political economists are only beginning to grasp the meaning of the global shift from actively managed into passive investment funds (Fichtner *et al*. 2017; Fichtner and Heemskerk 2020; Braun 2021; Wigglesworth 2021b). While the reach and depth of the “Big Three” index fund providers is relatively well-documented for the US market, we lack more country-specific case studies and analyses. This thesis seeks to address this gap by taking stock of the surge of asset managers in German equity markets. A key argument put forward in papers 1 and 3 is that BlackRock and co. have obtained a structurally important position in German equity markets akin to the largest banks and insurers during the heyday of Deutschland AG. Yet, the internal logic guiding their respective business models could not be any more different. While banks under Deutschland AG steered the economy in an active fashion and operated through firms and the real economy, international asset managers operate through entire markets with comparable disregard for the performance of individual portfolio firms.

In short, international competitors used the two systemic shocks as an opportunity to make inroads into previously bolted German financial markets. Two waves of new actors have succeeded each other; in a first wave, international hedge funds and credit market investors (Goyer 2011); since the GFC passive asset managers. In combination, these developments have radically increased the level of actor plurality in the German financial system, not least in comparison with the (in hindsight) almost eerily tranquil conditions of the Deutschland AG era. And they have provided an uncomfortable challenge for more optimistic scholars as financial integration and market turmoil put the view of embedded and tranquil finance under intense scrutiny. Since then, the prerogative of interpretation seems to have swung back in favour of IPE-grounded analyses.

1.3.3 The IPE of money and finance: Market-based banking and the convergence of national typologies

The fundamental changes which occurred not only, but perhaps most notably, in the German financial system brought the pessimistic (although many would be inclined to say, realistic) critiques of Marx and Hilferding full circle. A burgeoning political economy of money and finance literature saw international market forces to triumph over states, domestic institutions, and established principles of practice. Susan Strange, a towering figure of this modern strand of IPE literature, put this view poignantly, noting that “the nation state is not up to the job of managing mad international money” (Strange 1998: 190).

This view inspired a stream of IPE scholars that foresaw the convergence of domestic models of finance on a global, liberal market order driven by the inexorable processes of global financial integration. Key to these conclusions was a conceptual differentiation between a bank-based mode of finance that had been the foundation of the comparativist VoC view, and market-based banking which captured innovative (that is, Anglo-American) financial practices. Under the bank-based model, banks remain rooted in domestic markets and their main line of business lies in the provision of credit. In this context, banks retain the power to determine the price for capital because their markets are sufficiently shielded from outside competition (Zysman 1983). The rise of market-based banking casts serious doubt on these fundamental assumptions. Under this model, equity is priced and distributed in international markets which means that "the ability of banks to lend, where they do retain loans, is constrained by their own ability to borrow from financial markets and by their own requirements to raise the capital to support their lending" (Hardie *et al*. 2013: 720). Assets are valued at market prices, loans are sold, securitised, and hedged via credit default swaps, and shadow banks become critical players in global markets. Credit provision loses its historical importance, while financial services and investment banking progressively dominate business models.

Ensuing contributions have taken a closer look at the global convergence towards market-based banking and pointed out that this shift ensued neither in frictionless, nor in equitable fashion. Instead, its rise went hand in hand with the subordination of European banks to a US-dominated financial logic. The argument here is that international banking mostly operates with US-Dollars. The global dominance of the dollar system creates structural disadvantages for non-US banks, because to successfully play this game they require unimpeded access to liquid Dollars, which in turn "made their own banking models highly fragile and dependent on US money market funding" (Beck 2021: 1). From a European banking perspective, market-based banking is therefore in and all to itself not as relevant a development, as the fact that "European banks have had to manage financial practices that were originally developed for a different context" (*ibid*.: 2). Not only does finance dominate but structural hierarchies, path dependencies, and first-mover advantages also guarantee that some financial actors dominate others.

In sum, IPE-grounded analyses of structural changes in global finance during the last three or four decades seem to lead us to an unequivocal conclusion: "Money leads and the real economy must follow" (Kirshner 2000: 407). Of course, this puts the optimistic views of comparative scholars that financial markets can be meaningfully tamed into serious doubt. Searching for national particularities in a globalised financial world might look a bit like re-arranging the deckchairs on the Titanic—not exactly a marginal footnote, but rather unobtrusive when considering the big picture. From this perspective, "there is no simple correspondence between typologies of financial systems and modes of capitalism" anymore (Hardie *et al.* 2013: 695). It seems that, with the rise of market-based banking, financial institutions have ceased to operate as bulwarks against market pressures.

1.3.4 Summary: The ontological origins of the "pluralist gap"

What can we learn from this brief genealogy of the German financial model? The IPE and CPE schools arrive at quite contrasting conclusions regarding the role and dominance of finance in modern society. While the former considers the financial sector not a regular kind of business group among many, but one that yields exceptional means towards the monopolisation of economic competition, the latter takes a notably more optimistic stance. Here, the financial sector is firmly embedded in the overarching model of capitalism, and remains, in a way, constrained by the production requirements of non-financial firms. For many decades, the coordinated character of the German production model seemed to provide ample support for the CPE perspective. But profound changes to the financial system, and in particular the defection of big banks as key constitutors of the model, have renewed the impetus of IPE arguments.

Yet, despite these obvious empirical disagreements, one cannot help but notice that the two schools also share a guiding ontology. Both accept the "theoretical coherence of the concept of finance capital" (Harris 1991: 202), and tend to consider economic sectors, more broadly, as being largely homogenous entities. So, while conflict between economic sectors is at the centre of attention, sector-internal cleavages, and conflict between heterogenous factions of capital are often blended out (Röper 2021).

I would argue that subscribing to this ontology while overlooking sector-internal dynamics provides only an incomplete picture of the trajectory of the German model of capitalism. Considering the back and forth between IPE and CPE views discussed in this literature review, one might get the impression that the heyday of Fordist production and the advent of Europe's Golden Age of growth, which gave predominance to the real economy, was in fact merely a brief period of industrial interregnum. Since then, global finance has disconnected itself from domestic economies to become a self-standing growth engine and drives institutional convergence in even the formerly most shielded political economies (Krippner 2012).

But while many of the *formal* institutions that characterised the coordinated German model until the 2000s have indeed been disbanded, my thesis will argue that *informal* modes of coordination remain alive in the internal logics which shape the interests and guide the decisions of various actors. Since these informal institutions are not as formally binding, they are also less stable and predictable. The strategies of key actors can easily change according to their payoff structures, as demonstrated in the case of Germany's largest banks. This means that political economists need to focus only closer at how actors as bearers of institutional logics operate, make decisions, and strike coalitional deals with other stakeholders.

I would argue that this pluralistic lens becomes ever more important with the rise in actor heterogeneity that financial integration has brought about. As argued in the literature review, since the GFC the fault lines do not "simply" run between small and large domestic banks and firms anymore. Coordinated models of capitalism do not only have to reckon with the defection of big banks from the organised industrial model but also with the arrival of new challengers (above all, American asset managers) and their rise into a dominant and central position in the corporate network. While non-pluralist conceptions of capitalist conflict at least implicitly call "into question the image of a bourgeoisie structured into factions with relatively opposite interests" (Manigat 2020), in reality, the opposite is the case: More integration increases actor plurality. An analytical approach focused on actors and coalition building also suggests that the IPE story of financial convergence and the end of capitalist variety is unlikely the whole story.

The next section unpacks this approach and presents the structure of my thesis and its contributions in more detail. The key upshot is that we cannot understand the trajectory of finance in the German model of capitalism without asking the question *who* finance actually is.

1.4 Structure of the thesis and contributions: *Who* is finance?

It is almost ironic that politically activist scholars the likes of Karl Marx and Rudolf Hilferding were always quite conscious of *who* precisely they meant when discussing the financial class. But in much of today's political economy literature, it seems we only rarely name names anymore. Instead, relatively undefined concepts like "finance" or "markets" are assigned a life and will of their own, observed and characterised as relatively cohesive entities. They often remain faceless without a clear focus on *who* actually operates within them. Luckily, we can draw on a few more recent contributions which have made deliberate attempts at bringing individual actors back into the main focus of a comparative political economy of finance.

Particular emphasis could be put on a special issue from 2016 in the *Socio-Economic Review*, in which Deeg, Hardie, and Maxfield ask the pertinent question “What is patient capital, and where does it exist?”. As simple as it may sound, this question has important implications, because it forces us to think beyond the rather crude distinction of bank-based (patient) and financial market-based (impatient) modes of finance to arrive at a more nuanced and dynamic understanding of the relations between financial and non-financial actors under different models of capitalism. My thesis builds on their conviction that to establish a comparative political economy of financial markets we need to put an analytical premium on the heterogeneity of financial market *actors*, and how their internal logics of action shape the politics of financial system change.

Closely related to such an approach is the question when and how individual stakeholders forge factions and coalitions, how this leverages their position vis-à-vis other contenders, and what are the implications for institutional outcomes. Focus on the role of political interest coalitions has, of course, a long-standing tradition in modern political science ever since Robert Dahl’s (1961) inception of the pluralist paradigm (Lindblom 1977; Olson 1965; 1982; Hacker and Pierson 2010; Culpepper 2011). Where interests are plentiful, demands from select business groups are unlikely to garner decision making authority on their own (Gourevitch and Shinn 2005; Pagliari and Young 2014; Röper 2021). Instead, the formation and maintenance of dominant interest coalitions becomes the essence of political craftsmanship (Gourevitch 1987; Hojnacki 1997; Swenson 2002; Deeg and Jackson 2007; Fioretos 2010; Hopkin and Voss 2022).

1.4.1 Structure of the thesis

My thesis builds on this central insight and seeks to address the pluralist gap for the case of the German financial model. By asking *who* finance actually is, it digs into the internal logics of diverse financial actors, what combinations of actors have brought about financial system change, under which conditions it has been prevented, and how a rise in the diversity of financial actors with competing interests as a result from internationalisation is politically mediated.

As mentioned before, in an ever faster changing and globalised financial environment, the interests and strategies of individual actors will also become more dynamic and less predictable. Yet, a few important institutional constraints remain that restrict actors' room to manoeuvre and create arenas where dominant logics of action evolve and come into conflict with each other. ***Paper 1*** conceptualises these dynamics. It starts from the observation that the CPE of finance distinguishes financial actors, if ever, only along the patient/non-patient binary (Deeg *et al*. 2016). Using network analysis, I demonstrate that actor plurality in the German financial system has sharply increased in recent decades, with American asset managers now sitting at the centre of the German corporate network. The paper then systematises this observed diversity along differences in actors' internal logics of action. To this end, I complement patience as an oft-chosen analytical category with the degree to which investors engage in corporate governance, and with the degree to which their business models rely on international financial markets. The key upshot of this paper is that financial actors face a trilemma between being long-term invested in a target firm, exerting strategic influence on said firm, and engaging in international capital markets and pursuing related business practices. Different case studies illustrate the trilemma's mechanisms empirically and highlight that diverse financial actors follow competing strategies that can create negative externalities, and thus, conflict. All in all, a nuanced view at heterogenous actors and their competing strategies suggests that the German model of capitalism is less static and stable than often alleged, and finance is not in the backseat, but actually a driving force of institutional recalibration and contestation.

Two subsequent papers explore coalitional conflict, its resolution, and the consequences for institutional change in more detail. ***Paper 2*** investigates a key moment of financial system change in Germany: the abolition of the capital gains tax on the divestment of cross-shareholdings in 2000. For a long time, this tax had prevented big banks from escaping their role as patient creditors in the Deutschland AG network, and it also protected SMEs from hostile takeovers. How did big banks win this contested reform against the opposition of other powerful factions of capital? I combine a structured media analysis with elite-level interviews, and in-depth process tracing to argue that the sudden insolvency of Germany's biggest construction firm, Holzmann AG, played a key role in the reform. When Chancellor Gerhard Schröder needed large banks as creditors of last resort to rescue 30,000 construction jobs, banks used their suddenly gained leverage to demand the abolition of the tax in a quid pro quo. At the same time, Schröder could instrumentalise the rescue of these jobs as a distraction to give banks the biggest tax cut in German history, open up *Finanzplatz Deutschland* to international investors, and implement liberalising EU reforms without creating the impression of "being in bed with the banks". Tracing the power of different factions of business and finance over time, this case illustrates that financial liberalisation is not a functional process but deeply political, and that the power of finance is not a constant force but contingent on the coalitional alignment with other dominant actors and decision makers, as well as on political timing.

In contrast to Paper 2, ***Paper 3*** analyses an instance where far-reaching institutional change was prevented. This paper turns the attention to the rise of passive asset managers and assesses their power over German corporate governance. Again, it leverages a critical case of conflict between factions of capital, this time a battle over a reform of the German corporate governance code, which constitutes a guiding framework for the governance of German firms. Drawing on a large number of stakeholder consultation statements—and using a novel visualisation technique to analyse coalition building—my results show that passive asset managers sided with short-term oriented hedge fund managers and other activist investors in an attempt to limit the power of supervisory board members in German firms. However, these attempts were defeated by a domestic counter coalition of strange bedfellows that formed in strong opposition to increased shareholder dominance. While opposing groups alluded to different reasons to justify their position, a uniting factor laid in the prevention of short-termism in firms. In sum, my findings suggest that passive asset managers are less “patient” than is still often alleged in a nascent political economy literature on these emerging actors. It equally finds that the logic of corporatist coordination remains politically effective in preventing changes to the most fundamental tenets of industrial citizenship, despite the formal disbandment of the Deutschland AG network.

Taken together, my three papers show that financial integration has resulted in a growing degree of pluralism to the extent that actor constellations in the modern German financial model resemble in almost no way those of the “organised” days of manufacturing-centred industrial capitalism. But while the range of dominant financial actors increases similarly to much more liberalised market economies, and the structure and international orientation of the German financial system changes in profound ways, the core tenets of its coordinated form of capitalism have remained largely intact and continue to operate informally through the formation of powerful interest coalitions. Financial liberalisation in Germany does not evolve in a linear way, but rather akin to a Polanyian double movement. While finance did change in many ways, the system did not disintegrate (as many observers from IPE and CPE feared), because actors as the actual bearers of social change continued to interact with established institutions to keep the model from imploding. Asking *who* embodies finance leads us to the conclusion that varieties of financial systems are durable and most likely bound to last despite the lightspeed integration of global finance in recent years.

Paper	*Type*	*Key findings*
1. Squaring Circles: Domestic firms, international investors, and the trilemma of the German financial model	Research article	- Uses network analysis to illustrate that actor plurality in financial sector has sharply increased since financial crisis - Financial actors face trilemma between patience, corporate governance intervention, and financial market integration - Since factions of finance follow competing strategies to solve trilemma, German model of capitalism is less static than usually alleged
2. In Bed with the Banks? The power of producer groups and the politics of financial liberalisation in Germany	Research article	- Abolition of capital gains tax on cross-shareholdings was result of political quid pro quo between big banks and chancellor Gerhard Schröder - Insolvency of large construction firm gave big banks as creditors of last resort leverage and aligned agenda with highest ranks of government - Financial liberalisation not a functional process, power of finance contingent on coalition building and political timing
3. Corporate governance battles in the age of asset manager capitalism: A coalition analysis	Research article	- Passive asset managers side with short-term oriented investors to limit power of supervisory board members - Attempts defeated by a domestic counter coalition of strange bedfellows (capital, labour, etc.) - Passive asset managers not patient, logic of corporatist coordination still politically effective despite the formal divestment of Deutschland AG

1.4.2 Case selection

Before this introduction comes to a close, I would like to add a few words on case selection. I decided to focus my analysis mostly (or, almost solely) on Germany, because I consider it a critical case for at least three reasons (Hancké 2009: 68ff.; Eckstein 1975; Gerring 2001; 2007). Firstly, Germany has always been in the vanguard of the debate around financialization, the dominance of finance, and global and national processes of financial integration. Both, IPE and CPE regularly use Germany as a posterchild to make very contrasting claims about financial domination and its effects on domestic models of capitalism. While CPE sees in Germany a "Last of the Mohicans" case of institutional continuity, IPE tends to use it as a "least-likely" case of convergence; almost "double decisive"—to use process tracing language—in the sense that *if this one falls*, the debate seems settled (Collier 2011; Bennett and Checkel 2014; Beach and Pedersen 2018). Given both, the importance of the German case for both camps, and the ambiguity within the case itself, it is well worthwhile picking up a debate that seemed largely settled in the late 2000s, and to explore the political economy of the German financial model at a time of full-fledged global financial integration.

Secondly, Germany lends itself quite well to an argument centred on the importance of a pluralist approach, one that stays sensitive to actor heterogeneity among the capitalist class. In the past, German capitalism may have appeared neat and tidily organized with powerful factions engaging in corporatist fashion (Shonfield 1965), especially when compared to other European partners. But, as argued throughout this introduction, intensified globalisation and financial integration have led actor dynamics to become more complicated and muddled in a political-economic context, where strategic (non-market) coordination between businesses, banks, and labour constitutes the main mode of economic organisation. This set-up allows us to scrutinise the clash of competing logics, and how actors that are "socialised" in a global (that is, Anglo-

American) financial context comport in unfamiliar institutional environments, and vice versa.

And thirdly, Germany serves as a critical case to explore how the financial sector restructures itself in an economy which is traditionally run by non-financial firms and actors in the real economy. Accepting the premise that—yes, even in Germany—things do not always stay the same, this case provides us with important insights into how a reinterpreted role of finance interacts with other realms of the coordinated capitalist model, and how tensions and frictions are mediated politically.

To be sure, all this is not to suggest that I consider my findings for Germany idiosyncratic. In the conclusions, I return to the question of generalisability to argue that the analytical approach, my findings, and their implications should well transcend the borders of Germany. And yet, deep-reaching financial changes in this most critical case provide us with an opportunity to take the debate of German capitalism into the 21st century by incorporating new actors, new financial technologies, and new logics. Almost exactly 100 years after Hilferding, 60 years after Shonfield, and 20 years after the *Varieties of Capitalism* what can we learn about the contemporary dynamics of German capitalism and the coalitional power struggles underlying them?

1.5 Concluding remarks

We seem to live in an era of financial domination. Money and finance have always been crucial instruments of power. The availability and allocation of credit shapes capital accumulation and, by extension, the distribution of power in capitalist societies. This gives the financial sector a central and powerful function. As a truly global and deeply structural force, the financial system seems to have evolved into an independent and dominant vector of capitalist transformation—a process often captured under the nebulous term “financialization”. At the same time, credit and money are also highly unstable entities. During the last decades, financial globalisation has culminated in a generation of interlocking crises which continue to hold modern societies in their grip (Tooze 2019).

The comparative political economy has, no doubt, a lot to add to the pertinent debate about the role and power of finance, and how an increasingly globalised financial system interacts with domestic models of capitalism. But it has also struggled to properly internalise and understand these changes in the past (*see* Deeg *et al*. 2016 for a critique). In Germany, the picture looks especially muddled. Given the traditional dominance of the export-manufacturing sector, the financial system for a long time seemed to play an ambiguous role: Important, yes, for the orchestration of long-term credit in the coordinated production model, but also mostly in the backseat of capitalist transformation. But financial integration at a planetary scale has challenged long-established sectoral hierarchies with key financial actors breaking out of the system, while others forced their way in.

The core motivation of this thesis lies in the conviction that if we want to arrive at a comparative political economy of financial markets, we cannot do without a determined focus on the actors running the system, and on their strategies and guiding logics. To grasp the breath-taking and complex dynamics that govern today's hyper-globalised version of capitalism, CPE needs to ask the question *who* finance actually is.

From an actor-centred perspective, financialization does not look akin to a steamroller that inevitably leads to the wholesale convergence of domestic institutional varieties. Nor is the financial sector constituted of a homogenous class of actors guided by a unifying logic. Characterising different factions of finance reveals conflict between competing objectives, logics of action, and interests, the outcomes of which are by no means predetermined. Processes of global financial integration and institutional change are therefore not outside the purview of politics, but instead, first and last *inherently political*.

This, then, also suggests that the exploitation of stable institutional complementarities should perhaps not be the prime measure of successful models of capitalism anymore. In institutional contexts, where actors are heterogenous and are guided by diverse strategies and competing logics of actions, rigid complementarities might become undermined or, at least, destabilised. The central question we as political economists ought to ask, then, pertains to the ability of such models to mediate conflict once institutions get challenged by dominant actors and complementarities begin to unravel. This thesis makes an attempt to steer the focus of political-economic scholarship in this very direction.

2

Squaring circles: Domestic firms, international investors, and the trilemma of the German financial model

Abstract

During the last three decades, international investors have tightened their grip on Germany's equity markets. This has increased the plurality of financial actors in the German model of capitalism. Yet, little is still known about the internal logics of different factions of capital and their potential conflicts of objectives with other investors and target firms. In this paper, I introduce what I call the trilemma of the German financial model. Investors in German equity markets have the choice of three strategies, only two of which are mutually selectable: providing long-term *patient* capital, exerting direct influence on *corporate governance* and strategic decision making in target firms, and engaging in *international* financial investment practices. I combine network analysis with illustrative case studies to demonstrate that different factions of capital pursue different strategies to solve the trilemma: *Rhenish capitalists*, combining patience and corporate governance; *activist investors*, combining corporate governance and internationalisation; and *passive asset managers*, combining internationalisation and patience. Given internal conflicts of objectives, these solutions are not mutually inclusive but compete with one another and create constant tension, both, within and between factions of capital over institutional adjustment. As such, the trilemma proposes a dynamic account of conflict over financial system adaptation.

2.1 Introduction

The German financial system—comprising the banking system, the corporate governance model, and securities and capital markets—has gone through profound change during the last three decades. For most of the twentieth century, “a German bank, as the saying went, accompanied an industrial enterprise from the cradle to the grave, from establishment to liquidation throughout all the vicissitudes of its existence” (Gershenkron 1966: 14). But the onset of global capital market integration and the arrival of short-term oriented international investors has destabilised this relationship. The clash of a domestic bank-based system in which social relations between financial actors and firms are structured along the use of voice and loyalty, and a more short-term oriented, international financial logic built on the threat of exit and sudden capital flight (Hirschman 1970) led many observers to believe that the trademark German industrial model was to falter and converge on a liberal, market-dominated trajectory (Rubach and Sebora 1998). Even *Varieties of Capitalism* (VoC) scholars, usually staunch believers in the continuity of institutional diversity, admitted that “financial deregulation could be the string that unravels coordinated market economies” (Hall and Soskice 2001: 69).

However, institutional changes that ensued in the German financial model did not fulfil these pessimistic expectations. While financial integration did change the ‘logic of actions’[3] of key actors, most notably those of big commercial banks who developed a strong desire to internationalise their business model, they did not entirely supersede established routines. Instead, as Richard Deeg (2005: 175) has convincingly argued, financial integration led to institutional “bifurcation” in the German financial system, where “actors seeking major institutional change achieve their aims by carving out a distinct subregime”, while others remain on their established path. Notably, these diverging

[3] Following Jackson and Deeg (2008: 703), I understand ‘logics’ as comprising “the typical strategies, routine approaches to problems and shared decision rules that produce predictable patterns of behavior by actors within the system”.

trajectories are largely portrayed as mutually inclusive: institutional niches can co-exist without producing negative externalities for other actors that could disrupt the overall arrangement. This wisdom seemed to settle the debate in the 2000s: Facing severe pressures from global financial integration, Germany's financial system rebalanced into a new stable equilibrium, and largely retained its characteristic traits.

In this paper, I revisit the composition of Germany's domestic model of finance in light of continued financial integration in recent years, which has, most notably, led to a rise in the plurality of financial actors. Since the Global Financial Crisis of 2008, a new group of financial investors—passive asset management corporations (Wigglesworth 2021b)—have established a dominant position in German capital markets. These actors have introduced novel investment practices and business strategies. While classical conceptions of patient capital provision typically presume the combination of large equity holdings with strategic influence on target firms, passive asset managers such as BlackRock seem eager to combine a long-term investment approach with little intrinsic desire to interfere with individual portfolio firms. This puts into question an old wisdom in comparative political economy (CPE) literature which suggests that international financial markets fail to supply patient capital (*cf.* Deeg *et al.* 2016) and provides new perspectives on the way financial and non-financial firms in coordinated market economies may engage.

My findings suggest that a plurality of competing logics creates constant conflict potential between national and international factions of capital, and between financial and non-financial firms (*cf.* Deeg and Hardie 2016; Mertens 2017; Röper 2021). I combine stylised case study evidence with empirical network analysis to conceptualise the internal logics of different types of financial actors and the viability of their strategies to obtain a dominant position in German capital markets. I argue that financial actors in Germany's manufacturing-dominated economy face a trilemma between being a long-term investor in a target firm, exerting strategic influence on said target firm, and, finally, engaging in international capital markets and pursuing related business practices.

Akin to the impossibility of squaring a circle, a conflict of objectives makes it difficult for actors to realise all three of these components simultaneously without creating internal and/or external frictions. For instance, while investors providing long-term patient capital can be actively involved in corporate governance and strategic decision making, this combination restricts them from engaging in more speculative international capital market-based financial practices, such as merger and acquisition (M&A) activities, which require a significant degree of independence and impartiality. Alternatively, investors can combine international financial practices with active influence on firms' strategic behaviour, but in this case, they must retain the freedom to sell their shares in the optimal moment in order to realise short-term gains on equity investments. Finally, the more recent rise of universally invested asset managers suggests that the combination of internationalised finance with a long-term investment horizon provides a third conceivable option. However, fiduciary duties arising from common ownership require investors under this model to also engage in corporate oversight and enforce shareholder value, which, as I will show, easily clashes with the German logic of 'industrial citizenship' and co-determination (Marshall 1950).

Based on this concept, I classify three factions of financial actors that pursue different solutions to the trilemma: Rhenish capitalists, activist financial investors, and passive asset managers including mutual funds. However, and herein lies the key upshot of my argument, the very success of each strategy (or solution) tends to produce contradictions that gradually undermine them. Much like Ulysses and the Sirens, the production of contradictions lures some financial actors to challenge the limits of the trilemma and creates conflict potential with other actors who operate under alternative sub regimes. The trilemma's "solutions" are therefore unlikely to be stable. Instead, they should be understood as fragile and dynamic knife-edge equilibria, which generate institutional contestation between different factions of capital and their preferred logics.

In sum, then, this paper makes two main contributions. Firstly, it takes stock of a strong rise in actor plurality in Germany's financial sector in recent years and demonstrates that international asset managers now hold a central and dominant position in the corporate network of Europe's largest economy. Secondly, this paper documents and explains the internal conflicts of objectives and the clashes of competing logics between different actors pursuing different investment models. Doing so, the trilemma proposes a unified analytical framework that can provide explanations to the following questions of the German financial model: Why did big banks in Germany defect from their long-established role as universal shareholders in domestic firms? Why do activist investors face an uphill battle imposing their short-term oriented business model onto German corporations? And how do passive asset managers, as another type of international investors, succeed where activist investors failed? My analysis of actor plurality in the German financial model lends support to findings from the CPE literature which argue that the power of financial actors and their ability to obtain a dominant position in equity markets depends on the compatibility of investors' business logic with the institutional conditions and the dominant production logic of domestic models of capitalism (*e.g.,* Goyer 2007; 2011).

With my approach I follow a series of recent contributions that have encouraged political economists to focus more emphatically on financial actors, the "investment decisions of capitalists", and the "variation in the "motion" of investment-financing capital" to understand institutional continuity and change, especially in coordinated market economies (Braun 2016: 263; Deeg and Hardie 2016). My analysis suggests that actors as the social bearers of diverse and oft-competing systemic logics deserve even more attention from the burgeoning scholarship on the comparative political economy of finance.

The balance of this paper is organised as follows: In the following section, I review CPE theories of institutional change to motivate my conceptual approach. Section 3 introduces the trilemma and discusses its origins and the underlying logic. Section 4 classifies different factions of financial actors, distinguishes the logics of their business models, and applies network analysis to visualise their position in the German corporate network. The penultimate chapter uses illustrative case studies to highlight the internal contradictions faced by different types of actors, the resulting conflict potential between factions of capital, and the implications for the debate about institutional stability and change. The final section concludes.

2.2 Making sense of institutional change in the German financial system

In order to understand current actor dynamics in the German financial system, it is useful to review, first, how CPE scholarship has understood institutional change in the past.

A prominent CPE theory of institutional change rests on the punctuated equilibrium model (Krasner 1984). Its proponents have considered institutions as fundamentally durable and static and change as radical and sudden (*see* Hall and Soskice 2001; Aoki 2001: 233-5). By raising the anticipated costs of change for economic actors, complementarities guarantee that institutions are stabilised in pareto-optimal equilibria. Institutional change ensues only as a result of radical exogenous shocks, in moments of sudden punctuation, that effectively lead to the breakdown and replacement of pre-existing arrangements and trigger a chain reaction in which actors attempt to restore or establish new complementarities. Ultimately, this process results in a new equilibrium of relatively long institutional stasis.

Critics of this view have lamented an "institutionally determined teleology" which considers statis—and not change—the norm of historical development (*see* Hancké and Goyer 2005: 53; Crouch 2005; Streeck

2005; Streeck and Thelen 2005). This assumption is considered problematic in as far as actors can be expected to constantly reassess their individual material pay-off conditions under a given (but dynamic) institutional arrangement. Since actors, in the absence of coercion, will unlikely be ready to shoulder unequitable cost of negative externalities indefinitely, tension and contestation is a natural outcome of social interaction. In other words, sudden critical junctures do not work like reset buttons that set the game clock to zero. Instead, the weight of continuous developments is carried across generations and through periods of stasis and crisis.

In light of this critique, subsequent contributions have sought alternative ways to theorise “incremental, but cumulatively transformative” processes of change (Palier 2005: 131; Liebman and Sabel 2003; Streeck and Thelen 2005). With his aforementioned bifurcation thesis, Deeg (2005; 2009) also contributes to this agenda. Institutional niche-building by different actors with different operating logics does not require radical junctures, but instead, follows a process of institutional ‘layering’, where “new elements attached to existing institutions gradually change their status and structure” (Streeck and Thelen 2005: 32; Thelen 2002). While a significant degree of institutional change “amasses” over time, these changes are “layered” on top of pre-existing conditions “in ways that preserve basic patterns of strategic coordination among firms” (Deeg 2009: 573).

This perspective yields a dynamic understanding of change in constrained institutional environments because it remains alert to different actors’ logics and their (changing) strategies in achieving economic objectives. At the same time, the outcome of bifurcation still appears relatively stable in nature because the institutional sub regimes that actors establish can co-exist quite seamlessly without producing negative spill overs or externalities that could disrupt the new arrangement. In the German case, the integration of one set of actors into market-based banking, and others who continue on a bank-based trajectory, are often portrayed as mutually inclusive strategies. In this relatively conflict-free conceptualisation international challengers play a rather marginal role. Considering the empirical reality of the 2000s, this omission is perhaps not unfounded, since international investors gradually increased their influence in German capital and securities markets, but never established the political dominance to ignite convergence on a more short-term, shareholder-oriented trajectory (Culpepper 2005; Goyer 2011).

However, building on this seminal literature, the more recent rise of American asset managers into dominant positions in Germany's domestic capital markets requires us to expand our focus to the potentially conflictual dynamics that their arrival might entail. As my empirical analysis will demonstrate in more detail, the two world's leading asset managers—BlackRock and Vanguard—have, thanks to their myriad equity holdings, acquired a central position in the German corporate network. The increasing plurality of domestic and international financial actors operating in the German financial system complicates the picture as now competing logics of actions both within finance and between investors and recipient firms may clash even more frequently than before.

To theorise the internal logics of competing actors in this shifting context, I base my conceptual model on modern views of institutional change within the VoC school. Its proponents have called for more integrated approaches that "link institutional analysis to coalitional analysis" by combining institutional constraints with internal degrees of freedom (Hall and Thelen 2009: 25; Gourevitch and Shinn 2005; Iversen and Soskice 2006). Instead of seeing the political economy as one coherent and largely immovable institutional framework, they acknowledge the "coexistence of different organizational patterns within one national economy" (Hancké and Goyer 2005: 71) determined by the (changing) preferences of diverse sets of actors. This assumption has powerful implications. Entrepreneurial actors in this world are not easily satisfied with a pareto-optimal equilibrium. Rather they continuously reassess their position within the institutional framework, their actual and potential payoffs vis-à-vis other actors, as well as their scope for better alternatives. Collectively, these individual assessments create tensions between actors who "probe the outer limits of existing arrangements" (Hall and Thelen 2009: 12) and others trying to defend the status quo.

At the same time, institutions are not infinitely open but subject to "systemic constraints of internal coherence" (Hancké and Goyer 2005: 60). In Germany, these constraints are reflected in the production requirements of domestic firms, mostly from the high-end manufacturing sector, and their underlying complementarities: the neo-corporatist model of codetermination, specialised training systems, the long-term oriented system of incremental product innovation, and relatedly, the need for patient capital funding, to name but the most relevant (Zysman 1983; Hall and Soskice 2001; Goyer 2011). An actor-centred institutionalist model of contestation (Mayntz and Scharpf 1995; Scharpf 1997) must therefore bring together the logics of actors with the particularities of Germany's model of capitalism. To this end, the next section introduces the trilemma of the German financial model, which conceptualises different strategies that actors may pursue in the face of institutional constraints, as well as their potential conflicts of objectives.

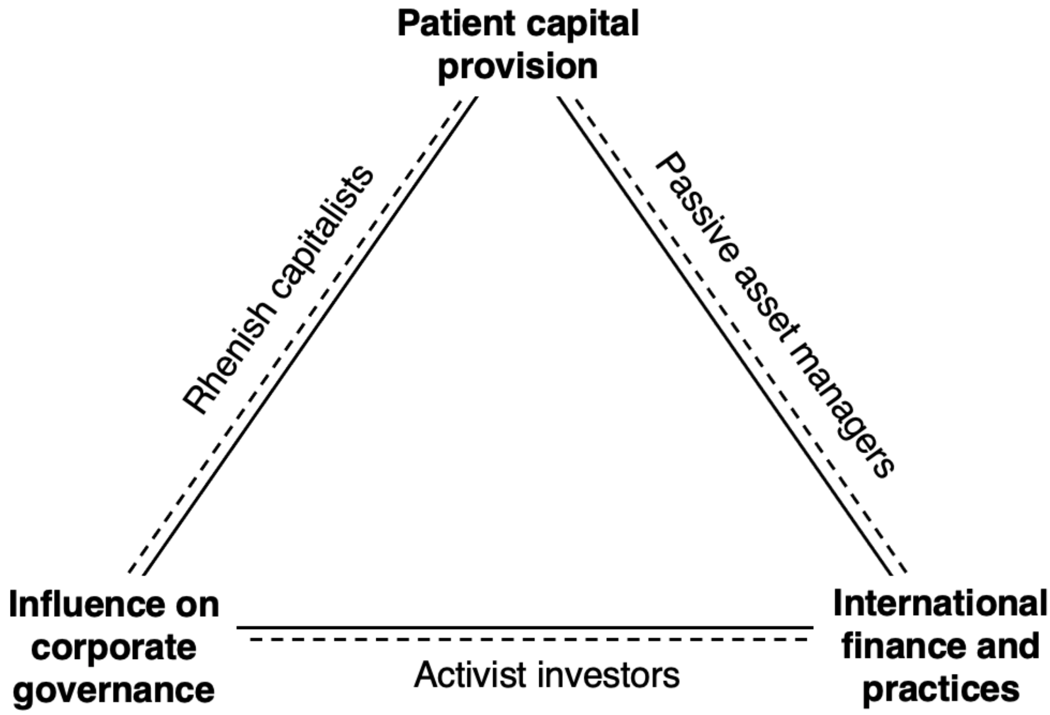
2.3 The trilemma of the German financial model

The role of banks and the nature of finance as constituting elements of modern production systems have long been an integral part of the CPE literature (Shonfield 1965; Zysman 1983; Katzenstein 1987). VoC integrates different modes of capital provision into its theoretical framework of national complementarities. While in liberal market economies (LMEs) financial resources are allocated in competitive capital markets, in coordinated market economies (CMEs), banks take a more long-term oriented, relationship-based approach to corporate finance. The 'patience' of financiers in CMEs forges synergies throughout the larger production system. Long-term finance allows non-financial corporations (NFCs) to invest in projects that yield delayed returns, which may require experienced employees with specific skills and vocational training (Hall and Soskice 2001; Vitols 2001; Deeg 2007).

Rapid international financial integration has put the validity of this classical distinction into question. Financial integration has forced banks––irrespective of their domestic models of capitalism—to play by the rules of international capital markets. Bank loans are no longer predominantly financed through deposit-taking activities, but instead are bought and traded in the market and are thus subject to price competition. This undermines the sustainability of relational credit business which had been the foundation of banking practices in CMEs, but which was also more expensive to corporate borrowers given the considerable market power of domestic financial institutions. Therefore, Hardie *et al.* (2013: 695, 708) conclude "that in contemporary economies there is no simple correspondence between typologies of financial systems and modes of capitalism" anymore after banks ceased to "perform the role of bulwarks" against the pressures of financial liberalisation.

Can these competing views somehow be reconciled? While it is true that models of finance are not static and "simple typologies of national financial systems are increasingly difficult to sustain in the light of common trends towards the increased financialization and internationalization of finance" (Deeg 2010: 309), national institutional constraints that materialise in conflicts between interest coalitions continue to set transformative boundaries. Financialization—understood here in narrow terms as the convergence on and the dominance of market-based financial practices (Van der Zwan 2014)—does not constitute a steamrolling force. Instead, I argue that liberalisation and internationalisation of finance create a trilemma for investors operating under coordinated models of capitalism, the resolution of which is contested, and as such, inherently *political*.

Figure 2.1 The trilemma of the German financial model



The trilemma has three components. The first one, *patient capital provision*, constitutes a cornerstone of coordinated market economies' financial systems. Patience is generally understood as the provision of capital in form of “equity or debt whose providers aim to capture benefits specific to long-term investments” (Deeg and Hardie 2016: 627; Culpepper 2011). The term carries a sense of ‘loyalty’ towards a target firm (Hirschman 1970: 98). In CMEs, patience remains a key condition. It is enforced formally through regulation or accounting rules (Hardie 2012; Deeg and Hardie 2016: 636) and informally through productive synergies, costs of exit, and monitoring institutions such as supervisory boards. In manufacturing-dominated economies patient finance stabilises the production relations of non-financial corporations and fosters complementarities across different types of institutions. It allows firms to guarantee a high degree of employment security, which promotes shop-level truce and “makes acquiring and investing in firm-specific skills rational for both employees and employers” (Busch 2005: 132). Although patient capital provision has overall decreased following a reduction of cross-shareholdings and the growing importance of market-based finance, it is unlikely to disappear entirely and remains a characteristic element of coordinated financial systems (Goyer 2011).

The trilemma's second component is *influence on corporate governance*, understood here as engagement and control, a "process whereby investors attempt, through various forms of dialogue, to align management with their objectives" (Deeg and Hardie 2016: 633). Supervisory boards, shareholder meetings, and creditor consortia constitute formal arenas of corporate governance. Capitalists exercising active strategic influence demonstrate a strong interest in the performance of a target firm, and utilise their voice to extract rents from advantageous decision making. At the same time, active involvement in corporate governance also implies costs stemming, for instance, from coordination efforts, information sharing, and consensus building.

The third component is involvement in *international* (i.e., capital-market based) *finance and its related business practices* (Epstein 2005; Van der Zwan 2014; Mader *et al.* 2020). As highlighted by Hardie *et al.* (2013), financial internationalisation has significantly intensified even in coordinated, formerly bank-based market economies. Characteristic business practices include a shift from interest to fee-based sources of revenue, international investment banking, mergers and acquisitions, derivatives and securities trading, structured investments, and financial product innovation more generally. Although financialization is often characterised as a monolithic and inexorable process, in this trilemma financial liberalisation forms just one of three corners. While no doubt a powerful and potentially consequential force of change, it does not immediately favour nor preclude any particular solutions.

As the next section will demonstrate with empirical detail, finding a solution to the trilemma depends on a capitalist's ability to resolve conflicts of objectives, both internally and with other dominant interest groups. Being long-term invested in a firm while engaging actively in corporate governance results in close intimacy between investors and target firms. The fates of financial and non-financial firms become tied together, both formally—through corporate supervision responsibilities—and informally––through personal and capital networks, shared financial rents, and intensive knowledge exchange (Aoki 2001: 310ff.). This creates the scope for mutually beneficial synergies. But it also nurtures internal conflicts of interests for capitalists when their payoff conditions change.

Alternatively, short term-oriented investors can exert active influence in target firms by means of their equity stakes. However, this would require the credible threat of exit as a viable source of power against management, which clashes with the paradigm of industrial citizenship and co-determination that is woven into the corporate governance logic of German NFCs. Since decision-making processes are decentralised and labour enjoys parity in supervisory boards, CEOs lack independence and collective interests are likely to defend patient institutions against external challengers (Goyer 2007).

The third and final theoretical solution to the trilemma would suppose that financial markets are able to serve as the providers of patient capital––a counter-intuitive scenario that is usually considered an oxymoron (Hardie and Howarth 2013). But the global rise of a new group of powerful passive asset managers seems a harbinger of paradigm change (Deeg and Hardie 2016). With the emergence of mutual and exchange traded funds (ETFs), firms become commodified and traded in financial markets as investment vehicles for mostly long-term oriented savers (Braun 2016; Jahnke 2019). The combination of highly liquid foreign capital paired with long-termism and low levels of corporate engagement invites speculation about the end of what Yves Tiberghien (2007) coined the “golden bargain”: Managers having to accept short-term oriented investors and, with them, threats of hostile takeover in exchange for access to highly liquid international capital (Culpepper 2011: 52). But, as the next section argues, this new investment strategy is also not free of internal contradiction. Focusing on how real actors navigate the boundaries of this trilemma helps to unpack their logics, business models, and conflicts of objectives in more detail.

2.4 Financial factions and their position in the German corporate network

The previous section outlined the logic of the trilemma and its internal conflicts of objectives. I now turn to the strategies pursued by different factions of finance. The following two sections add empirical grit to the theoretical and conceptual considerations. I use within-case historical comparative analysis to classify factions of financial actors with respect to the strategies they employ in navigating the trilemma of the German financial model. Specifically, I distinguish Rhenish capitalists, activist investors, and passive asset managers. This analysis is complemented with network visualisation to show the centrality of different types of equity investors within the German corporate governance network over time.

2.4.1 Rhenish capitalists

As touched upon in previous sections, the German model of capitalism is underpinned by a very particular kind of financial logic. At its centre are so-called *Hausbanken* (or, house banks in English)[4], but also family investors and foundations, which typically combine a patient investment style with significant influence in corporate governance—an arrangement Michel Albert (1993) famously coined 'Rhenish Capitalism'.

Rhenish capitalists are first and foremost characterised by their long-term orientation, either by providing bank lending or holding large stakes of equity.[5] With regards to the latter, Rhenish capitalists are often blockholders commanding more than 25% of a company's shares, although smaller equity packages can also allow for significant corporate

[4] Henceforth, I will use this term to designate financial institutions that have a (more or less) exclusive and long institutionalised relationship with a target firm.

[5] Since equity stakes provide shareholders with voting power, and are thus direct determinants of corporate control, my deliberations focus mainly on this type of investment rather than on bank lending.

control depending on the overall shareholder structure of a target firm and the relative power of other investors (Fichtner 2015). Universal blockholdings limit competition (Roe 2003: 129), reduce dependence on capital markets, and allow their owners to extract steady rents from target firms, which in turn, incentivizes them to remain long-term invested even in the advent of temporary corporate crises (Ahrens 2019).

Until a wave of divestment in the 1990s and early 2000s (Beyer and Höpner 2003; Streeck 2010b), German house banks were the main representatives of this model. They used their universal investments and bank loans to exert influence on strategic decision making in large industrial firms. The formal arenas for corporate engagement were supervisory boards and special consortia in which the largest creditors coordinated loan programs, planned stock issues, or financed export investments. In addition, proxy votes were an important vehicle of corporate control. Until regulation was introduced in 2001, banks could vote at annual shareholder meetings on behalf of their clients as long as they had not received specific instructions to do otherwise. Since individual shareholders opted to engage only on rare occasions, banks could leverage their own direct holding to significant degrees (Franks and Mayer 2001). This proxy voting power could be employed in the choice of management and supervisory board personnel, their remuneration, and "through the approval or denial of bigger investment projects" (Ahrens 2019: 873).

	Rhenish capitalists	Activist investors	Passive asset managers
Patience	High	Low	High
Corporate governance	High	High	Low (but contested)
Internationalization	Low (but contested)	High	High
Actors*	Relationship banks, families	Hedge funds,	Index fund providers, sovereign wealth

	& foundations, big commercial banks (formerly)	private equity firms, wealthy individuals	funds, pension funds & life insurances
Sources of power	Cross-shareholdings, majority ownership, gatekeeping	Voice and exit, leverage	Bilateral consultation, economies of scale, political lobbying

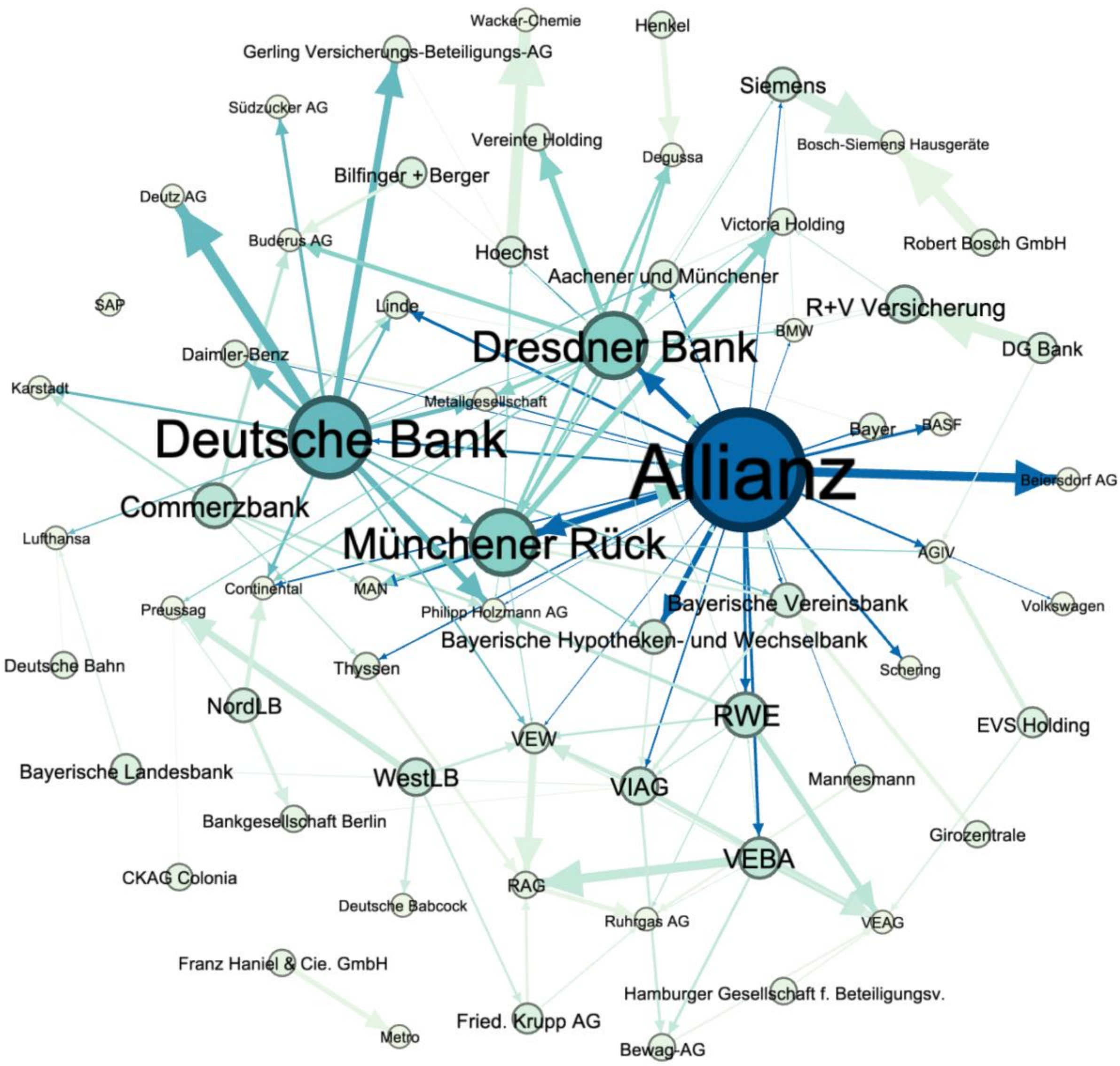
Table 2.1 Factions of finance and their operating strategies under the trilemma

* Matching financial actors unambiguously with certain solutions is a challenging (if not impossible) undertaking as most investors combine and diversify different types of investment strategies in a wide array of products. Actors are therefore matched with those strategies that *most* characterise their business model. As will be discussed in Section 2.5, this observed internal heterogeneity constitutes an important source of actors' conflicts of objectives.

CPE scholarship has pointed out that the combination of patient investments and engagement in corporate governance creates synergies that makes for a viable business logic (Hall and Soskice 2001). The absence of short-term pressures allows capital and labour to strike distributive compromises which involve a high degree of employment security, steady shareholder returns from long-term investments, and protection against hostile takeovers. For a long time, big German banks were willing to play this game of coordinated finance, because their role as universal investors and lenders gave them crucial access to inside information (Lütz 2005) and internal monitoring, aligned incentives, and networks of trust minimised the risk of corporate crises. In the context of this coordinated model of corporate finance, banks saw themselves not only as the long-term beneficiaries of their financial commitments, but also as fulfilling a social role. This somewhat idealised self-image was amplified by the fact that political elites did not waver to engage in quid pro quos that utilised the central position of Germany's largest financial institutions in their mutual interests (Massoc 2020: 138). It is this quasi-indistinguishable coalescence of public and private financial functions and practices that was fittingly captured under the label "Deutschland AG" (or, 'Germany, Inc.'; Meyer-Larsen 2000).

Network analysis visualises the central position that only a few key commercial banks and insurers—Allianz, Deutsche Bank, Dresdner Bank, and Münchener Rück—held as most dominant Rhenish capitalists (Figure 2.2). In 1996, shortly before its gradual dissolution, Deutschland AG consisted of 64 companies with a total of 142 patient capital ties (Monopolkommission 1998).

Figure 2.2 The position of Rhenish capitalists in the German corporate network (1996)



Note: Figure shows the corporate network of the 100 largest Germany-based firms in 1996. Size of nodes indicates relative number of outgoing ties (network centrality). Thickness of edges (arrows) indicates size of investments (Source: Author, based on Monopolkommission 1998; cf. Höpner and Krempel 2004).

However, the growing importance and reach of international capital markets and related business strategies challenged the logic of Rhenish capitalists. House banks faced two essential sets of conflict in this radically changed environment. The arguably most powerful pull factor that incentivised large commercial banks to cut domestic ties came from large industrial NFCs when they began to tap into international capital markets for funding. As Rhenish capitalists, German banks had set their interest rates largely independent from any meaningful competition and could surcharge a premium for their patient lending practices. Now, however, they had to match substantially lower interest rates that competitive international capital markets offered. In addition, German NFCs had significantly increased their financial independence over the previous years as export success and competitive wage restraint boosted profit shares (Braun and Deeg 2020; Höpner 2019). As a result, more often than before, German firms financed their operations out of their own savings. This weakened the central market position of German commercial banks even further.

Still, banks' fervent desire to internationalise their business models is not exclusively explained by coercive market forces, but also a logical consequence of growing internal pathologies. Most importantly, commercial banks' aspiration to turn themselves into successful international investment houses clashed fundamentally with the central role they occupied at the heart of Germany's Deutschland AG network. As the next section will argue in more empirical detail, it was specifically the short-term nature of international financial practices that contradicted banks' role as long-term patient protectors. Holding seats on supervisory boards and strategic interests in domestic firms undermined the stoic indifference required for investment banking.

By the end of the 1990s, Germany's large commercial banks found themselves hopelessly caught in the trilemma. While the German model of capitalism continued to operate under the premise of patience and strategic engagement, external pressures pushed their business models towards international financial integration. Banks tried to escape their trilemma by cutting network ties, divesting shareholdings, and freeing financial resources for international operations. In 2000, they were assisted by the newly elected Schröder government which abolished the capital gains tax on the sale of cross-shareholdings; heretofore the largest single obstacle to divestment (Gourevitch and Shinn 2005: 162). But even though the government provided banks with the legal opportunity to break the shackles of the trilemma, they never seemed to succeed in establishing themselves as serious competition against other, mostly Anglo-American capital market heavyweights (Beck 2021).[6] Instead, they remain caught in a limbo between their desire to excel at the game of international investment banking and the reality of providing the financial infrastructure to still heavily retail-dominated domestic markets.

Still, the complicated situation of (former) commercial house banks does not spell the end for the Rhenish capitalist investment logic. In line with Deeg's bifurcation thesis, other actors continue on this trajectory, most notably, smaller savings banks, cooperatives, but also powerful family investors. In 2021, families and foundations alone still constitute 42.6 percent of all strategic investors in DAX listed firms and almost 10% of total investors. Together with direct investment holdings and Aktiengesellschaften (AGs), and the government, these three types of Rhenish owners continue to control almost 20% of total DAX shares (DIRK 2021). Car manufacturers like BMW, Volkswagen, and Porsche, as well as large publishers like Bertelsmann and Springer, are but the most prominent multinational corporations still in family hands. The characteristic logic of

[6] For a useful overview, see Financial Times, 'The rise and dramatic fall of European investment banks in the US', 2 March 2020, URL: https://www.ft.com/content/68f8d7a6-56fb-11ea-a528-dd0f971febbc (Accessed: 3 November 2020).

action of Rhenish capitalism thus continues to operate, even as internal contradictions and conflicts of objectives captured in the trilemma pushed and pulled large commercial banks out of the arrangement.

2.4.2 Activist investors

A series of liberalising reforms in the 1990s opened up German equity markets to the world (Beyer 2003; Beyer and Höpner 2003; Cioffi and Höpner 2006).[7] By the year 2000, the number of companies invested in the Deutschland AG network shrank from 60 in 1996 to 41 and “the number of capital ties between the 100 largest companies dropped from 168 to 80, while the number of capital ties between the network participants [fell] from 143 to 72” (Höpner and Krempel 2004). This created a market vacuum for activist overseas investors. Their total share of investments in the DAX30 capital stock increased rapidly from 36 percent in 2001 to 52 percent in 2007.[8] Overall, international investors owned 50 percent of the free float of DAX30-listed corporations by 2005 and more often than ever engaged also in hostile takeovers (Watson 2005; Jenkinson and Ljungqvist 2001).

Activist investors are defined here as individuals or groups that deliberately buy stakes in a target firm seeking to exert influence on management decisions to improve their own investment returns in the short to medium run. Useem (1996) describes this logic as a shift from the dominance of managers (and other firm-level stakeholders) to the dominance of shareholders. The key actors driving this model are private equity investors, hedge funds, and wealthy individuals. It goes without saying that their business strategy differs substantially from Rhenish capitalists. Activist investors are typically invested directly in target firms (Scheuplein 2019). But unlike Rhenish capitalists, these investments are

[7] For an overview of different reforms, *see* Deeg (2010: 121).

[8] Börse.de, URL: https://www.boerse.de/indizes/aktienbesitz-dax-konzerne/grafik (Accessed: 4 November 2020).

often financed via leveraged buyouts whereby investors draw on external debt to finance corporate investments. This strategy allows them to mitigate personal risk because investments require relatively low levels of equity. Using this strategy, these funds usually acquire majority shares of a target firm before de-listing and restructuring it for short-term profit. The debt required for this buyout is often transferred to the target company's balance sheet which is then required to pay special dividends to the fund. Froud and Williams (2007) call this practice "value extraction" which results in a significantly increased debt load at the target firm (Fichtner 2013).

This logic of action combines financial market orientation with active influence on strategic decision making and corporate governance in target firms to systematically extract rents for shareholders. The reason for their belligerent activism lies in the business model itself. Private equity funds require constant short-term cash flows to finance their aggressive leveraged buyout strategy and service interest and debt payments. This creates the potential for significant firm-level distributional conflict and unrest as activist investors "benefit from asset transfers at the expense of other stakeholders in the firm such as the incumbent executive cadre, workers, suppliers or creditors" (Fichtner 2013: 365). In case a target firm remains listed, the new investors may call for "the payment of special dividends, the launch of a share buy-back program or the sale of divisions that are not thought to be part of the "core competency" of the company" to maximize short-term returns for shareholders (*ibid*: 366).

Unlike Rhenish capitalists, activist investors focus tenaciously on the target firm's short-term performance and "clamor for change when they fall short" (Useem 2014). Since the downsizing of Deutschland AG, German firms have had to reckon with this new type of international investors. A case in point is provided by the "Deutsche Börse affair" where a group of hedge funds ventured to obtain large controlling stakes in Germany's leading stock exchange operator, prevented a long-planned takeover of the London Stock Exchange, and instead disbursed surpluses to their shareholders (Watson 2005). Moves like these created considerable hysteria in the media and political circles with fears that the traditional German model of industrial coordination could falter under the pressure of an activist investment logic.[9] This discourse climaxed in the now almost iconic 'locust debate' sparked by the Chair of the governing SPD, Franz Müntefering, who alleged in an interview that "some financial investors don't think about the people whose jobs they destroy – they remain anonymous, have no face, attack companies like swarms of locusts, grazing them bare before moving on".[10]

In the end, the pessimists' predictions about the steamrolling power of activist investors did not materialise. On the contrary, the institutional constraints of the German model of capitalism captured in the trilemma provide a formidable obstacle to a short-term investment logic. As argued earlier, patient capital provision and long-term orientation, which are enforced by high levels of industrial citizenship and co-determination, remain powerful paradigms. For their aggressive strategies to bear fruit in the short term, international investors require direct and unimpeded access to decision making authority at firm level. However, German CEOs typically lack the autonomy to force radical strategic changes onto a company as the core elements of coordinated financial systems (parity in supervisory boards, worker representation, and co-determination) give powers to myriad veto players and shield firms against excessive short-term prioritisation (Goyer 2007, 2011; Culpepper 2005; 2011). Although financial market integration has demonstrated that international investors are a force to be reckoned with, activist investors have therefore played a less notable role in Germany's model of corporate finance compared to other jurisdictions.

2.4.3 Passive asset managers

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[9] See Höpner 2001, Jackson 2003, and Hackethal *et al.* 2005 for similar forecasts.
[10] Interview with Bild am Sonntag, 17 April 2005; my translation.

Since the Global Financial Crisis of 2008, passive asset managers have obtained a dominant position in global equity markets including Germany (Sushko and Turner 2018). Different factors have contributed to their meteoric rise: regulatory responses to the crisis required traditional banks to strengthen their equity ratios which created competitive advantages for less regulated shadow banks; low interest rates incentivised small-scale savers to invest in stock markets; market uncertainty increased risk aversion; and defined-contribution-type pension systems and the privatisation of welfare provision strengthened the role of mutual funds as collective wealth managers (Sekanina 2018).

Passive asset managers' financial bestsellers are exchange traded funds (ETFs). Rather than a bundle of "handpicked" stocks, ETFs are pooled investment securities that replicate the performance of entire indices, sectors, or commodities.[11] Since their investment strategy requires low levels of portfolio maintenance, passive asset managers can offer low fees for high degrees of diversification. The three biggest investment firms––BlackRock, Vanguard, and State Street––specialise in providing these passive investment products and have grown into global equity market behemoths in recent years (Fichtner *et al.* 2017). In 2021, BlackRock's global assets under management alone totalled more than USD9 trillion, more than twice the annual GDP of Germany. In 2019, BlackRock was the single largest investor in about a third of all DAX-listed firms and owned approximately 10 percent of the entire DAX free float (DIRK 2020). Although sovereign wealth funds and other pension funds operate under a similar logic (Deeg and Hardie 2016), the focus of my analysis will lie on the "Big Three" investment funds as by far the largest and globally most dominant representatives of this class of investors.

ETFs are a product of global financial innovation. After the first index fund was launched on the Toronto Stock Exchange in 1990, it took until the end of that decade for this new market segment to gain traction (Deville

[11] See Charupat and Miu (2013) for a detailed explanation of index funds' business model.

2008). Since then, passive asset managers are driving a global process of financial re-concentration (Braun 2021). To exactly replicate a given index, for example, Germany's DAX40, passive asset managers must hold equivalent shares of each index member. This strategy combined with the overwhelming success of their business model has transformed the "Big Three" into new fully diversified 'universal owners' that dominate equity markets around the globe (Braun 2016).

A key feature of index investors' business model is their lack of exit options (Jahnke 2019). In principle, index funds must remain invested in a firm as long as it is a member of an index they are tracking. This has led observers to speculate whether asset managers are indeed driving a global return to patient capital provision. Although political economy literature on these new financial actors and their behaviour is still in its infancy, it is tentatively argued that for passive index funds "on balance, the likelihood of forced total exit remains low and loyalty is high. Overall, patience is therefore high" (Deeg and Hardie 2016: 640), and that "an economy dominated by asset managers seeking low-cost exposure to the market portfolio may, in principle, open up the possibility for the internalization of externalities, the formation of long-term orientations and the provision of "patient capital"" (Benjamin Braun 2016: 268). The German financial press, on the other hand, appears more certain and even sees a revamped version of the former Deutschland AG on the horizon: "Organized capitalism did not change its *design*, only its *designer*. What used to be Deutsche Bank, today, is BlackRock".[12] In short, the combination of international financial investment strategies with the provision of patient capital suggests that passive asset managers' logic of action constitutes a third distinct solution to the trilemma of German finance capitalism.

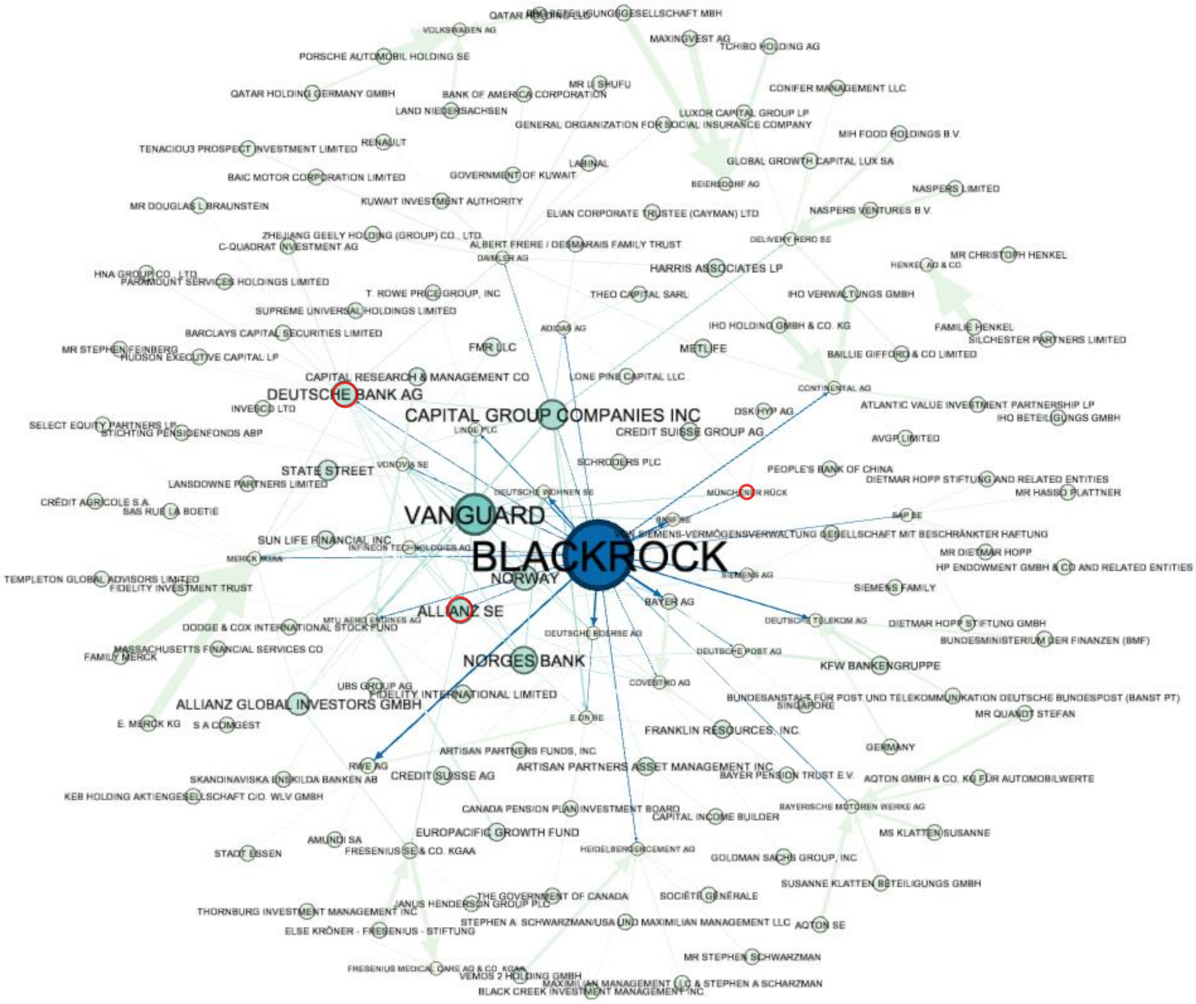
Alas, their relation to domestic corporate governance regimes remains deeply ambiguous, not least because publicly available data on their engagement is hard to come by. Scholars well versed with asset

[12] Handelsblatt, 'Mächtige Vermögensverwalter: Wem gehört die Welt?', 18 November 2016 (my translation).

managers' business model point out that the passive investment logic provides no immediate financial incentive to influence the corporate governance of individual firms (Jahnke 2019). Asset managers generate their profits from fees. Fees, in turn, depend on the scale of investment, meaning they are a function of the total size of assets under management and/or their combined price. In contrast to activist investors, individual firm performance has no immediate effect on asset managers' financial returns. Investment and disinvestment are merely determined by a firm's membership in an index. On paper, this leads to a paradoxical situation where asset managers lack exit options and are permanent universal owners, while they are also "shareholders without any skin in the game" (Braun 2021).

Network analysis illustrates that the passive investment strategy has allowed asset managers to obtain a central and dominant position in the German corporate network. In Figure 2.3 (next page), the size of nodes indicates the number of an investor's outgoing ties relative to other actors and thus, the centrality of an investor's position within the corporate network. The thickness of the edges between different nodes signifies the relative size of each investment. I use the *Orbis* database which is frequently consulted for studies on corporate governance and interfirm investments. Unfortunately, Orbis does not provide complete corporate ownership data for Germany prior to 2007 and therefore Figures 2.2 and 2.3 are not directly comparable. Nonetheless, a quick glance indicates that corporate ownership has become much more pluralist and international, and that BlackRock and Vanguard have obtained a central and dominant position. In 2018, the "Big Three" were the largest individual shareholders in 40 percent of DAX30 firms. BlackRock alone holds 3%-stakes in 65 and 5%-stakes in 35 German listed firms and owns an average of 10.3% of the total DAX institutional free float, followed by Vanguard with 5.1% (Fichtner and Heemskerk 2020; DIRK 2020). Given this centrality—and strikingly similar to the largest Rhenish capitalists—academic observers assign passive asset managers an "almost *public utility-like role* as the dominant common owners of a continually increasing number of listed companies" (Fichtner 2020; emphasis added).

Figure 2.3 The position of passive asset managers in the German corporate network (2020)



Note: Figure shows the corporate network of DAX30-listed firms and their investors with >3% of ownership in 2020. Size of nodes indicates relative number of outgoing ties. Size of edges (arrows) indicates size of investments. For reference, formerly dominant Rhenish capitalists are highlighted in red (Source: Author's calculations, based on Orbis database).

But as the next section argues, just like their Rhenish cousins, asset managers' logic of action is not free from contradictions. The trilemma helps to identify sources of conflict that asset managers face in Germany's constrained (and, in comparison to the Anglo-American corporate governance model, quite exceptional) institutional environment. Illustrative case studies highlight different reasons for them to exert influence on corporate governance and show where and how their international investment logic clashes with domestic corporatist institutions.

2.5 Internal contradictions, negative externalities, and conflict

I have explored the logic of the trilemma of the German financial model from a conceptual angle, and with regards to the strategies and business models that different factions of finance might pursue. This section uses brief case studies to empirically illustrate the historical materialisation of the trilemma. The case studies highlight the conflicts of objectives that factions of finance potentially face, and the implications of these internal conflicts for the evolution of the German financial model. It is argued that internal contradictions in the logic of action entice financial actors to test the limits of the trilemma. In turn, this creates the potential for conflict with other actors and alternative logics, who operate under different institutional sub regimes. This suggests that while institutional niches can coexist as implied by the bifurcation thesis, increased actor plurality in German equity markets means that these sub regimes are likely more conflictual than in the past. The "pluralisation" of the German financial system since the 2000s, and especially the rise of passive asset managers into a dominant position in Germany's corporate network more recently, increase the risk of clashing logics between factions of capital.

Rhenish capitalists face tensions between, on the one hand, a relationship-based approach to corporate credit and equity provision and, on the other, the often more profitable practices of international finance and investment banking. Two takeover sagas in Germany during the late 1990s serve as useful case studies to illustrate the historical materialisation of the trilemma, with big banks as former core representatives of Rhenish capitalism.

In 1997, steel and mining firm Krupp-Hoesch planned the country's first hostile takeover of the venerable (and even larger) steel giant Thyssen. This event marked the first time that Germany's largest banks sheared off the traditional German model of capitalism and organised an Anglo-American style takeover. The move caused a stir when it became publicly known that Germany's two biggest domestic banks, Deutsche Bank and Dresdner Bank, were actively pulling the strings on both sides of the planned merger. While they advised Krupp with regards to takeover strategy and stood ready to finance the lucrative deal, they also commanded seats on the supervisory board of Thyssen. The same Deutsche Bank management board member, Ulrich Cartellieri, was responsible for credit business with both merging firms. In addition, London investment bank Deutsche Morgan Grenfell, which Deutsche Bank had bought some years earlier, was simultaneously involved in business relations with Krupp-Hoesch and Thyssen, and therefore had access to detailed insider knowledge about each firm's financial status.

The fact that in Germany no strict separation exists between commercial and investment banking functions fundamentally aggravated the pressures of the trilemma for big banks and opened various conflict lines, both internally, and with other Rhenish stakeholders. Large industrial firms which were part of the Deutschland AG network and had profited from banks' protection against hostile takeovers quite suddenly began to fear that their long-time creditors could begin "gold-plating the knowledge they had acquired in the lending business in investment banking".[13] Labour representatives from the IG Metall and in the works councils of the merging firms mobilised in staunch opposition against the deal fearing the "Americanisation" of industrial relations, the introduction of hire-and-fire practices, and a sudden loss of jobs exceeding 20,000 workers, who would fall victim to radical rationalisation measures in an effort to self-finance the takeover. Chancellor Helmut Kohl, aware of the electoral repercussions a

[13] Der Spiegel, 'Intime Einblicke', Vol. 14/1997, 30 March 1997 (my translation), URL: https://www.spiegel.de/wirtschaft/intime-einblicke-a-e2f6a151-0002-0001-0000-000008687255.

loss of thousands of jobs in the steel industry would entail, also opposed the takeover, and lamented the greed of bankers and the power and brazenness of industrial top managers in pursuing the deal. Massive protests were organised in front of the headquarters of banks involved in the merger. Nonetheless, efforts to prevent the deal were ultimately doomed to fail. After intense public confrontation and a first attempt to combine just their steel divisions, the two industrial giants eventually decided to merge altogether a few months later.

The Thyssen and Krupp saga was the first, but certainly not the only time these conflicts materialised (for a similar case, consider the Continental and Pirelli takeover in which Deutsche Bank was once again active on both sides; Höpner and Jackson 2003: 158). Similar in many ways, but equally different with regards to the outcome, an important historical illustration is provided by the hostile takeover of Mannesmann by British telecommunication giant Vodafone. This deal was made possible because Germany's biggest banks and largest shareholders in Mannesmann, a venerable multi-industry company, decided to avoid conflicts of interests and, for the first time, recused themselves from a corporate merger and refused to act as financial shields against foreign investors. This gave international investment banks like Morgan Stanley, Merrill Lynch, J.P. Morgan, Goldman Sachs, and Warbug Dillon Read the opportunity to organise a takeover in Germany's otherwise highly isolated corporate environment. This in turn, weakened the trust and confidence of other domestic firms in the financial protection that large banks had provided for decades. After the debacle of the Thyssen-Krupp merger, the Mannesmann takeover made abundantly clear the risks and consequences associated with a transformation of Germany's largest banks from Rhenish capitalists into international investment houses.

Still, conflict between Rhenish financial and non-financial firms—and between capitalists and labour—during hostile takeovers was just one of many of the trilemma's symptoms. It also materialised in internal conflicts within the banks and on their management and supervisory boards. The shift towards international investment banking strengthened the camp of investment bankers on the management board and hardened the fronts between the "traditionalists" who had been socialised in the classical house bank relationship, and the up-and-coming international managers who saw much larger profit margins in global financial services. Thirty years later, this conflict is still ongoing. In fact, the trajectory of big banks' internally incoherent logic and the restless flip-flopping between the different poles of the trilemma can almost perfectly be read from the evolution of CEOs on Deutsche Bank's board of management.

Rolf-Ernst Breuer, at the time head of investment banking, played a key role in the Krupp-Hoesch and Thyssen takeover. Shortly after the deal, he became CEO of Deutsche Bank, which, after his predecessor Hilmar Kopper had initiated important first steps, paved the way for a determined shift towards international investment banking. Breuer was succeeded by the infamous Swiss banker Josef Ackermann, who cut thousands of jobs within the bank, especially in the traditional credit divisions, and radically expanded Deutsche's investment business abroad. During the global financial crisis, it became clear that that the bank's exposure to excessive risks in international markets had become a grave liability. Consequentially, the next CEOs, a dual leadership formed of Anshu Jain and Jürgen Fitschen, represented an (admittedly rather minimal) retreat from the powerhouse-investment-bank-logic of the previous decade. While Anshu Jain had for many years been the bank's most successful investment banker in London, Jürgen Fitschen represented the corporate and credit lending camp in the bank. At the time, his appointment was seen as providing a counterweight to the investment banking orientation of Jain, and a timid reorientation towards domestic credit business. Fitschen remained CEO when Anshu Jain was replaced by John Cryan, who himself was appointed on the basis of his merit as company doctor. In this capacity, Cryan was mostly occupied with expensive lawsuits against the bank that had piled up as a result of fraudulent high-risk activities in global investment banking. During his tenure, Deutsche never escaped the red figures.

Today, Deutsche is led by Christian Sewing, who, notably, started as young apprentice in the bank, spent his entire career as an employee of Deutsche, and was appointed to the CEO position as specialist for retail banking. His appointment marks a clear shift in the bank's orientation, away from its troublesome international investment banking logic and back to more domestic-oriented credit business.

In stark contrast to the experience of big banks, Germany's myriad savings banks and cooperatives, as well as family capitalists and large foundations, continue to provide patient capital and relationship-based finance to myriad firms. Given their regionally and locally anchored business models, the Rhenish logic remains a sustainable strategy. As a result, these actors are largely immune from endogenous inconsistencies and exogenous financial pressures (Cassell 2020).

While Rhenish capitalism has undergone bifurcation, activist investors have fewer options available to accommodate their logic of action with the institutional constraints of Germany's model of capitalism. Corporatist institutions and complementarities remain thick and outside investors with a short-term oriented logic typically struggle to gain sufficient leverage over corporate decision making (Goyer 2011). Long-term oriented finance remains an important tenet of coordinated market economies that short-term oriented investors fail to provide. As a result, this investment logic faces an uphill battle and typically retreats to other jurisdictions where short-term profit-making opportunities are less constrained.

Passive asset managers, on the other hand, face similar pressures as big banks under Rhenish capitalism, albeit for different reasons. On the one hand, they are aware of their role as universal owners and the problems of partiality which Rhenish capitalists faced when it came to corporate mergers. Therefore, asset managers are generally quite reluctant to engage in corporate governance and categorically refuse seats on the supervisory boards of German firms to protect their integrity as independent investors. But as it turns out, universal ownership and impartiality are difficult to reconcile. As passive index funds grow into global universal owners and attract more and more retail investors who are willing to accept lower returns for greater diversification, their investor base grows more heterogenous and their structural position evermore powerful.

This makes asset managers and their investments vulnerable to public pressure—specifically with regards to Environmental, Social, and Governance (ESG) criteria (Barzuza *et al*. 2020). With a lack of exit options, the use of voice becomes the only route to fulfil fiduciary duties, as BlackRock CEO Larry Fink admits in one of his recent annual 'Letter to CEOs': "In managing our index funds, […] BlackRock cannot express its disapproval by selling the company's securities as long as that company remains in the relevant index. As a result, our responsibility to engage and vote is more important than ever" (BlackRock 2018). ESG and public image considerations are thus key reasons why passive asset managers are often more activist than their business model would suggest, and why they seek institutional reforms towards more influence in German companies.

These pressures and their potential for conflict with other stakeholders become clear when scrutinising the investor relationship between the world's largest asset manager BlackRock and German listed firms. As highlighted in the previous section, BlackRock holds commanding equity stakes and voting rights in virtually every listed company in Germany. The international finance logic that dominates BlackRock's investment and engagement strategy frequently clashes with the Rhenish logic of co-determination and long-termism. A case in point was provided by the "Dieselgate" affair at Volkswagen, which in turn raised concerns regarding an apparent lack of transparency in German multi-national corporations (MNCs). Volkswagen is *the* textbook example of a German multi-national manufacturing firm. Thus, the following case lends itself quite ideally to explore the dynamics of competing logics between factions of capital with highly contrasting institutional understandings and socialisations.

In 2015, the US Environmental Protection Agency (EPA) discovered that Volkswagen and other German car manufacturers had equipped their diesel cars with a special software programmed to detect when emissions tests were performed. During such tests, the software would activate an exhaust filtering system to adjust environmental performance and improve the test results. During normal operation this filtering system would shut down and actual CO_2 and nitric oxide emissions would well exceed, both, the official test results and federal legal limits. In the aftermath of these grave revelations, Volkswagen CEO Martin Winterkorn was forced to resign, and a series of lawsuits and compensation claims, many of which are still ongoing, amassed to at least €32bn in financial damages at the company.[14]

In the aftermath of this scandal, BlackRock accused "the insufficient independent oversight provided by VW's supervisory board" to have "played a major role" in the Dieselgate scandal (BlackRock 2020). As one of the largest shareholders of Volkswagen's free float, BlackRock attacked the management and supervisory boards for a lack of transparency and independence. The asset manager took issue with four related aspects. Above all, it voiced concerns about the fact that Volkswagen's ownership composition was (as many German MNCs are) dominated by just three shareholders who together command 90.1 percent of voting rights at annual meetings. Two of these three shareholders are typical Rhenish capitalists: the Porsche-Piëch family, which commands 53.3% of votes and the State of Lower Saxony with 20%. Naturally, this predominance crowds out the interests of smaller investors. Secondly, since these blockholders have the right to appoint a number of representatives to the supervisory board, space for shareholder elected members becomes scarce. In its bulletin to investors, BlackRock (2020) points out that only a total of two members on the board are elected directly by shareholders—their main yardstick for independence—undershooting its minimum requirement of one-third of independent representatives. Thirdly, the investor criticised the election of members on the board for five-year terms, the maximum tenure

[14] Financial Times, 'BlackRock attacks Volkswagen's post-Dieselgate governance', 1 October 2020.

before re-election allowed by German corporate law. This rule, according to BlackRock, violated international best practices and curtailed shareholders' ability to effectively control the board. Fourthly, and finally, BlackRock lambasted the particularities of the voting processes at Volkswagen which require shareholders "to complete individual proxy forms to exercise their rights, due to a German law that has governed the company since it was privatised in 1960".[15] Since BlackRock's investor base is highly heterogenous with millions of individuals as proxies, this law curtails the voting power of asset managers in substantial ways.

As a result from these four issues, BlackRock argued, "the company had not addressed problems that played a "major role" in the Dieselgate scandal" and "individuals who were VW executives at the time of the discovery of so-called "cheat devices" were still in charge" (BlackRock 2020). In protest against this alleged lack of corporate transparency and independence, the asset manager voted against the approval of actions of members of the management and supervisory bords who held management positions at the time of the emissions scandal, including CEO Herbert Diess, and chair of works council Bernd Osterloh.

It is important to note that these alleged insufficiencies are all but one *not* specific to Volkswagen' corporate regulations, but in fact key elements of Rhenish co-determination more generally, which, in this form or another, can be found in any German joint-stock corporation with more than 500 employees. Hence, while the Dieselgate scandal served as a media-savvy hook for BlackRock's critique, it rings true well beyond the company grounds in Wolfsburg. As such, this case and its fallout highlight that the international finance logic based on shareholder value represented by passive asset managers like BlackRock quite easily clashes with the traditional stakeholder orientation of Rhenish capitalism that continues to govern even Germany's largest and most internationalised corporations. As BlackRock and other giant investment firms continue to amass

[15] Ibid.

commanding stakes in German listed firms, these conflicts between what is often considered "international best practice" and the particularities of German institutions of patience and co-determination are only to intensify in the future. Critically, this case demonstrates that against initial considerations, passive asset managers are not intrinsically uninvolved in corporate governance but facing strong pressure from shareholders also desire to use their considerable voting rights to shape models of capitalism according to their ideas.

Taken together, these case studies suggest that competing logics of actions of different factions of finance can produce negative externalities and fuel institutional contestation. Although the rise of passive asset managers is still a relatively recent phenomenon, and therefore a moving target, scattered evidence of clashes between these new universal owners and domestic corporate governance institutions indicates heightened conflict potential (Sekanina 2018). To address their fiduciary duties, asset managers have an interest to maximize their influence on corporate governance institutions. From a Rhenish capitalist perspective, however, equitable distribution of power between capital and labour in corporate governance is essential in preserving shop-level peace, a stable production environment, and knowledge exchange.

Although to date only few studies have conducted systematic empirical analyses of corporate relations involving passive asset managers, most of them confirm my observations from the Volkswagen case and conclude that the largest investors do exert strategic influence through bilateral consultations with management boards, political lobbying, and proxy voting (Fichtner *et al.* 2017; Fichtner and Heemskerk 2020; Jahnke 2019). Although large asset managers are mostly passive investors, they are also strongly shareholder oriented with the tensions with Volkswagen being just one of numerous cases of active and direct involvement. At the same time, quantitative research on their stewardship more generally has shown that asset managers use their significant voting rights to vote mostly in line with management, thereby shifting the power balance between capital and labour in favour of the former (Fichtner and Heemskerk 2020).

Pivoting back to key theoretical considerations, the trilemma and the contradictions of different logics of actions it reveals provide us with important insights into the relationship between financial actors and how Germany's model of finance has evolved accordingly. The trilemma provides a unifying model whose properties can simultaneously explain (1) why big banks escaped Rhenish capitalism and engaged in international investment banking, (2) why activist investors failed to develop a dominant position despite the formal opening of domestic equity markets, and (3) how passive asset managers in turn succeeded in establishing such position.

However, the trilemma also reveals potential conflict lines between factions of capital. Contrary to the more conventional use of trilemmas to describe systems in equipoise (e.g., Iversen and Wren 1998; Rodrik 2011), shifting attention to actors and their strategies suggests that contestation within German political-economic institutions is highly dynamic. Solutions to this "soft" trilemma are merely second-best arrangements. The emergence of a new strategy—as embodied, for example, in passive asset managers' investment logic—does not supersede the precedent, nor does a formerly dominant class of capitalists easily vanish in defeat.

Given that competing strategies can co-exist, as originally argued by the bifurcation thesis, this trilemma should not be interpreted as a neoclassical equilibrium model in which any solution, once chosen, represents a quiescent point. On the contrary, competing logics produce externalities and frequently come into conflict with each other. It is therefore more appropriate to interpret the trilemma as a *'soft'* set of relatively unstable knife-edge equilibria tied together by the institutional constraints of the German production model. A more dynamic, actor-centred approach focused on the logic of different investment models, the internal conflicts of objectives, and the clashes of different strategies illustrates that the current visage of finance is much more heterogenous than in the past, made up of pluralist factions of capital whose interests, strategies, and behaviour always have implications for other stakeholders. Given these distributional implications, the trilemma of the German financial model suggests that systemic arrangements do not impose themselves in a linear way, but that actors need to fight for systemic change, and defend their institutional sub regimes. Therefore, actors should play an even more crucial role in political-economy analysis as the bearers of different and oft-competing systemic logics.

2.6 Conclusions

In the firm-centred scholarship on the comparative political economy, finance has for the most part played only a supporting role. Reference is often made to Zysman's (1983) seminal work on the political economy of national financial systems and his bank-based/capital market-based dichotomy. But quantum leaps in global financial integration and the proliferation of international investors in even the most secluded equity markets have challenged views in defence of distinct national typologies (Hardie *et al.* 2013: 695). Germany represents a most-likely—and thus critical—case to this effect. As network analysis demonstrates, the world's largest investment funds have effectively obtained a central position in Germany's corporate network, one that was once held by domestic banks and insurers.

Observers well versed with the nature of Germany's financial model have characterised change stemming from international financial integration as "the rise of internal capitalist diversity" (Deeg 2009) fuelled by "some firms […] construct[ing] firm-level institutional complementarities that deviate from the traditional German economic model" (Deeg 2014: 47). While these insights remain relevant and accurate as ever, international financial integration since the Global Financial Crisis has radically increased actor pluralism in domestic financial markets. As a result, the process of institutional niche building has arguably become both, more complex and more conflictual.

In this paper, I have proposed a trilemma to conceptualise financial actors' logics and their internal contradictions and to leverage the observed heterogeneity into a clearer understanding of the power relations underlying institutional change in the German financial model. While investors face strategic trade-offs between the provision of long-term patient capital, the direct influence on corporate decision making, and the integration into international financial markets and related business practices, a set of different solutions to the trilemma remain possible. However, in contrast to how trilemmas are usually designed, these solutions do not represent stable points of equilibrium. Instead, internal contradictions and conflicts of objectives lead actors to test the trilemma's limits and potentially even change institutional features that constitute integral parts of alternative logics of action. Consequently, institutional sub regimes may come into conflict more frequently than previously acknowledged.

Based on these premises, I hope that the trilemma can create fruitful avenues for future research on the role of finance and institutional change in coordinated market economies. Firstly, scholars could investigate the politics of mediating conflict between different logics of action. This could involve analyses of interest group constellations that reinforce (or destabilise) certain strategies over time, including the role of political parties and policymakers as key mediators.

Secondly, next to its political implications, the trilemma invites us to update our understanding of the role of patient capital in CMEs. While early analyses have concluded that passive asset managers may in principle reinvigorate the provision of patient capital at a global scale (Deeg and Hardie 2016: 640; Braun 2016: 268), the trilemma suggests that durable blockholding alone is not a sufficient characteristic of patience. While both, Rhenish capitalists and asset managers command such blocks of shares, their engagement with target firms differs in crucial ways. The relationship-based approach of Rhenish capitalists creates synergies between investors and target firms that provide the incentive for counter-cyclical support in times of crisis. This key quality of patience is absent in the case of passive asset managers who base their investment decisions purely on a firms' membership in an index. Patient ownership should therefore not simply be measured and operationalised by the prominence of blockholdings in an economy. Instead, the focus should also lie on the relationship between financial investors and target firms, and especially on the extent of financial solidarity. This makes an actor-focused approach key to understanding patient capital, and the effects of financial pluralisation on corporate governance.

Thirdly, future research could use the trilemma to investigate the dynamics and implications of actor plurality and institutional contestation across countries. I would argue that the logic of the trilemma and its analytical utility are not confined to the German case but should 'travel' to other political economies. While the trilemma's properties (that is, its corners) are universal, the actor and power dynamics, and thus, the dominance of certain strategies over others, will differ from country to country. This is particularly true in coordinated financial systems similar to Germany's, where tensions between domestic formal and informal norms and international market-based finance continue to create pathologies and conflict. In France, for example, the *noyaux durs* system centred around Paribas, Société Générale, Suez, Banque Nationale de Paris (BNP), and AXA insurance group for a long time almost perfectly mirrored the bank-dominated corporate governance system in Germany (Culpepper 2005: 187). Here, too, actors at the core of the corporate network began to divest cross-shareholdings when their role as universal owners became incompatible with alternative business strategies. However, in stark contrast to Germany, in France international activist investors faced fewer impediments to market access which led to different outcomes in corporate governance and patient capital provision (Goyer 2011).

Italy (and similarly, Japan), on the other hand, continues to be dominated by a pyramidal model where a small number of large companies continue to control a large majority of listed firms. While large banks were not forced to internationalise their balance sheets in ways similar to Germany, they struggled instead with performance in domestic markets and at regional and local levels (Jones 2021). Again, this difference should have implications for the relationship between financial and non-financial firms and the power relations between different factions of capital. Finally, passive asset managers have established a strong presence in all of the above-mentioned countries, most notably so in Japan, France, and Germany, and to a slightly lesser extent in Italy (Fichtner and Heemskerk 2020: 11). The trilemma could thus be used to explore the conflict lines between passive asset managers and domestic corporate governance systems under different versions of coordinated financial systems.

In closing, it is worth noting that institutions are rarely homogenous, perfectly oiled machines, but instead, internally diverse and at times antithetic. The German political economy is no exception to this rule; indeed, it is perhaps even an outstanding example of it. At the same time, this conclusion does not render national typologies dead and buried. Distinct national structures—articulated in institutional complementarities––continue to define the boundaries of internal capitalist diversity. To unpack the underlying dynamics, actors and their internal logics of action should be admitted a more prominent role in the CPE research program.

3

In Bed with the Banks? The Power of Producer Groups and the Politics of Financial Liberalisation in Germany

Abstract

Although Germany's political economy is usually considered a bulwark against financialization pressures, large commercial banks successfully mobilised political support for pathbreaking liberalising reforms in the late 1990s. Existing literature tends to reduce this regulatory regime shift to structural factors, leaving aside the importance of producer group contestation and political agency involved in the reform process. How could large banks win meaningful regulatory battles despite the opposition from other dominant interest groups? This paper analyses political conflict involved in the abolition of capital gains tax on cross-shareholdings that long represented the most significant obstacle to financial liberalisation. Elite interviews and an analysis of over 100 international newspaper sources suggest that Chancellor Gerhard Schröder used the tax reform to compensate creditor banks for a bailout of *Holzmann AG*, the country's second largest construction firm at the time. Until then, calls from large commercial banks for the abolition of the tax had been offset by a counter-alliance of manufacturing firms and local banks who were concerned about growing shareholder dominance. A sudden increase of large banks' political leverage in the context of an idiosyncratic corporate crisis provided the window of opportunity for a pathbreaking liberalising tax reform. My results suggest that in Germany the power of finance is conditional on infrastructural ties with other domestic producer coalitions, and on the electoral agenda of political leaders.

3.1 Introduction

During the last three decades, the finance industry has experienced turbo-charged growth at a global scale. A process of deep financial integration first gained a foothold in the more liberal market economies such as the United States and the United Kingdom, but soon spilled over to even the most rigid political economies. Germany represents a paradigmatic case of such former stronghold, where the manufacturing industry dominates and tightly coordinated corporate governance structures with myriad veto players proved a tough playing field for financial investors in the past (Zysman 1983; Goyer 2011). But the unfazed internationalisation of large financial and non-financial firms since the late 1990s has led accepted truths about the bulwark qualities of German capitalism to be put into question (Hardie *et al.* 2013).

Existing explanations for institutional change in the German financial system focus predominantly on structural push and pull factors. On the one hand, scholars have pointed to spill over effects from European integration which required German policymakers to pry open its almost cartel-like industry structures and remove long-standing market entry barriers (Hackethal *et al.* 2005; Mertens 2017). On the other hand, more recent research has argued that international financial integration made domestic credit markets a suboptimal business environment for Germany's largest commercial banks. Before financial liberalisation, they had specialised in the provision of industrial credit to domestic firms. While banks exploited their monopolistic position to extract markups, domestic firms profited from creditors' patience and their protection from hostile takeovers. However, weakening demand for domestic business lending and the promise of exorbitant profits from international investment banking undermined banks' business model and destabilised the financial system from within (Braun and Deeg 2020; Klein and Pettis 2020: 160). The outcome of these pressures is depicted as a process of institutional bifurcation where smaller savings banks and cooperatives continue to operate mainly under the domestic financial model, while large commercial banks have adjusted their business models to the new logic of market-based finance (Deeg 2005; Hardie *et al.* 2013).

However, changing deeply institutionalised routines is rarely an uncontested undertaking. It is a well-established fact in political-economic scholarship that economic liberalisation and international integration do not lift all boats equally (Hacker and Pierson 2010: 20; Piketty 2014). German financial deregulation drew a wedge between small and medium-sized businesses (SMEs), domestic savings banks, and labour unions who continued to fare well under the protective veil of the existing system, and large commercial banks that evermore often considered themselves on the losing end of the institutional arrangement and wished to trailblaze into international markets. While structural determinants play a key role in explaining change in German finance capitalism, redesigning deeply embedded institutional structures in favour of one dominant interest group required active policymaking and involved trade-offs for other important stakeholders.

What is more, the fact that large commercial banks were able to enforce such far-reaching institutional change despite grave concerns from (and for) SMEs is puzzling in light of common knowledge which suggests that Germany's coordinated capitalism is ruled by powerful manufacturing interests with finance often playing only second fiddle (Zysman 1983; Hall and Soskice 2001; Baccaro and Pontusson 2016). Given ample producer group tension, institutional re-design was therefore unlikely just an inevitable function of time, but instead one of hard-fought political contestation with *ex ante* uncertain outcomes.

In this paper, I put the coalitional conflict involved in the liberalisation of the German financial model at the centre of attention to explore how large commercial banks were able to mobilise political support for shareholder-capitalism oriented reforms in a least-likely case such as Germany. I follow Hacker and Pierson's (2014) call for "policy-focused analysis" and examine the unfolding of a "bombshell reform" (Wall Street

Journal 1999a) that was instrumental in liberalising the German financial model: the abolition of capital gains taxes on the sales of cross-shareholdings in December 1999. For years, this tax—levied at a staggering 58%—had posed the "most significant obstacle" to corporate divestment as argued, among others, by the Chief Economist of Deutsche Bank (Handelsblatt 1999a). On the one hand, it prevented large commercial banks from selling stakes in domestic firms and thus from freeing up funds required for venturing into international markets.[16] On the other, it also acted as an effective repellent against hostile takeovers from international investors. Practitioners and scholars therefore agree that the abolition of the tax constituted a path breaking step in German financial liberalisation as it "eliminated a major support of the interlocking ownership system among firms and banks, encouraged capital mobility, and thus increased pressure to reward shareholder value" (Gourevitch and Shinn 2005: 162; *cf.* Klein and Pettis 2020: 148).[17]

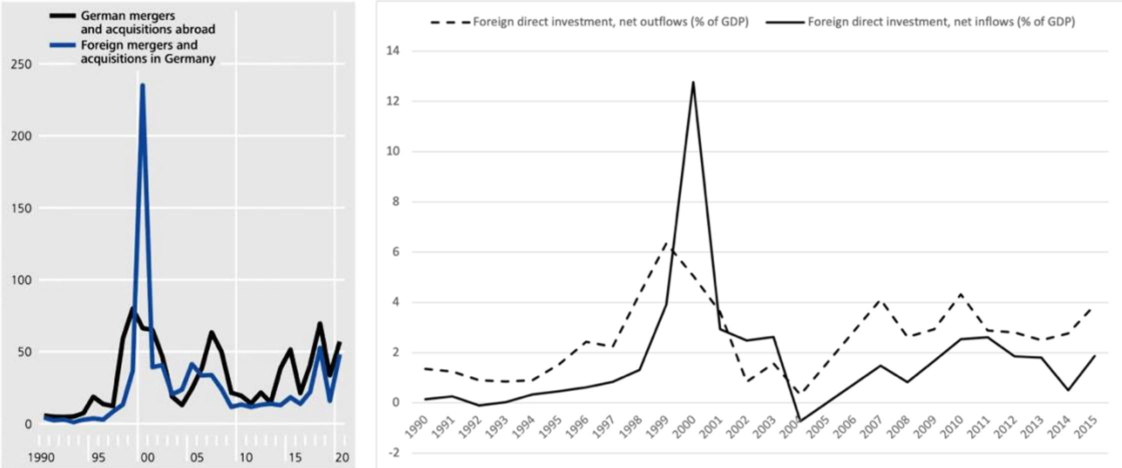
Radical breaks in the data on the internationalisation of enterprises further illustrate the weight of the reform (Figs. 3.1 and 3.2). Foreign direct investment and merger and acquisition activities in Germany took off and exploded in 2000 (i.e., only after the reform was announced) and fuelled a subsequent "merger wave" (Hardford 2005) on the back of the *Neuer Markt* bonanza.[18] In addition, the reform fostered a radical cutting back of domestic cross-company capital ties between the 100 largest corporations from 168 in 1996 to just 80 in 2000 (Höpner and Krempel 2004: 349).

Figures 3.1 and 3.2 Germany's cross-border mergers and acquisitions (in € billion) and FDI

[16] To illustrate the amount of capital bound in cross shareholdings, consider the example of Dresdner Bank: In 1996, Dresdner held a staggering total of 38.9% of shares in 14 of Germany's 100 largest firms including industrial giants like Siemens, Deutsche Bank, Allianz, Linde, and other insurances, energy companies, and financial corporations (Monopolkommission 1998: 188).

[17] Interview with Ministry of Finance informant

[18] The rapid fall after 2001 coincides with the popping of the dotcom bubble and the stock market crisis that ensued thereafter.



Sources: On the left, Bundesbank (2014: 18); includes only mergers and acquisitions where the German stake after the transaction is at least 10%, in line with direct investment criteria. On the right, World Bank data; values for the years 2005 and 2006 missing and interpolated.

To reconstruct the sequence of events that led to this pathbreaking reform, I apply process tracing to a structured search of over 100 international media reports and triangulate this data with seven semi-structured elite interviews with bank managers, government officials, and experts conducted between January and May 2020. I find that the reform required a radical reshuffling of political coalitions, which involved large commercial banks and the highest ranks of government, that only became possible in an “unsettled moment” when previous constraints on agency were suddenly lifted (Katznelson 2003: 281).

Only three weeks before the implementation of the capital gains tax reform, social-democratic Chancellor Gerhard Schröder orchestrated a coordinated rescue of insolvent construction giant *Holzmann AG*. My analysis suggests that Schröder used the capital gains tax reform to convince banks in Holzmann’s creditor consortium to provide a bailout. In turn, saving Holzmann and its 30,000 jobs allowed him to appease left-wing party members and won him his re-election as leader of the SPD at a party convention only a few days later. Before this “window of opportunity” presented itself, calls from large commercial banks to abolish the disincentivising tax had been offset by a powerful counter-coalition of SMEs, their partnering banks, and labour unions who wished to keep Germany’s protectionist company network unchanged (Deeg 2005: 196).

However, the sudden alignment of interests with the Chancellor's personal electoral agenda unsettled the previous institutional stalemate and gave high finance the edge to make demands for major policy change.

The opportune inflection point of the Holzmann crisis can be considered a necessary condition for the internationalisation of Germany's banking model for two reasons. Firstly, the advent of the Holzmann crisis, in combination with the secretive way in which the reform was introduced through the backdoor, allowed the government to internationalise Germany's financial system without giving the public the impression of being "in bed with the banks". Rescuing tens of thousands of jobs helped to cover up the biggest tax gift to large banks in German history and prevented eminent electoral punishment. Secondly, the Holzmann crisis could also be considered the "final straw" that made the risks of financial spill overs for banks at the centre of the German company network abundantly clear. In the aftermath of the crisis, those affected saw no other option but to implement pathbreaking reform.

Putting producer group conflict at the centre of attention can thus help to open the political black box of financial liberalisation. The origins, the context, as well as the timing of Germany's capital gains tax reform illustrate that a country's level of financialization is, at heart, a matter of political deliberation. The structural power of financial interests is neither constant nor universal, but contingent on effective coalition building, as well as the agency of elected officials who might use policies as a "prize" to further their own political purposes (Hacker and Pierson 2014). Analysing changes in political agency in the context of pathbreaking policy reforms can thus complement and refine more structural explanations of financial liberalisation.

This paper proceeds as follows. Section 2 revisits the puzzle and provides a theoretical framework drawing on literature relating to the political power of finance. In Section 3, I reconstruct the sequence of events leading up to the capital gains tax reform in December 1999. In Section 4, I explore the different sets of interests within the German political economy involved in the abolition of the capital gains tax and the conflict between dominant producer groups. Section 5 traces changes in the power dynamics of producer coalitions during different periods of the reform process to explain bifurcation of Germany's banking system. The final section concludes.

3.2 Theoretical framework: The political power of financial interest groups in German capitalism

During the 1990s, Germany's large commercial banks faced an uncomfortable realisation. Up until that point, banks had typically played the role of patient intermediaries in Germany's coordinated market economy (Hall and Soskice 2001). Their main task laid in providing long-term capital to Germany's mighty manufacturing industry (Zysman 1983). A tight network of inter-firm cross-shareholdings provided the glue to this "bank-based" system (Allen and Gale 2000). Banks could set domestic market prices for capital with generous markups while intensive information exchange between supervisory boards limited the risk of credit default (Beyer 2003; Streeck 2010). Long-term investment horizons limited the risk of hostile takeovers and effectively spanned a protective veil over Germany's non-financial firms; a win-win solution for all factions involved.

But things changed with the rise of "market-based" banking (Hardie *et al*. 2013). When global financial integration intensified and bonds were increasingly bought, sold, and refinanced in international markets, banks' ability to set capital prices domestically, supply patient capital, and "perform the role of bulwarks against market pressures" became increasingly constrained (Hardie *et al.* 2013: 708; Vitols 1998; 2005). The interest margins of big banks plummeted, from over 3 percent in 1983 to below 1 percent in the early 2000s (Bundesbank 2019). At the same time, Germany's manufacturing heavyweights began to look to international credit and stock markets for cheaper conditions or financed operations from mounting surpluses out of their own pockets (Braun and Deeg 2020).

Germany's commercial banks were thus first in line to face the mounting pressures of international financial integration, but soon also noticed the potential opportunities that structural changes in their business environment might entail. Acting purely as financial intermediaries meant that default risks could be shifted to shareholders and private lenders in the stock markets (Beyer 2003). In addition, withdrawing from domestic lending business promised to reduce conflicts of interest from operating simultaneously as corporate owners and brokers of mergers and acquisitions (Haipeter and Wagner 2007). However, banks' ability to engage in large-scale divestment was significantly impaired by formal regulations aimed at preserving the institutional status quo, above all, Germany's staggering capital gains tax on the sale of cross-shareholdings. Liberating large commercial banks from their deeply institutionalised ties to the domestic production regime thus required far-reaching regulatory reform.

Alas, as signposted in the previous section, Germany constitutes a least likely case for the political dominance of finance (Goyer 2011). In the absence of large domestic mortgage markets and with a highly regulated credit system in place, commercial banks are seen to be on the drip of non-financial manufacturing firms as the financiers of Germany's mighty exporting industry (Braun and Deeg 2020; Johnston *et al.* 2021). Indeed, it is the latter who form the core of the German growth regime, contribute the bulk of employment and economic demand, and as a result, receive predominant political attention (Baccaro and Pontusson 2016; Ferrara *et al.* 2021).

To understand how banks could develop agency in such a constrained political environment, attention needs to be paid to the potential sources of power that financial interest groups can draw on to gain leverage over policymaking. Political-economic scholarship distinguishes at least three types. Firstly, banks can draw on *structural power* qua their exclusive role as providers of financial credit to the real economy (Strange 1996; Fuchs 2007). Since states and governments depend on private sector investment for the generation of stable growth—which in turn is a key requirement for re-election—political decisionmakers are assumed to give preference to policies that further financial interests (Lindblom 1977; Culpepper and Reinke 2014; Culpepper 2015). Relatedly, financial markets are credited with the ability to punish governments that do not adhere to the interests of the financial class (Sharman 2010). Secondly, financial interests are assumed to bear *instrumental power*. Their command of significant monetary resources, technical expertise, and private information from clients and the industry more broadly gives financial lobbying groups privileged access to policymakers (Igan *et al.* 2009; Fairfield 2015: 420). Thirdly, a burgeoning strand of political economy literature emphasises the importance of *infrastructural power* that financial interests enjoy. This type of power is created "when state actors transact in financial markets for governance purposes" (Braun 2020: 396; *cf.* Mann 1984). These transactions create entanglements between actors in financial markets and governments and make the latter dependent on the service and support of the former in the enactment of policies.

While these concepts have come a long way in explaining the frequent dominance of narrow interests over democratic decision making, they have also been criticised for a tendency to consider the influence of financial interests as "extensive and systematic", and therefore, as relatively constant (Pagliari and Young 2014: 577). The financial sector is often perceived as a largely homogenous and overpowering entity with only very restricted room for pluralist interest formation. Such static views do not chime in well with the fact that financial liberalisation and regulatory practices involve costs and benefits that divide not just capital and labour, but also create distributional conflict and interest cleavages that run right through individual sectors (Röper 2021).

Building on this critique, more recent scholarship considers the power of financial interest groups not as self-evident, universal, and constant, but instead as "leveraged" in private sector coalitions. In this view, the ability of financial interests to influence the policymaking process is "conditional on the mobilization of other groups within and outside the financial industry" (Pagliari and Young 2014: 577). Fairfield (2015: 421) has shown that the dynamic interplay between different types of power is important in gauging the influence of organised business groups, and that political interests and electoral considerations can act as crucial mediators (Culpepper 2011).

For our purposes, two key lessons can be drawn from this brief theoretical discussion. Firstly, it appears that the power of organised financial interests does not follow a one-way street. Instead, political actors can also actively utilise the privileged position of financial actors and their quasi-public function as gatekeepers of private investment for governmental or even personal electoral purposes (Hockett and Omarova 2014; Woll 2017; Braun 2020). Secondly, given the complex entanglements of political and financial interests, it can be expected that the particular types of power that financial actors draw on during negotiations over regulatory reform may shift over time in tandem with changes in public salience and broader political circumstances (Culpepper 2011; Woll 2013; Kastner 2017).

Taken together, these theoretical considerations may help to explain how large commercial banks successfully lobbied for the abolishment of the capital gains tax despite the opposition of a broad and powerful counter-coalition of domestic producers and labour unions. To facilitate the subsequent discussion, I split my analysis into two sequences. First, I trace the interests of individual financial and non-financial actors and the conflicts between antagonistic interest coalitions over time (Section 3.4). Then, I analyse their reliance on different types of political power and their alignment with the interests of policymakers during different periods of the reform process (Section 3.5). Periodising the reform process allows me to systematically disentangle the effect of structural pressures in undermining existing institutional arrangements from the role of agency and political realignment at specific crystallisation points.

Arguably, it is in these most-contentious moments that the *politics* of financial liberalisation become especially salient, when old and formalised routines are suddenly challenged, and new paths open up. It is one of social science's great heuristic biases that we tend to think of the future as largely contingent, but of the past as entirely determined by great structures and large causes. However, as will become evident in the ensuing sections, "structurally induced unsettled times can provoke possibilities for particularly consequential purposive action" with *ex ante* uncertain outcomes (Katznelson 2003: 274; *cf.* Bennett and Elman 2006: 251). High-staked battles over regulatory policy reform constitute prime arenas to analyse the interplay of structural and agency forces in igniting meaningful institutional change (Hacker and Pierson 2014). In the next section, I argue that the abolition of the capital gains tax on sales of cross-shareholdings represents such a consequential and puzzling instance of policy change towards the liberalisation of the German financial model.

3.3 The 'most significant obstacle' to divestment: Reconstructing the capital gains tax reform

It was the "best Christmas gift in the history of the German stock index" (WirtschaftsWoche 2005: 84; my translation). On 21 December 1999, the German government led by a coalition of Social Democratic SPD and Bündnis '90/the Greens presented a path-breaking tax reform. As part of the coalition agreement, the reform intended to relieve the tax burden on corporations and was devised in typical coordinated fashion by a roundtable commission under the auspices of the finance ministry. Buried under a mass of different tax-cutting measures, one stood out, albeit not immediately. The capital gains tax, heretofore levied on profits from the disposal of domestic company shareholdings at up to 58%, was to be abolished if the total shares in a company exceeded 10% and profits were reinvested. This measure surprised everyone involved (Die Zeit 2005). In fact, it came so unexpectedly that no questions were asked during the two-hour press conference where the tax package was presented, and it went unnoticed until a few days after the initial publication on page 12 of an innocent press release. The discreet style in which the capital gains tax reform was made public caused immense confusion and led “the finance ministry in Berlin [to be] besieged by callers wanting to know if the changes were for real. Only after a clarifying press release confirming the news did the stock market fly” (Financial Times 1999a).[19]

The reason for the stock markets’ exuberant reaction laid in the disincentivising nature of the tax. Strong ties within Germany’s dense network of patient capital were guaranteed and reinforced by cross-shareholdings and interlocking directorates. Since the capital gains tax made it effectively unaffordable to divest company shares, it was considered the institutional glue that held together Germany’s cartelised company network, a hard stick to overcome collective action problems (Beyer and Höpner 2003).

[19] Interviews with government officials suggest that both, the chancellery, and the finance ministry were surprised by the exuberant reaction of the stock market. In a telephone call between Gerhard Schröder and Finance minister Hans Eichel, Schröder said: “I guess you didn't see that one coming, it's going so well, I'm completely speechless.” (Interview with Ministry of Finance informant). Hans Eichel personally confirmed this information (interview on 7 May 2020).

Germany's post-war model of coordinated capitalism attracted ample criticism. International trading partners frequently alleged unfair advantages and institutionalised protectionism. With the turn to more

Table 3.1 Sequence of events surrounding the capital gains tax reform

27 September 1998	SPD wins national elections and Gerhard Schröder becomes Chancellor of red-green coalition
October 1998	Brühler tax reform commission instated, chaired by finance minister Oskar Lafontaine, with the objective to devise a concept for fundamental corporate tax reform
11 March 1999	Oskar Lafontaine resigns as finance minister. Hans Eichel becomes his predecessor.
5-19 September 1999	Crashing defeats for SPD in state elections in Saarland, Brandenburg, Thuringia, and Saxony
15 November 1999	Holzmann AG discloses unexpected losses of DM2.4bn threatening insolvency
23 November 1999	Consortium of creditors (20 banks) fails to agree on bailout package.
23 November 1999	Construction giant Holzmann AG files for bankruptcy putting ~30,000 jobs at risk.
24 November 1999	Schröder summons Holzmann creditors for rescue talks. Later that day, he declares a state- and creditor-led bailout package to rescue Holzmann AG.
7-9 December 1999	SPD party convention in Berlin. Schröder is re-elected as party leader.
21 December 1999	**Announcement of the tax reform package by finance minister Hans Eichel (SPD) in a press conference**
9 February 2000	Government draft of the tax bill
18 May 2000	Bundestag passes reform bill with majority of SPD and Green votes
9 June 2000	Bundesrat rejects law in first vote and calls on mediating body "parlamentarischer Vermittlungsausschuss" to adapt reform. Date of implementation of capital gains tax is postponed until January of 2002.
14 July 2000	Bundesrat passes reform in second vote.
21 March 2002	Holzmann AG files for bancruptcy. Creditors and the Schröder government quickly decline second bailout.

competitive international capital markets, financial institutions at the centre of the network began to lament the staggering amounts of unproductive capital trapped in their balance sheets. Thus, most observers at the time saw in the radical repeal of the capital gains tax the formal turn towards increased shareholder-value orientation and the “beginning of the end of Deutschland AG” (Spiegel 2000; *Deutschland AG* is the popular nickname for Germany’s characteristic network of tight interlockings between large banks, insurance companies and industrial firms).

In this light, it might be no overstatement to note that the infamous Hartz reforms—at least, on paper—were less consequential in terms of their potential for institutional upheaval as they were clearly intended to reinforce Germany’s existing export-led growth regime. In contrast, the capital gains tax reform threatened to undermine the very foundations that the German post-war economic model was built on. The hope that German financial institutions were now able to free themselves from unproductive and undervalued equity and open the German corporate landscape to international capital investors led their stocks to skyrocket.[20]

After the unusual presentation of the reform on 21 December 1999, it took effectively six months for the bill to be passed into law and the road was a rocky one. The law passed the Bundestag on 18 May 2000, supported by a majority of SPD and Greens MPs. However, it faced fierce opposition in the Bundesrat, Germany’s second legislative chamber, where the government had lost its majority after recent defeats in state elections. Eventually, it was rejected in a first reading in the Bundesrat on 9 June 2000. Reacting to stiff headwinds, Chancellor Gerhard Schröder and Finance Minister Hans Eichel agreed to postpone the implementation of the capital gains tax reform until January 2002 and—when this alone did not ensure a majority— unabashedly began to “buy” votes from undecided swing states. Berlin received €200 million for “internal security, museums, and the modernization of the Olympic Stadium”, and Brandenburg, Mecklenburg-Western Pomerania, Bremen, and Rhineland-Palatinate all received similar payments for public projects (Die Zeit 2005). At no point in

[20] In the first week since the news of the reform broke, stock prices of Deutsche Bank increased by 19.1 per cent, Allianz by 13.8 per cent, Dresdner Bank by 12.8 per cent, and Münchener Rück by 15.3 per cent (Spiegel 2000). The DAX jumped by a total of 4.46 per cent on the day the reform was made public (Financial Times 1999b).

time did the possibility of maintaining the tax, albeit at a much lower rate, ever appear as a viable option to the government. Thanks to the unprecedented lobbying efforts from the government, the reform was finally passed into law by a majority during a second reading in the Bundesrat on 14 July 2000.

How can we explain the bizarre circumstances of this ground-breaking reform? Common wisdom suggests a straightforward answer: The capital gains tax was an inevitable reaction to mounting pressures from global investors, the international finance industry, and the European Union to reform Germany's rusty capital markets. For a long time, interlocking capital was seen as a fundamental problem of *Deutschland AG* and the prime reason for its lack of international competitiveness. In this sense, spill overs from rapid globalisation—channelled through Germany's most powerful financial firms (*cf.* Culpepper 2005)—led to the functional adaptation of the German industrial model (Hackethal *et al.* 2005; Deeg 2005).

But the timing as well as the covert implementation of the reform are puzzling. After all, criticism had mounted at least since the early 1980s in a country that is known to be notoriously paranoid about the future of its economic potential (Streeck and Höpner 2003; Cioffi and Höpner 2006; Streeck 2010). Also, banks had demanded a reform for years and begun divesting parts of their cross-shareholdings despite high taxation already during the 1990s (Höpner and Krempel 2004). What, then, explains the particular timing of the policy reform? Why was the reform such a radical overhaul rather than the result of political gravitation towards the lowest common denominator? Why was the government so intransigent about the tax that they went so far as openly paying off undecided *Länder* (federal states) in the Bundesrat? And why did virtually every stakeholder seem caught off guard by a reform that was widely regarded as having the firepower to lead to the wholesale implosion of the German coordinated industrial model (Wall Street Journal 1999b; Spiegel 2000)? To answer these questions, I focus more explicitly on the *politics* underlying this policy change, identify the different actors and interest sets involved, and carve out the particular sequence of concomitant events that seem unrelated at first sight (Table 3.1, p. 114).

On 23 November 1999, exactly 28 days before finance minister Hans Eichel's infamous press conference, construction giant Philipp Holzmann AG filed for bankruptcy.[21] Disclosing a DM2.4bn in potential losses from past property deals, as many as 30,000 jobs were put at risk overnight.

> "Holzmann's problems began after the fall of the Berlin Wall in 1989, when German companies sought to exploit the opportunities arising in eastern Germany from the rapidly booming real estate industry. Holzmann acquired land and erected buildings before it had secured tenants. When the real estate boom collapsed, Holzmann found itself unable to rent out the office space it had built" (Financial Times 1999c).

While "most of the 20 creditor banks unsurprisingly wanted to balk", Deutsche Bank was ready to save Holzmann. With its 15.1 per cent stake in the construction company, and as its main creditor and "second-largest shareholder, [Deutsche] *was* Philipp Holzmann" (Wall Street Journal 2000a). Indeed, Deutsche Bank and Holzmann had maintained a close relationship for well over a century: "Deutsche financed Holzmann's construction of the Baghdad railway in 1907 and, after the second world war, worked closely with the construction group to rebuild Germany's ravaged cities" (Financial Times 1999c). In classic *Deutschland AG* fashion, Deutsche Bank had always held multiple seats on Holzmann's supervisory board. But despite Deutsche Bank's powerful position at the heart of Germany's banking system, negotiations among creditors failed and Holzmann had to file for insolvency.

A day later, Chancellor Gerhard Schröder summoned discordant creditors in Frankfurt for a second round of emergency rescue talks. In an effort to rally creditors into a coordinated bailout, Schröder offered a total of DM250m of public support, made up of DM150m in the form of a public

[21] For detailed background information on the corporate history of Philipp Holzmann AG, see Pohl (2000). Note that Pohl ends his enquiry just before the bailout of November 1999.

loan plus a DM100m guarantee for banks supplying ‘fresh money’. Successfully so. In the end, Holzmann’s creditors agreed on a DM4.3bn rescue package containing a DM2bn bailout and a DM2.3bn loan of ‘fresh money’ to service suppliers and sub-contractors. Deutsche Bank alone contributed DM1.5bn. On 24 November, in what can only be described as a media spectacle, Schröder declared victory: “I wanted to be sure my buddies had something under the Christmas tree”, he proclaimed in front of hundreds of hard-hat-wearing Holzmann strikers (New York Times 1999).

It is important to note that the statist intervention in the rescue of Holzmann stands in striking contrast to the liberalising repeal of the capital gains tax. While trying to strike a deal with financial creditors behind closed doors, Schröder “shamed the bankers publicly by saying they “were thinking more about their own business than securing this firm and the jobs involved”” (Wall Street Journal 2000a). And his party colleague and then prime minister of North Rhine-Westphalia, Wolfgang Clement, added in support of Deutschland AG: “We have to hold on to our culture – and that applies to our business culture as well” (Wall Street Journal 1999a).

What is the role of the Holzmann affair in the capital gains tax puzzle? As I will argue in the next section, evidence suggests that the repeal of the capital gains tax was the result of a political power play. Schröder, in desperate need of electoral support from blue-collar voters and left-wing party colleagues to secure his eminent re-election as leader of the SPD, lobbied banks in Holzmann’s consortium of creditors to save the construction firm and its jobs. He brokered a deal with the finance industry to which he promised, in return for their support in the Holzmann rescue, the long-demanded repeal of the capital gains tax. Until this window of opportunity opened, the interests of a producer coalition of large non-financial firms and private banks to internationalise their business models had been offset by an equally powerful alliance of *Mittelstand* firms and local relationship banks fighting to preserve Germany’s traditional industry-finance nexus. Only at this critical moment did the power balance tip in favour of big banks providing the momentum for this pathbreaking tax reform.

3.4 Analysis: A multi-faceted quid pro quo? Competing interests and a window of opportunity to unleash high finance

Towards the end of the 1990s, there were growing indications that large financial corporations wished to escape their role as intermediary price-setters in domestic capital markets. Since 1995, Dresdner Bank had expanded its investment banking activities through its Kleinwort Benson branch, and in 1999, Deutsche Bank acquired Bankers Trust as a vehicle to force itself into American capital markets. These strategic takeovers were accompanied by political reforms strengthening US-style accounting standards (Beyer and Höpner 2003). However, "infinitely high taxes" (Handelsblatt 1999a) on industrial holdings represented "a powerful deterrent to divestment" (Financial Times 1997). Unsurprisingly, Ulrich Ramm, Chief Economist of Commerzbank, labelled the reforms "an early Christmas gift" (TAZ 1999; my translation) and Rolf Breuer, chairman of Deutsche Bank, stated slightly more soberly: "The current suggestions for tax reform deserve recognition and support as they will strengthen Germany as a business location and a financial centre" (Financial Times 2000a). Allianz, Germany's largest insurer, joined the happy chorus: "Changing the law will give owners much greater flexibility in dealing with the holdings" (Financial Times 1999a).

The government seemed to adhere to the views from the financial sector. Gerhard Schröder stated that "We want to create a new shareowning culture. I belong to those who are happy when the Dax goes up" (Financial Times 2000b), while at the same time downplaying the inequitable effects of the reforms: "In the tax reform, this part [capital gains tax] is especially important to me. We will mobilise the equity stakes held by banks and insurance companies and allow their tax-free sale. That's not because we want to give the banks and insurers a present, but because we are convinced that mobilising these holdings could open the way to greater economic activity" (*ibid.*).

Notwithstanding Schröder's solemn assertions, the reforms disproportionately benefitted large financial corporations and drove a wedge between multinational corporations (MNCs) and commercial banks with an increasingly international mindset on the one hand, and SMEs and local banks on the other. The latter group fought vigorously to preserve the old financial system (Deeg 2005: 196). While large multi-national shareholding companies such as Daimler welcomed the reforms ("The tax reform bill is a significant step towards improving the conditions for German business and its international competitiveness", Chairman of DaimlerChrysler in Financial Times 2000a), panic grew among manufacturers with smaller shares who had for years enjoyed their protected position under the cosy blanket of *Deutschland AG*. Linde AG, for instance, a venerable manufacturer of machinery and equipment, feared that the stakes of around ten percent which Commerzbank, Deutsche Bank, and Allianz each held were too small to be strategically relevant (ManagerMagazin 2000). Divestment would expose the firm to the risk of hostile takeovers and increased uncertainty.

The *Mittelstand*, constituted of small and medium-sized firms, and widely recognised as the economic engine of Germany's export-led growth model, also felt left out. For them, "the Schroeder government, in the spring of 1999, had just raised the capital gains tax to the top marginal income tax rate. Now that appears as flagrantly discriminatory when compared with the new exemption for large corporations" (Wall Street Journal 1999b). The German Confederation of Skilled Crafts (ZDH) saw in the reform "another blow to German Mittelstand" (Spiegel 2000; my translation). The Chairman of the German Salaried Employees' Union (DAG, now ver.di) saw "absolutely no need" for the reform (Spiegel 2000) and the German Trade Union Confederation (Deutscher Gewerkschaftsbund 2000: 7ff.) emphasized the dangers of increased exposure to international competition, hostile takeovers, and loss of jobs implied by the deconstruction of Deutschland AG.[22] But while unions of the *Mittelstand* protested vehemently, there was also the "the dog that didn't bark": The powerful *IG Metall* union seemed rather complacent with the ground-breaking reform to Germany's system of cross-shareholdings, a clear sign of their inner strife as representative body of both large and small manufacturers.

The cross-sectoral industrial divide was likewise reflected in party political reactions. Specifically, the reform drove a wedge between the SPD with many "opponents of abolition, who are not restricted to the SPD's traditionally anti-business leftwingers" calling to maintain the reform albeit "at a much reduced rate of 10-20 per cent" (Financial Times 2000c). As the main opposition party, the Christian Democratic Union (CDU) opposed the reforms altogether, depicting it starkly as "a betrayal of Germany's myriad small and medium-sized companies" which "unfairly disadvantag[es] the Mittelstand to the benefit of big business" (Financial Times 2000a). Illustrative of the extent of CDU/CSU opposition, Edmund Stoiber, conservative candidate for the Chancellorship in 2002, included the reintroduction of the capital gains tax in his election manifesto (Financial Times 2002). In this light, the move by the government to buy off federal states in the Bundesrat, instead of settling for common ground, is particularly puzzling. This indicates that political fronts were hardened, and electoral interests were by no means well aligned.

Nonetheless, Schröder's electoral incentives suddenly aligned with those of high finance when Holzmann unexpectedly filed for insolvency. A series of electoral setbacks in state elections (Wall Street Journal 2000b) and his reputation as a cigar-smoking "cashmere chancellor" and the "buddy of the bosses" (Financial Times 2000d) had put him under great pressure from his own party. Facing the serious threat of losing his re-election as SPD leader at the party convention on 7 December 1999, "the

[22] Data on foreign direct investment and international takeovers presented in Figs. 3.1 and 3.2 in the introduction of this paper indicate that, in hindsight, these concerns were certainly warranted.

threatened collapse of Germany's second biggest building group provided the ideal stage for the chancellor's repositioning" (Financial Times 2000d). The rescue of Holzmann allowed Schröder to cast himself as "true Social Democrat" (Financial Times 2000e), a "macho power broker ready to bend arms and knock heads together to get his way" (Financial Times 2000d), and man of the working people.[23]

Carefully reconstructing the particular sequence and timing of events is key to understand the interplay of underlying motivations (*see* Table 3.1, p. 114). After bank-exclusive rescue talks failed and Holzmann filed for insolvency Schröder set out to coordinate a bailout with the consortium of creditors. This pro-active move helped him win his re-election at the SPD party convention and only then, the abolition of the capital gains tax was included in the larger tax package. All this happened within just 28 days. This does not mean, however, that the plan for the path-breaking reform had not been in the drawer prior to that. As retold by Die Zeit (2005), the "Kollegium", a small group comprising the German Finance minister Hans Eichel, his state secretaries, and his closest advisors, met weeks before the reform was presented to discuss its parameters. While Eichel seemed reluctant, a group of young state secretaries and advisors advocated for the wholesale abolition of the capital gains tax "in order to break up the entanglements of Deutschland AG, which had been widely criticized abroad, and to invest capital more productively" (my translation). But even though his young advisors had made a strong pledge for the reform, "Eichel, torn back and forth between the poles, hesitated to the last [...] Even the financial experts of the parliamentary groups were not informed about the details of the reform until a confidential meeting on the evening before the press conference" (Spiegel 2000: 24; my translation). This detail indicates that the decision to include the repeal of the capital gains tax in the broader framework of the tax reform was made and shared internally

[23] See also the emblematic headline in *TAZ* on November 26th, 1999: "Holzmann restructures Schröder" (dt.: "Holzmann saniert Schröder").

only after the Holzmann rescue, and therefore speaks strongly to the sequence suggested above.

Furthermore, a key puzzling element relates to the secrecy and obstinacy displayed in the government's strategy. The plans had never been publicly debated before its surprising presentation and given Germany's tradition of coordinated policymaking, it remains deeply puzzling why this radical reform, of all things, was included at such late notice and without further political deliberation. Furthermore, the government remained surprisingly reluctant to make any form of concessions in the eye of mounting criticism, although there would have been widespread support for a less radical middle-ground solution (e.g., maintaining the tax at a much lower rate). Instead, adamant Eichel and Schröder went as far as paying off federal states to gain support in the Bundesrat, a move that was labelled "baksheeh behaviour" by the opposition and implied high risks of public denunciation and electoral costs (Financial Times 2000a).

Finally, Holzmann being a *construction firm* that filed for insolvency requires additional attention. Construction firms are generally hard to bail out once under water, since they operate similar to a mortgage. Projects typically run for many years and require large-scale and long-term investment. Once a construction firm faces a sudden stop of liquidity this usually spells its end as investors will be particularly reluctant to provide emergency capital. This fact is reflected in the pessimistic sentiment among Holzmann's consortium of creditors. Indeed, it seemed clear from the outset that the constructor was doomed: "[These firms] always live at the mercy of the clients, from the down payments they get, and in the hope that they do not make big mistakes in the execution of the project. And if a company slips into a negative image in this way … what kind of client is going to give another contract to a bankrupt company, knowing full well that halfway through, the project might be terminated? [The rescue of Holzmann] never made sense to me."[24]

So, how could creditors be convinced to tie up a DM4.3bn bailout package, nonetheless? Interviews with consortium insiders reveal the Chancellor's agency and his personal interests involved in the reform: "It was the pure emotion of Schröder. Technically and factually, there was no reason whatsoever to save Holzmann, it was purely emotional, because he was plunging in public opinion polls and needed this rescue"[25]; "an obvious PR stunt"[26]; "and nobody wanted to run afoul with him […] For him it was politically very important. For the company, it didn't help at all"[27].

Looking to the interests of German banks, only Deutsche Bank had a clear incentive to support Holzmann: "The reason why this whole thing was done in the first place was that Deutsche Bank still had … too many securities for the loans it had given out and simply needed time to "silver" them [convert them back into cash]. The whole manoeuvre was only a manoeuvre by Deutsche Bank. All other banks kept burning money while Deutsche Bank regained its collateral."[28] So, while Schröder's and Deutsche Bank's interests were firmly aligned, other banks still needed to be convinced to engage in the costly rescue. Elite interviews with witnesses involved in the bankruptcy of Holzmann and the rescue efforts suggest that Deutsche's structural power as the main gatekeeper and switch point in Germany's coordinated financial system made a key difference: "If Deutsche Bank said, "We're in", all others were too."[29]

> "Deutsche Bank exerted insane pressure to prevent a bankruptcy. That was understandable from their viewpoint, because they were terrified that they would have to substitute equity for debt [Ger. *Kapitalersatz*]. Their factual management of the company … it really didn't look so good for them, and that's why under no circumstance they wanted Holzmann to formally

[24] Interview with KfW informant 1
[25] Interview with Deutsche Bank informant
[26] Interview with Holzmann AG informant
[27] Interview with Commerzbank informant
[28] Interview with Holzmann AG informant
[29] Interview with Deutsche Bank informant

> file for insolvency. Whereas all other banks had nothing against it."[30]

But Deutsche Bank's structural power alone did not seem sufficient to reach a bank-internal agreement. When the first round of negotiations failed on 23 November 1999, Schröder called himself to the scene.

The Holzmann crisis proved to be an extremely traumatic event for all commercial banks involved, in a way, the "final straw" that showed the potentially immense costs of extensive cross-shareholdings: "This was the first time that the depth of the Deutschland AG structures became apparent … everyone realised that"[31]; "the first sign that Deutschland AG had no future"[32]. Finance minister Hans Eichel shared this assessment: "We realised that the multifaceted function of the banks in relation to other companies was a problem … And I say today, but that was not so clear at the time, to see an investment bank at the head of Deutschland AG is no fun either."[33]

In its aftermath, multiple newspaper reports speculated about a connection between the Holzmann crisis and the tax reform (Handelsblatt 1999b; 1999c; 1999d; Berliner Zeitung 1999). The Wall Street Journal (2002) made a most unequivocal assertion: "The [capital gains tax reform] was a result of a *trade-off between German Chancellor Gerhard Schroder and the financial sector* in 1999. In return for saving troubled construction company Philipp Holzmann AG from ruin, Germany's financial sector won tax freedom on the sale of stakes in other companies (my emphasis)."

In an interview, a Deutsche Bank informant confirmed that the capital gains tax was part of Schröder's negotiations with the banks without being able to provide further details to the deal. Other interviewees stated that a quid pro quo was very likely but would not have been debated openly amongst all creditors. Finance minister Hans Eichel and his advisor denied

[30] Interview with Commerzbank informant
[31] Interview with Holzmann AG informant
[32] Interview with Deutsche Bank informant
[33] Interview with Hans Eichel

a connection citing purely tax-systematic motivations for the radical abolition.

In the end, the public guarantees of DM250m promised by Schröder and facilitated by Germany's state-owned development bank KfW were never paid out. As soon as the Chancellor had struck a preliminary agreement among creditor banks and proclaimed Holzmann's rescue, his interest in the matter stalled although negotiations about the details of the consortium agreement had only just begun.[34] When Holzmann AG filed for insolvency for a second time only two years later, the same government swiftly declined another bailout, and accepted the loss of all jobs attached. This final piece of evidence strongly suggests that Schröder never cared about actually rescuing the 30,000 jobs, but instead, acted purely out of opportunistic, electoral reasons.

3.5 Discussion: Shifting power dynamics and institutional bifurcation

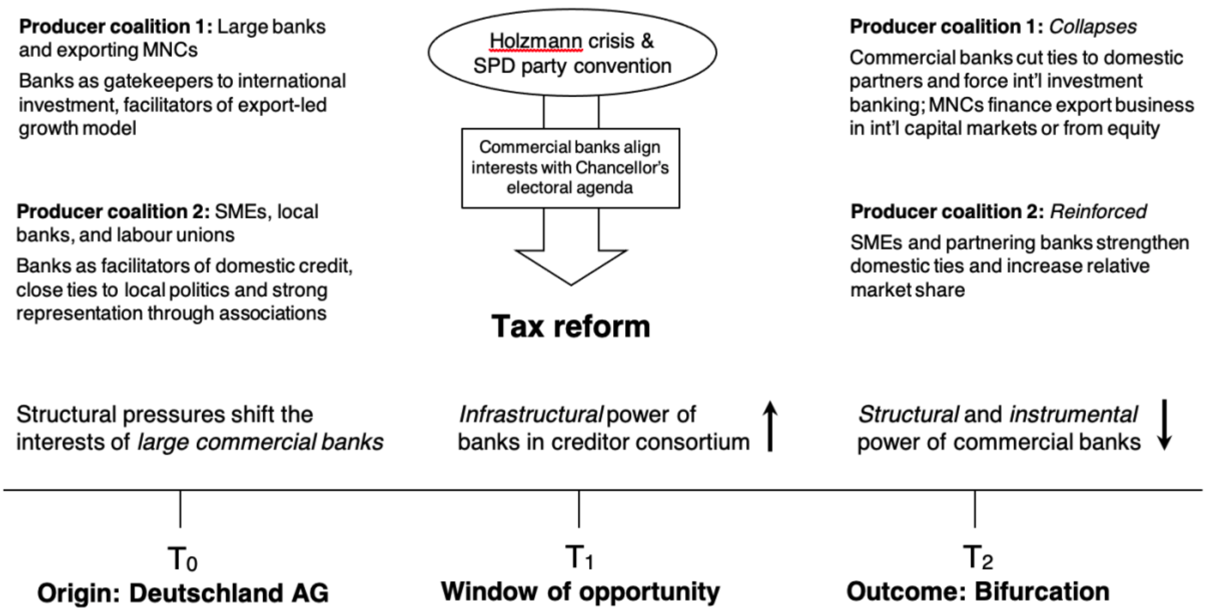
Having reconstructed the sequence of events and the competing interest involved in the battle over capital gains tax reform, we now pivot back from case study to theory. Germany's partial transition from a bank-based to market-based financial system was driven by a combination of structural pressures that built up over time, and political agency at a particular point of culmination. While structural pressures rendered the existing institutional arrangement for large commercial banks gradually suboptimal, neglecting the latter part of the equation risks overdetermining the power of high finance in Germany's coordinated market economy, underplays the role of political interests in shaping financial system change, and blends out the significant amount of producer group conflict involved in the transition towards financial market liberalisation.

[34] Interview with KfW informant 2

To disentangle the effects of structural and agency forces, I periodise the reform process and analyse the power distribution between dominant actors during three distinct phases: its origin point under the former institutional regime, a contingent series of interlocking mini-crises that suddenly reshuffled the interests and power dynamics of key actors (window of opportunity), and the outcome under Germany's bifurcated financial system (*see* Figure 3.3, next page).

Under Germany's *ex-ante* production model (T_0), interests between the two dominant cross-sectoral alliances—commercial banks and MNCs on the one hand, and SMEs and relationship banks on the other—seemed sufficiently homogenous to stabilise the institutional arrangement. Large commercial banks exploited their oligopolistic market position and provided Germany's multi-national exporting firms with industrial credit and financial know-how. Smaller savings banks cooperated with the myriad of SMEs that made up Germany's internationally renowned *Mittelstand*, but they also excelled in credit and financial service provision to domestic households. Thus, the banking market was neatly divided with different financial branches occupying profitable niches.

Figure 3.3 Periodisation of the tax reform process



Under this model, equal distribution of power "rested on the fact that each banking group is economically significant and has powerful allies in the economy (especially in associations representing producer groups) and the political party system" (Deeg 2001: 19). Large commercial banks functioned as the gatekeepers to international investment and helped German export-manufacturers establish their business abroad.[35] In addition, numerous shareholdings in large German companies gave them seats on supervisory boards and privileged access to corporate information. Banks were therefore not just providers of industrial credit, but almost akin to information clearing houses between Germany's largest firms. This double-role endowed them with, both, structural and instrumental powers.

Smaller banks, savings banks, and cooperatives, on the other hand, provide capital to the powerful SMEs and cultivate intimate instrumental ties to municipal political elites. In fact, most savings banks are chaired by elected politicians and county majors who are remunerated in these positions and command hot wires to high-level decision making (Markgraf and Véron 2018). Local banks' political influence is further reinforced by well-organized umbrella associations (Cassell 2020).

However, as previously discussed, structural dynamics in period T_0 gradually undermined large banks' business model, weakened their ties to MNCs, and put significant pressure on the existing arrangement of relatively balanced competition. While the old path of patient capital provision still seemed acceptable, if not non-negotiable, to the SME coalition, it became increasingly suboptimal for larger financial institutions that wanted to internationalise their business models. Institutional recalibration was inevitable, but since large banks never had an exclusively powerful position and, both, public opinion and party-internal opposition prevented social-democratic leadership from engaging in exuberant

[35] Interview with KfW informant 2

clientelism, the capital gains tax remained outside the purview of the government's market-liberal agenda.

Fortunes were shifting when Holzmann AG unexpectedly filed for insolvency. Schröder, in fear for his re-election as party leader, saw a chance to kill two birds with one stone. The rescue of Holzmann allowed him to deliver a media-savvy victory for left-wing SPD supporters as well as appease mounting criticism within his own party. Winning his re-election at the party convention removed the sword of Damocles looming above his head and increased his personal political agency. At the same time, large commercial banks in the creditor consortium saw their infrastructural power increase quite suddenly, since the government relied on their facilitation of the Holzmann bailout (Braun 2020). From that very moment on—so it seemed at least—large financial firms could initiate "an effort to rewrite the "rules of the game" itself, […] aided and abetted by political actors" (Deeg 2001: 34). A set of concurrent and interlocking mini crises reshuffled the power dynamics and opened a window of opportunity which relaxed structural constraints and provided ample room for political agency (T_1).

Although commercial banks had already, if only very reluctantly, begun divesting parts of their domestic portfolio before the tax was abolished, they were now free to redirect their main business focus towards international investment banking and financial services. However, what they saw as a moment of financial emancipation soon turned out to be not more than deceitful hopes. When large commercial banks deserted their central position in Germany's corporate network, they also forfeited their privileged access to domestic credit business and, consequentially, to a significant degree their structural powers as gatekeepers of industrial investment. Transitioning from bank-based to market-based banking meant that the producer coalition that had successfully lobbied for the abolition of the capital gains tax collapsed as an immediate result of these very efforts.

Exporting firms benefitted from cheaper credit conditions in international financial markets or financed investments out of their sizeable savings (Braun and Deeg 2020). Commercial banks, however, struggled in multiple ways. They had to realise that they were no match for American and British investment banks neither in terms of size nor in terms of expertise (Beck 2021). Losing stable profits from domestic lending meant that they had to chase particularly risky investments in international markets, which put them in a vulnerable position when global financial markets collapsed in 2008 (Engerer and Schrooten 2004; Financial Times 2021). In addition, not being tied to the success of Germany's growth-producing export industry anymore and forfeiting seats on supervisory boards meant that political decisionmakers gave the interests of commercial banks less weight.

As a result, the pendulum of political power swung back in favour of SMEs and local banks whose relative influence further increased in the wake of the financial crisis (T_2). When commercial banks deserted domestic credit markets, savings banks and cooperatives even expanded their business and thereby preserved the largest parts of Germany's bank-based financial system.[36] This is not to suggest that savings banks are completely immune to financialization pressures (Schwan 2020), nor to structural pressures resulting from institutional changes in the European system of governance (Culpepper and Tesche 2021). But as businesses' primary contacts and facilitators of emergency credit during the financial crisis, and more recently during the Covid-19 pandemic, savings banks have proved time and again that "the public utility function of Germany's secondary banking sector remains as central to the system as ever" (Hancké *et al.* 2022). This continued role provides them with ample influence and systemic importance (Cassell 2020), while the political position of large commercial banks has become marginalised as compared to a mere 20 years ago. The outcome is a deeply bifurcated financial system, which does not benefit all interests equally.

[36] Interview with Ministry of Finance informant

In the broader picture, periodising the tax reform process yields at least two important takeaways. On the one hand, even the most rigid political economies allow for considerable degrees of freedom towards institutional recalibration if the interests of powerful actors become realigned in a favourable way. At the same time, however, institutional constraints also structurally advantage certain producer coalitions over others. In the medium to long run, this might then lead to the stepwise marginalisation of those actors whose corporate strategies have come to be incompatible with the core logic of the capitalist production model. In this light (and perhaps somewhat ironically), the efforts of large commercial banks to bifurcate Germany's financial system led to the erosion of complementarities with big industry, destabilised their producer coalition, and ultimately accelerated their own demise. This suggests that the bifurcated sub-regimes of Germany's financial model are not equally stable solutions. In a system that remains *in toto* geared towards a coordinated production logic, large banks trapped between domestic and international markets have become somewhat bipolar actors struggling to tread successfully their newly established institutional path.

3.6 Conclusion

The turbulent days of economic policymaking in Germany around Christmas '99 were also deeply puzzling ones. Only a few days after Chancellor Gerhard Schröder orchestrated a bailout of insolvent construction giant Holzmann AG, he presented the financial sector with the surprise abolition of capital gains tax on sales of cross shareholdings, a landmark reform in the liberalisation of the German financial model. How did large commercial banks achieve this political victory despite the strong opposition from powerful *Mittelstand* firms?

My results suggest that the politics and the agency enabling this transition towards financial liberalisation should not go unnoticed. A structured analysis of over 100 international media reports, coupled with elite interviews with key stakeholders involved in the Holzmann bailout and in the government at the time, provide evidence that Schröder used the reforms to compensate banks for the bailout of Holzmann. In turn, saving the construction giant allowed him to appease left-wing party members and won him his re-election as party leader. While structural changes gradually broke the producer group consensus that underwrote Germany’s coordinated financial model and cultivated “change from within” (Deeg 2005), the Holzmann crisis provides a critical inflection point at which large commercial banks could secure sufficient infrastructural power to enforce institutional bifurcation.

Next to the empirical investigation of a pathbreaking quid pro quo between Chancellor Schröder and leading commercial banks, this paper yields at least two important theoretical contributions. The first implication regards the power of banks in the German political economy. As we have seen, large commercial banks were able to veer off their institutionalised path and enforce meaningful liberalisation despite forceful opposition of SMEs. Periodising the reform process shows that financial power is not a constant feature but comes in varieties subject to larger political dynamics (Fairfield 2015). In complex social systems, banks are dependent on the infrastructural alignment with other producer coalitions to make their interests heard. But these coalitions are often only temporarily stable. Since democratically elected governments can choose “to use financial innovations and opportunities for their own reasons”, political agency can play an important role in re-shaping regulatory regimes (Schelkle and Bohle 2021: 770). Likewise, it is a fallacy to conceive of finance as one united sector with homogenous interests. Power differentials and conflicting interests do not only prevail *between* sectors, but also *within* as my insights from creditor consortia reveal (Young and Pagliari 2014; Röper 2021).

The second implication relates to the power of financial actors and the role of institutional structures and complementarities. In contrast to classical comparative political economy literature that depicts Germany’s constrained coordinated model as essentially cast in stone, the capital gains tax reform points to eminent and perhaps surprising degrees of institutional flexibility. Given that the stability of institutional ecosystems requires their social reproduction, they also allow for significant degrees of freedom and dynamic recalibration in case a dominant interest group comes to be structurally disadvantaged by the existing arrangement (Hancké and Goyer 2005; Hall and Thelen 2009).

Institutional bifurcation is an organic outcome of this recalibrating process. But it is not a distributional zero-sum game. Financial liberalisation is a highly politicised and negotiated process and producer group coalitions are key to political authority. Actors who choose to follow the logic of a new path are not guaranteed to successfully establish and exploit new institutional complementarities. Paradoxically, temporary strength may become a lasting weakness. When large commercial banks relinquished their role as primary providers of patient capital to Germany's powerful manufacturing industry, they became wayfarers without a home faced with the incompatibility of a domestic and an international logic of finance. Until this day, Germany's large commercial banks have not recovered from the shock of liberalisation. My findings suggest that their fate depends on their ability to rebuild and optimise infrastructural ties to the core of Germany's domestic production regime. Alas, this may no longer lie in their own hands.

4

Corporate Governance Battles in the Age of Asset Management: A Coalition Analysis

Abstract

Since the end of the global financial crisis, the world-wide market dominance of universally invested asset managers like BlackRock has grown inexorably. But despite their presumable power to shape corporate and political decisions, we know little about their political motivations, their strategies of engagement with other stakeholders, and their leverage over national institutions. This paper investigates a rare case of documented interest group conflict involving asset managers: A far-reaching reform pushed by international investors that would significantly limit the powers of Germany's supervisory boards. I apply qualitative content analysis to public statements from over 100 stakeholders and I develop a novel data visualisation technique to map the opposing interests of different financial and non-financial factions. I find that contrary to their oft-alleged passive nature, index funds forge coalitions with more short-term oriented international investors to systematically weaken key tenets of long-term oriented corporatist institutions. However, their plans were blocked by a broad countercoalition of 'strange bedfellows' comprising owners, managers, labour unions, as well as financial and non-financial firms that used their combined political leverage to prevent the reform. This paper improves our understanding of the motives and political strategies employed by international asset managers and highlights the importance of coalition building as a key determinant of the political power of international finance. By aligning the costs of institutional change for incumbent interest groups, coordinated institutions may continue to act as effective shields against international financial pressures.

4.1 Introduction

The rise of a new and omnipresent class of international investment firms in recent years has rattled financial systems around the globe. So called "passive asset managers", led by American investment behemoth BlackRock, have reinvented the game of capital allocation, and—given their overwhelming financial success—reshuffled the power structures in modern capitalism (Wigglesworth 2021b). In contrast to active investors who follow a cost-intensive approach by deliberately choosing particular stocks and equities in an effort to *outperform* markets, passive investors employ complex algorithms to *track* entire market indices as closely as possible. This low-cost strategy has propelled a global "money mass-migration" (Fichtner and Heemskerk 2020) into passive funds and has leveraged the 'Big Three' American index funds—BlackRock, Vanguard, and State Street—to emerge as ringleaders of a new age of "asset manager capitalism" (Braun 2021; Fichtner *et al.* 2017).

Despite their extraordinary rise, as yet little is known about their political motivations, their strategies of engagement with other stakeholders, and their leverage over national institutions. What little literature we have on their motives and means has painted asset managers as truly strange beasts. Depending on the perspective, scholars have either decried their short-termist voting behaviour supportive of controversial means to inflate balance sheets and asset prices (think share buybacks) or lauded their potential as patient investors and benevolent "agents of corporate de-financialization" (Fichtner 2020).

The rise of this peculiar but all-dominant investor class constitutes a significant juncture for political economists and industrial relations scholars. Recent contributions to the political economy of finance literature have called for a more careful examination of the internal diversity that different segments of finance beget, the pressures they exert on managers and firms, as well as the interest coalitions they forge in a quest to reshape national financial systems (Pagliari and Young 2014; Young and Pagliari

2017; Röper 2021). Endowed with substantial corporate voting rights and as the largest spiders in a global web of interlocking ownership, these new financial actors are likely to further tilt the power balance in advanced economies in favour of international financial interests. Indeed, the all-encompassing market dominance of asset managers seems to support scholars who consider financialized capitalism an exceptionally powerful steamrolling force that will unavoidably lead to the convergence of national models of capitalism on a liberal trajectory (Hardie *et al.* 2013).

This paper contributes to this debate by investigating the preferences and strategies of the world's largest asset managers, and how they engage in "tugs of war" with other financial and non-financial interest groups over key corporatist institutions. Influential contributions have argued that financial industry groups can leverage their influence over regulation by tying in their interests with those of other producer groups (Pagliari and Young 2014). I show how short-term tactical coalitions between "strange bedfellows" (Mahoney 2008: 175) comprised of financial, non-financial, and labour interests can constrain the political power of international asset managers. My findings highlight the importance of institutional complementarities in aligning the preference structures of unlike groups of incumbents and reinforcing the resilience of key domestic corporate governance institutions. Given the political explosiveness of high-staked regulatory battles and the general complexity of institutional re-design, global financial integration is therefore not an inescapable and all-encompassing force of convergence that will mute national institutional specificities, but instead, determined by the domestic particularities of producer group politics. Furthermore, previous research has argued that corporate governance institutions could shield themselves against international financial pressures by impeding market entry, but if they failed, consequential change could ensue (Goyer 2011). My findings show that domestic interest coalitions can preserve established institutions *even when* international investors have obtained a dominant position within the corporate network.

Research into asset managers' political strategies and their power over corporate governance is hampered by data availability issues as index funds tend to circumvent traditional institutions of sectoral and firm-level coordination and prefer informal meetings behind closed doors. Anticipating such challenges, this paper draws on a rare case of open conflict between different factions of capital over the future of corporate supervision: a proposed reform of the German Corporate Governance Code (GCGC), which provides Good Governance Guidelines that all listed firms must adhere to. In October 2018, the GCGC Commission issued a reform draft asking stakeholders for consultation. This draft contained a highly controversial amendment which proposed a reduction of the service terms for shareholder-elected supervisory board members from five to three years. Supervisory boards represent key institutions of "organised" or "coordinated" models of capitalism. As inherent part of the so-called "dual board system", they guide and monitor management, and allow veto players to interfere in firm-level decision making (Shonfield 1965; Hall and Soskice 2001). Seats on supervisory boards are predominantly held by external labour and capital representatives who can "impose collective interests *beyond* the firm level […] *upon* the firm" (Höpner 2007: 7). Reducing supervisory board members' service time would shorten their time horizons, to the detriment of a long-term vision for a firm. Therefore, critics saw in the proposed amendment a blatant attack on the dual corporate governance structure and its strict separation between supervisory and management boards, a threat to their independence, and an unjustified bias towards shareholder interests.

Since the consultations by the GCGC Commission were made available to the public, they allow me to trace the controversies that this amendment provoked, and the interest coalitions that formed in favour or against the proposal. Data from policy consultations is generally accepted in the interest group literature and used frequently in analyses of lobbying behaviour (Pagliari and Young 2014: 580). I use qualitative content analysis to categorise 110 individual statements from various stakeholders in the GCGC Commission consultation including capital and labour representatives, national and international investors, banks, insurances, legal and academic experts, government agencies, and larger and smaller firms. In a subsequent step, I propose a novel data visualisation technique to map coalitions by translating the coded statements into a radar chart. This radar chart indicates for different interest groups if their justification to support/oppose the amendment is more market or coordination driven, and highlights overlaps between factions that provide the basis for interest coalitions.

My results suggests that passive asset managers sided with much more activist private equity and hedge funds in calling for a reduction of service terms for supervisory board members. The deliberate aim of this coalition was a transition towards a de facto one-tiered corporate governance system with board re-elections taking place every year. This would allow shareholders to leverage their substantial voting powers more often and increase pressure on the board. Withstanding these efforts was a heterogenous but sizable countercoalition of capital and labour that formed in opposition to the amendment. Here, the uniting theme was a shared concern that more frequent elections would disrupt the traditional balance of power (parity) on the board with negative consequences for all parties involved. In the end, this shared coordination logic prevailed and successfully shut down the efforts by international financial investors to destabilise a central pillar of Germany's trademark corporate governance system.

The balance of this paper is structured as follows. The next section lays out the theoretical framework and discusses the growing dominance of index funds and their split personality as "passive aggressive" investors (Fichtner *et al.* 2018). Section 3 outlines the data and methodological approach and specifies the details of the GCGC reform. In Section 4, I present the results of the qualitative content analysis and visualise the 'tug of war' between different coalitions over the proposed amendment using a novel mapping strategy. The final section discusses the role of institutional complementarities in underwriting tactical coalitions between 'strange bedfellows' and concludes.

4.2 Theoretical framework: Asset manager capitalism and the resilience of domestic institutions

The question of if and how international financial interests shape domestic models of capitalism has gained a central place in political economy research ever since the onset of financial integration at a global scale. Influential contributions have argued that the growing influence of global finance would act as a "great leveller" and listed various reasons for the un-governability of international financial markets.

Firstly, firms depend on the sustainable provision of financial capital to produce growth, and governments depend on a working economy for their re-election. Since financial capital is highly mobile, credible threats of exit can be used as powerful means to steer political decision making. Secondly, this literature has characterised the interests governing international financial markets as largely homogenous and certainly well-funded, which endows its actors with an Olsonian advantage over other less-organised non-financial interest groups (Olson 1965). Thirdly, their importance in steering the flow of capital combined with a too-big-to-fail-level of global entanglement gives international financial interests a degree of structural power that limits the room for manoeuvre of political regulators (*see* Strange 1986; 1998). Though by no means exhaustive, these factors are deemed stronger than the counterbalancing power of existing institutions, which is ultimately seen to result in the inescapable convergence of national models of capitalism. Underlying this line of reasoning is the pessimistic assumption that finance capitalism cannot meaningfully be tamed. Once domestic firms find themselves sucked into the global game of market-based capital provision, institutional variations at the national level begin to vanish (Rubach and Sebora 1998; Hardie *et al.* 2013).

Financialization serves as an ambiguous umbrella term for the multivariate changes that the seminal "shift from industrial to finance capitalism" entails (van der Zwan 2014: 99; Mader *et al.* 2021). Undoubtably, "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (Epstein 2005: 3) holds severe consequences for national models of capitalism. In the realm of production systems, it introduces the logic of maximising shareholder value that brings with it heightened cost pressures, short-termism, and economic rationalisation. In the political arenas, it amplifies a shift of power from labour to capital. Recent developments in international financial markets therefore lend support to the "modernist thesis of institutional convergence" (Engelen and Konings 2010: 608): bank lending conditions are now commonly determined in international capital markets ("marked to market"); loans are usually securitised and traded; shadow banks play an increasingly important role as less regulated financial agents; and assets on balance sheets are commonly refinanced. Joint stock and private debt market capitalisation as a share of GDP has increased markedly in virtually all rich Western democracies. Seen on a continuum, country differences remain, but in the big picture, a seminal convergence towards market-based banking is undeniable (Hardie *et al.* 2013).

The repost from comparative political economy scholars is that such macro views are less attentive to national specificities and institutional complementarities that nurture and sustain distinct social coalitions and make existing institutions exceedingly sticky (Hall and Soskice 2001; Hall and Soskice 2003; Hancké *et al.* 2007). In the *Varieties of Capitalism* (VoC) school, for instance, long-term patient capital represents a vital characteristic of coordinated market economies. The key functions of patient finance lay in shielding target firms from hostile takeovers and alleviating excessive concerns of short-term profitability (Culpepper 2005), thereby enabling strategies towards incremental innovation, skill preservation, and horizontal and vertical coordination along supply chains that are required for the development of comparative advantages in diversified quality production (Streeck 1991). From this perspective incumbents would resist such short termism to protect the logic of long-term investment and the particular capacities enabled by it, notably a high-skills base rooted in tacit knowledge and a comparative institutional advantage in incremental innovation.

While these two views of institutional development—the convergence and the resilience perspective—stand in complete opposition to one another, they are both equally characterised by a general lack of agency in their frameworks (Crouch 2005). In each case, systemic structures and institutional characteristics explain continuity or change while states, actors, and interest groups remain passive enforcers, if not helpless tokens, of the historical course. More recent scholarship has taken issue with this determinism and pointed to the ineluctably political nature of financialization processes. Not only do national institutions refract common processes of global financial integration in different ways, but they actively condition the playing field in which political and economic actors of all colours negotiate the outcomes of regulatory battles, and by extension, the political struggles over distributive consequences (Engelen and Konings 2010: 617). Depending on the institutional context and the underlying production regime, the preferences of different factions of financial and non-financial producer groups can vary widely, both, across, but crucially so, also within sectors (Röper 2021). To better understand the relationship between the influence of financial actors and the constrained institutional context they find themselves embedded in, more attention ought to be paid to the internal logics guiding their actions, as well as the types of coalitions they forge with other actors who share similar ideas regarding the means to achieve their political and regulatory objectives.

To expand on this approach, I draw on an important but sometimes underplayed aspect in the neo-institutionalist literature that governs social and economic relations between dissimilar actors: the role of producer group coalitions. In *Politics in Hard Times*, Peter Gourevitch (1986) argues that domestic coalitions between producer groups act as important mediators in times of institutional upheaval (*cf.* Gourevitch and Shinn 2005). In this view, "cross-class alliances" (Swenson 2002) and intersectoral negotiations will matter for the manifestation of financialization under different polities (Young and Pagliari 2017). Germany serves as a case frequently invoked to stress the importance of national institutions in mediating the vigour of international finance where myriad veto players, domestic blockholders and family owners, and a bank-based savings culture have proven a hostile playing field for short-term oriented investors in the past (Goyer 2011).

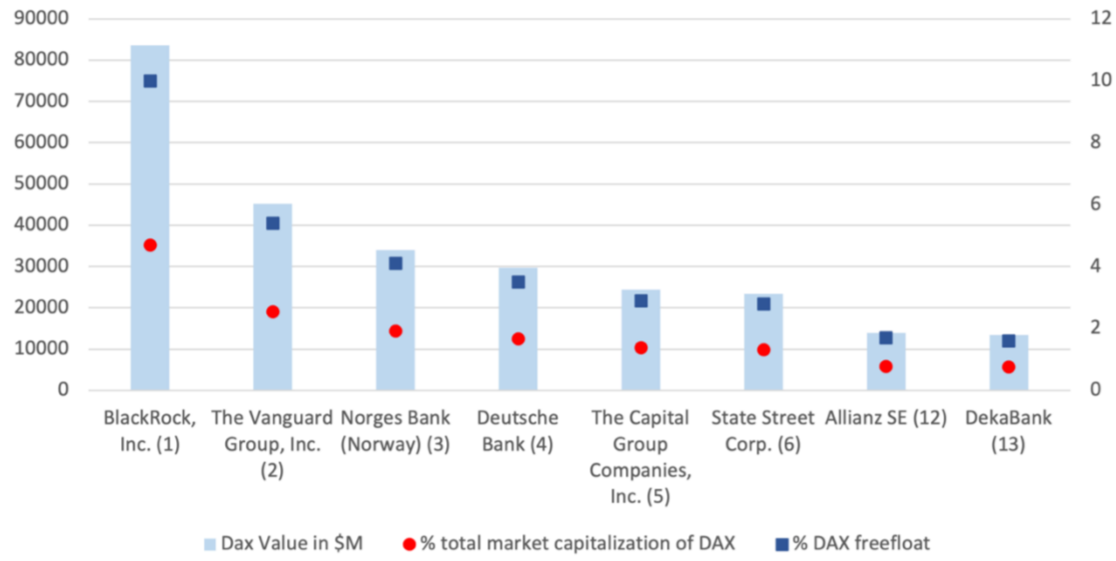
Alas, while key contributions have highlighted the overall importance of interest plurality for the power of finance (Pagliari and Young 2014), the particular ways in which national institutions and actors' interests blend into cross-class coalitions remain an open question. In Gourevitch and Shinn's (2005) analysis of owners, managers and workers' struggle over corporate governance institutions, alliances are based on the mutual realisation among ostensibly different actors that they share the same preferences and objectives, which leads them to unite in domination of the third party. But a focus on shared strategic goals underwritten by the benefits of a particular institutional setting, again, makes this arrangement relatively static. A given coalitional line-up determines the political winners and produces institutional outcomes that are seen to be quite resilient and enduring.

This view of coalitional conflict does not seem to do full justice to the dynamic fashion in which interest group conflicts over institutional reform typically unfold. Actors' preferences are frequently updated in light of new developments as well as the constraints of a changing environment, and coalitions are reorganised given actual or expected payoffs for individual partners. Indeed, we know from a rich literature on interest groups that coalitions are often merely *tactical* in nature (Axelrod 1981; Mahoney 2008). Partners in a tactical coalition do not necessarily have to share the same goals, let alone the same moral convictions. It may simply suffice for actors to share the same idea about the means required to achieve their personal objective to make their alliance mutually reinforcing. This paper investigates the mechanisms that lead to the formation of tactical coalitions between unlike partners against international financial interests. It argues that they can pose a mighty countervailing force in support of national institutional particularities.

Asset managers' unrivalled rise to global dominance injects new dynamism into the debate over the power of international financial actors, their leverage to change domestic institutions, and the role of producer coalitions in defending them. Unlike their much more activist cousins, asset managers' sell financial products that replicate the performance of market indices. Investment decisions are not based on individual firm performance and share price trajectories, but instead on complex mathematical algorithms—BlackRock's *Aladdin* application being most (in)famous[37]—which determine the ideal composition of shares to maximize price correlation with a particular index. This hands-off strategy allows asset managers to compete on very low fees for low risk returns and spares them, at least in theory, from active intervention in target firms.

Figure 4.1 Selected DAX investors at group level (2020)

[37] *Alladdin* is an acronym for "Asset, Liability, and Debt and Derivative Investment Network". Experts have criticised *Alladdin* for creating unruly market dominance and conflicts of interests (Financial Times 2020).



Source: DIRK 2021 HIS Markit; numbers in brackets indicate overall ranking

This novel investment strategy has propelled the "Big Three" American asset managers—BlackRock, Vanguard and State Street—to become fully diversified "universal owners" (Braun 2016) that dominate equity markets around the globe, and notably so, even in jurisdictions that were heretofore considered bulwarks against external financial pressures, like Germany. In 2020, the "Big Three" were the largest individual shareholders in 40 percent of Germany's DAX30 firms and in many cases the owners of sizeable blockholdings. As Figure 4.1 shows, in 2020 BlackRock alone held 10.0% of the entire DAX30 free float easily outsizing all other group investors in the blue-chip index. Deutsche Bank and Allianz—the former heirs of Germany's famed but now decimated corporate network (*Deutschland AG*)—rank in distant spots four and twelve. Germany is the fifth-most popular destination for index investors after the United States, United Kingdom, Japan and Australia. And even in the MDAX, which contains mainly family-controlled firms, the Big Three are at least the third largest investors in 42% of listed firms, but in 10% of cases still the largest (Fichtner and Heemskerk 2020).

While asset managers have successfully established a central position in Germany's corporate finance network, their intentions and potential as trailblazers of financialization remain a conundrum. Scarce research on this issue has painted an inconclusive picture. On the one hand, scholars have highlighted characteristics that clearly distinguish asset managers from activist investors. Their passive strategy provides no immediate incentive to engage actively in corporate governance; on the contrary, this would imply unnecessary costs. Furthermore, asset managers lack the exit options that are typical for other activist international investors (Jahnke 2019). Investment and divestment decisions are determined exclusively by a target firm's membership in an index, and so, passive funds must remain invested in a firm for as long as it is a member of a chosen baseline. And finally, asset managers like BlackRock like to paint themselves as champions of Environment, Social and Governance (ESG) values. In his 'Annual Letter to CEOs', BlackRock' chief executive Larry Fink has frequently argued that the best way to sustainably increase shareholder value is to invest capital in the long term to promote innovation and skill development. In this sense, classical German firms with their coordinated production profile are often invoked as model cases and ESG-focused asset managers should have little incentive to actively intervene in corporate decision-making processes that undergird these strategies. These conditions have led some academic observers to conclude that passive index funds represent a new class of patient investors "without any skin in the game" (Braun 2021; Deeg and Hardie 2016: 640; Braun 2016: 268). Others, with a whiff of optimism, do not rule out their potential to become "agents of corporate de-financialization and long-termism" (Fichtner 2020: 274).

On the other hand, a series of studies has cautioned that internal contradictions might entice asset managers to be more "passive-aggressive" than is commonly acknowledged (Fichtner *et al.* 2018). As global money managers, they remain first and foremost loyal and devoted to creating value for their shareholders. Herein lies the most obvious difference to more classical patient capitalists like relationship banks or family owners, and an important similarity to more activist investors. Research has shown that asset managers vote actively and highly congruent with management recommendations, proxy advisors, and activist shareholders, and often support short-termist strategies to boost stock value (Fichtner 2020; Fichtner and Heemskerk 2020). Labour rights and trade union priorities, on the other hand, find virtually no representation in index funds' voting behaviour (Committee on Worker's Capital 2020).

As deeply ambiguous and universally invested international financial agents, asset managers pose the most formidable test yet to the resilience of domestic corporatist institutions. Indeed, the implications are simple: If this mighty investor class manages to leverage its status as universal owners in German equity markets to change key corporatist institutions to its advantage, this would be grist for the mills of financialization scholars who argue in favour of sweeping convergence. If, however, domestic interest coalitions prevail in shielding national institutions from change, proponents of the resilience thesis would have an analytical edge. Whatever the outcome, the results of this test will add to an improved understanding of asset managers' internal logics that guide their actions, as well as the role and relevance of institutional complementarities in the formation and reinforcement of tactical political coalitions. The next section details the case and explains the methodological approach.

4.3 Data and methods

Research on the interests and strategies of the asset management class, and more specifically their influence on corporate governance systems, has in the past suffered from a formidable empirical challenge: Index funds are exceptionally shy creatures. They typically recuse themselves from classical corporatist institutions, they refuse seats on supervisory boards that are usually reserved for large investors, and instead rely on bilateral and behind closed door meetings with top management to make their interests heard. As a result, previous contributions pondering these questions have had to work with limited empirical material for quantitative analysis, mostly voting behaviour at annual shareholders' meetings

(Fichtner and Heemskerk 2020). For much of the same reasons, qualitative studies remain the exception.

This paper leverages a critical policy event that allows for an in-depth mixed methods analysis of the impact of asset managers and their strategies vis-à-vis the German corporate governance system: a proposed reform to the German Corporate Governance Code (GCGC). Since 2002, the GCGC provides Good Governance Guidelines for all listed firms in Germany. It is implemented and updated annually by a special independent government commission. The main aim of the code is to provide guidance, transparency, and information to national and international shareholders. As such, the GCGC constitutes soft law and is not legally binding, but it is still powerful as a collection of the main guiding principles of corporate governance, especially where the hard law allows for interpretative scope. CEOs and supervisory boards of all listed firms are required by law to issue an annual statement on how the code was followed and applied (under the so-called “apply and explain” rule).

In October 2018, the commission proposed a highly contentious reform to its guidelines which read as follows: “*Supervisory Board members elected by the shareholders shall be appointed for a period of not more than three years*” (Recommendation B.1). In effect, this proposal would reduce the service terms from the maximum five years that are enshrined in existing law (§102(1) AktG). Given the radical implications of this amendment, the reform proposal triggered a heated debate among stakeholders. While some saw in the reform a much-needed move towards international standard alignment, others alleged a blatant attack on Germany’s dual board system, which, as we recall from the introduction, plays a central role in Germany’s coordinated model of capitalism.

In multiple rounds of consultations, the GCGC commission invited stakeholders of all colours to provide official statements on the reform proposal which are publicly available. Therefore, this case provides us with a rare opportunity to explore the interests of different factions of financial and non-financial actors vis-à-vis German corporate governance institutions, including the strategies of international asset managers, as well as the coalitional dynamics reflected in the competition over institutional reform. In the next section, I draw on a total of 110 statements available from the GCGC archive[38] and combine qualitative content analysis with a novel coalition visualisation technique to distinguish between rival factions of stakeholders and their emphasis on different arguments and logics in the struggle over corporate governance reform.

For my analysis, I draw on a mix of inductive and deductive, or, “directed” qualitative content analysis (QCA; Hsieh and Shannon 2005; Schreier 2012; Mayring 2021). QCA is a method that allows for the systematic analysis of qualitative material by assigning it to a coding frame. In a first step, inductive coding of stakeholder statements yields a set of nine themes which I then assign to two overarching and competing logics: a *market logic*, and a *coordination logic*. These broad logics are derived from the VoC literature and represent the two distinct models of capitalism clashing in this case study. Under the market logic, contracts are the dominant mode of economic organisation and institutional investors use the threat of exit to exert pressure on management when they are unhappy with a company’s performance (Hirschman 1970). Financial capital under this logic is therefore more short-term oriented and nervous and shareholder value creation constitutes the dominant heuristic. In contrast, the coordination logic is characterised by strategic links between banks, businesses, and labour representatives. Capital is typically more patient and loyal, even in the face of short-term market fluctuations or adverse firm performance, and decision making is much more stakeholder oriented (Deeg and Hardie 2016). Given limited exit options, voice is used as dominant means of corporate engagement.

Along these logics, I visualise coalitions of different interest groups by translating the coded statements into a radar graph. I classify congeneric stakeholders into factions (e.g., banks, non-financial DAX30

[38] URL: https://www.dcgk.de/en/consultations/archive/consultation-2018/19.html

firms, activist investors, passive investors, etc.) and code their statements along their mentions of particular subthemes using dummy variables (0=not mentioned, 1=mentioned). This allows me to aggregate these data for factions and calculate the share of stakeholders within a faction that have referred to a particular theme. Overlapping the results in a radar graph indicates (a) which themes and logics particular factions draw on predominantly, and (b) where interests of different factions might align either in favour of or in opposition to the proposed GCGC reforms. The radar graph thus helps to understand where different factions might form a tactical coalition in pursuit of the same outcome, albeit for potentially very different individual motives.

Germany presents a critical case for exploring the impact of international asset managers on domestic corporate governance institutions for at least three reasons (Hancké 2009: 68ff.; Eckstein 1975; Gerring 2001; 2007). Firstly, it is a country case where patient institutions remain thick, but also, where passive asset managers clearly have established a central and increasingly dominant position in equity markets. This constellation creates the breeding ground for significant political-economic conflict over Germany's characteristic corporate governance institutions, most likely so between the incumbent heirs of the German model and international financial challengers. Secondly, the comparative political economy literature typically describes Germany as a prototype Coordinated Market Economy (CME) in which strategic coordination between firms, banks and the government creates high entry barriers for alien investors (Zysman 1983; Hall and Soskice 2001; Goyer 2011). If the arrival of an internationally dominant investor class led to the convergence towards a liberal, shareholder-oriented corporate governance model, financialization would prove to be the all-encompassing force that influential international political economy contributions have alleged in the past (Strange 1998; Hardie *et al.* 2013). Thirdly, statements from leading asset managers suggest that German firms––with their characteristic focus on long-term investments, diversified quality production, incremental innovation, skill development, and risk aversion—should represent best-practice examples of long-term oriented and sustainable enterprises. At the same time, however, this logic presupposes a coordinated model of stakeholder orientation that stands in contradiction to asset managers' stewardship and their primary responsibility towards financial shareholders. Against this backdrop, the GCGC reform provides a rare opportunity to explore asset managers' interests and strategies vis-à-vis target firms, and to theorise their authority to re-design domestic institutions conditioned by the interests of incumbent factions in the context of a prototypical coordinated market economy.

4.4 Analysis: Interest factions and coalition analysis

Out of a total of 110 statements from consulted stakeholders on the 2018 GCGC reform, 60 referred to Recommendation B.1 to reduce the tenure of supervisory board members elected by the shareholders. The types of stakeholders ranged very broadly from individual legal and academic experts to employer, labour and investor representative associations, small and medium-sized firms and larger DAX listed corporations, banks and insurers, investors of all types, proxy advisors and financial umbrella associations (see Appendix B). Different trade unions as well as works councils of many firms decided to co-sign a joint statement by the German Trade Union Confederation (DGB) which was submitted multiple times to the GCGC commission. Overall, a large majority of stakeholders (40) came out in strong opposition to the proposed reform, clearly outnumbering a smaller number of mostly international institutional investors (16) who voiced their support. Another set of four commentators could be classified as cautiously in favour (see Appendix B.1).

Table 4.1 Frequency table of logics and sub-themes (n=60 stakeholders)

Logic	Sub-themes	Frequency
Coordination	Loss of qualification	20
	Knowledge exchange	6
	Balance of power	28
	Independence from shareholders	13

	Excessive short-termism	24
Market	Flexibility	8
	International standard alignment	9
	Shareholder value	5
	Independence from management	7

Qualitative content analysis

Qualitative content analysis of 60 stakeholder statements yields a set of nine specific themes. As signposted above, I bundle these themes under two competing logics, a market logic, and a coordination logic (Table 4.1). Beginning with the *coordination logic*, a number of commentators expressed concerns that a shorter duration of elected supervisors on the board would hinder smooth operations within firms. The main focus laid on the problem of having to find qualified personnel more frequently and a disruption of the balance of power on the board between capital and labour. In large German firms, the dual corporate governance structure ensures parity between capital and labour with the board’s chair casting the decisive vote. Since the reform concerned shareholder-elected representatives of the capital side only, consulted stakeholders cautioned against a sustained drifting apart of time spent in service between representatives on the labour side and those of capital.

In addition, they also raised potential issues relating to knowledge exchange on the boards, another key element of strategic coordination. Since supervisors usually serve on a number of boards simultaneously, they can act as information carriers between large firms. At the same time, supervisory boards constitute the main hub for knowledge exchange between management and labour within a firm.

Finally, commentators under the coordination logic decried an excessive focus on short-termism. Under the dual supervision model, supervisory boards are elected by the shareholders at annual general meetings where one unit of common stock carries one vote. In this context, stakeholders specifically warned against a loss of independence of elected board members should they face re-election from international shareholders with dominant voting rights more frequently.

Under the *market logic*, on the other hand, stakeholders highlighted positive implications for corporate efficiency. Some argued that more frequent re-elections would allow firms to react more flexibly to the challenges of an ever faster changing corporate environment. Others alluded to further opportunities to strengthen shareholder value orientation if investors could decide more frequently over the composition of supervisory boards and personnel. In addition, many deemed the reforms a first but necessary step to align Germany's dual board structure with the internationally more common single board model under which there is no clear separation between supervision and management duties, and decision-making authority is more concentrated with the management board. And finally, some commentators hoped that the reform would help to break conspiratorial structures on the board and increase the independence of shareholder-elected supervisory board members from management and labour representatives.[39]

As discussed in the previous section, I use these nine themes and two overarching logics to classify different factions of stakeholders along their emphasis on particular aspects and concerns regarding the reform. By amalgamating the individual faction statements, I can identify interest overlaps between unlike groups that provide the basis for tactical coalition building either in support of or in opposition to the proposal.

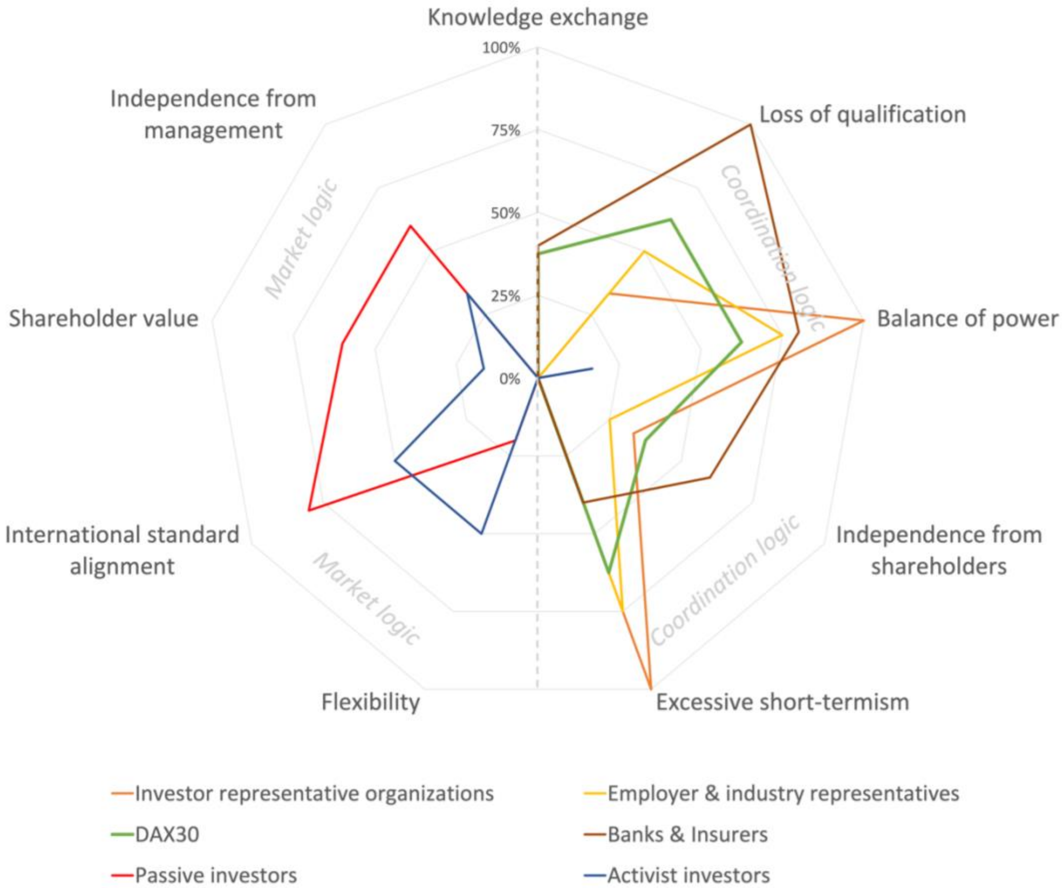
Coalition analysis

The results of my coalition analysis show a striking separation of factions in support of, and in opposition to, the reforms distinguished clearly along

[39] Irrespective of above logics, some commentators cited practicability reasons in opposition to the reform. More frequent board elections would imply significant costs involved in organising stockholders' meetings. In addition, some stakeholders voiced legal concerns pointing out that formal law granting tenure of a maximum of five years could stand *ultra vires* to the more informal CGCG. In the interest of conceptual clarity, I focus my analysis on above logics even though these practicability concerns are not easily dismissible.

the two guiding logics (Figure 4.2, next page). At a first glance, this confirms the initial intuition that the GCGC's proposal to reduce the tenure of supervisory board representatives was highly contentious.

Figure 4.2 Radar chart of interest coalitions



Note: Each corner depicts a subtheme. Right-hand subthemes relate to the coordination logic, left-hand subthemes relate to the market logic. Amplitudes of individual lines indicate in percent how many individual stakeholders from a faction mentioned a particular subtheme in their statement. Overlapping lines suggest agreement between different factions regarding a particular subtheme. In the interest of legibility, remote factions such as legal and academic experts or proxy advisors were excluded from this figure (relevant statements are revisited in the discussion below). Labour unions' reactions are discussed separately below (see footnote 40). Reading example: Within the faction of "banks & insurers", 40% of stakeholders referred to "knowledge exchange", 100% referred to "loss of qualification", 80% referred to "balance of power", and so on. While all of them referred to "loss of qualification", they share the largest overlap with other stakeholders on "balance of power". None of the stakeholders from the "banks & insurers" faction referred to themes under the market logic.

The coalition in favour of this reform consisted of activist and passive institutional investors, including the ‘Big Three’ index funds. These stakeholders welcomed the proposal to cap the service time at a maximum of three years, but also saw it as only a first step with “annual Board elections as [the] ultimate objective” (Vanguard), or, in other words, as “a transition period where companies could choose to first shift from the current 5-year term of office to a 3-year term before moving to annual elections” (State Street). The motives behind this stance seem rather obvious. As money managers, shareholder value creation constitutes the main decision-making rationale of activist and passive investors, alike. Reducing the tenure of supervisory board members increases the frequency of board re-elections which in turn increases the opportunities for shareholder representatives to use their voting powers to exert pressure on a portfolio firm; by threatening to axe unpopular representatives, and by appointing allies. BlackRock reiterated this objective indirectly, by arguing that “director elections provide the board with a sense of the level of shareholder support”. At first glance, this seems to confirm a conventional wisdom: since shareholder value is the dominating logic of financial markets, international money managers lean towards short-termist preferences. Somewhat unsurprisingly, then, activist and passive investors share a similar market logic towards Germany’s corporate governance institutions.

But upon more nuanced analysis, the radar graph reveals important differences in the discourse of activist (blue) versus passive investors (red). Activist investors put strong emphasis on the prospect of increased flexibility (50%), a standard short-term perspective which also featured explicitly in the rationale of the Commission’s First Draft from 25 October 2018: “A shorter term of office increases the flexibility in order to better meet a developing profile of skills and expertise, and to take into consideration changes in the ownership structure”. Alluding to the pressures of fast-changing business environments, activist shareholders have traditionally called for more bundled competencies in top management. The concentration of decision power at the top would come as their benefit because it would allow easier access and implementation of extractive investment strategies (Goyer 2007; Fichtner 2015). Interestingly, shareholder value is not a theme that activist investors emphasise predominantly.

Passive investors, on the other hand, do not tend to raise the issue of flexibility. Instead, they focus first and foremost on the accountability of board members and on creating long-term value for shareholders. In their statement, BlackRock expressed their hope that the reform would guarantee a “sufficient number of independent board directors to ensure objective debate and oversight that leads to decisions that protect and advance the interests of all shareholders”. State Street echoes this view: “As a global investor that has active engagement and voting programs in key global markets, we find that annual director elections provide increased accountability and encourage board members to be more responsive to shareholder interests, thereby improving board quality”. Passive investors therefore seem hopeful that more frequent board elections would increase the independence of board members from management and workers and prevent them from suffering corporate “Stockholm syndrome”.

Overall, asset managers understand board composition as a key element of good governance (In the words of Vanguard, “Good governance begins with a great Board”). BlackRock considers “The performance of the supervisory board […] critical to the long-term success of the company and to the protection of shareholders’ economic interests”, adding that “BlackRock’s pursuit of good corporate governance stems from our responsibility to protect and enhance the long-term economic value of the companies in which our clients are invested” (BlackRock statement). Statements like these resonate with points made elsewhere in asset managers’ stewardship guidelines. For example, State Street (2018) reiterates that moving towards annual board elections “would provide shareholders with an effective mechanism to fulfil our stewardship responsibilities and improve the quality of board oversight and company performance in the long-term”. Taken together, these statements appear to convey a more long-termist approach compared with activist investors, which resonates with the image as socially responsible investors that index funds attempt to construct for themselves.

So, while the two types of investor groups stand unitarily in support of shortening the maximum service of supervisory board members, they do so for different reasons. What unites them, as Figure 4.2 illustrates, is a shared conviction that the German corporate governance system should converge towards the internationally standard one-tiered model in which management is not institutionally separated from supervision and where these two functions are performed by one and the same body, usually, the Board of Directors. This latter model provides more entry points for shareholder interests and is generally characterised by fewer veto players.

As Figure 4.2 illustrates, the demands of international money managers were met with fierce opposition from a heterogenous cross-class coalition of “strange bedfellows” (Mahoney 2008) encompassing banks and insurers, DAX30 corporations, domestic investor associations such as the Deutsche Schutzvereinigung für Wertpapierbesitz (Germany’s largest association of shareholders with over 30,000 members), the German Investor Relations Association (DIRK), employer representatives such as the Bund Deutscher Arbeitgeber (BDA), and major labour unions.

Banks and insurers, as well as blue-chip firms listed in the DAX30 were most concerned about loss of qualification on the board. In a joint statement, the chairmen of the supervisory boards of Allianz, Deutsche Bank, and Siemens warned that “a shortened mandate would increase the risk of loss of competence and know-how on the supervisory board and further weaken the authority of the respective supervisory board member” (my translation). Others voiced their support in defence of typical features of strategic coordination, for example, representatives of Telekom AG who warned against “considerable disadvantages for the transfer of knowledge and cooperation on the board”. Recall that tacit, firm/sector-specific knowledge plays an important role in German companies that compete in diversified quality production, and takes time and money to accumulate.

Domestic investor representatives were most concerned about the spectre of increased short-term pressure, as well as legal barriers since the proposal effectively challenged existing law. The Deutsche Schutzvereinigung für Wertbesitz (DSW) representing the interests of more than 30,000 shareholders took particular issue with the goal raised by proponents of the reform to align German regulations with international standards: “Unlike the Anglo-American system, which provides for much shorter terms of office and also takes a more short-term approach overall, current service terms of up to five years Germany’s dual system does more justice to the long-term nature of the interests of shareholders on the supervisory board” (my translation). Many commentators questioned the comparability of the German supervision model with international standards.

Employer and industry representatives including the powerful Confederation of German Employers’ Associations (BDA) decried increasing costs of more frequent re-elections that would accrue to firms, but like many other stakeholders they also pointed towards the negative implications of increased time pressure and short-termism, as well as the challenge to find qualified personnel and the adverse effects this could have on board operations. The Federation of German Industries (BDI) argued that “due to the increasing complexity of supervisory board activities, especially in listed companies, the statutory maximum term of office of five years has proven its worth from the perspective of German industry. The continuity associated with this model is of great importance to companies, which is why a reduction to three years could have a negative impact on the quality of supervisory board work overall” (my translation).

While stakeholders in opposition to the reform alluded to many different motives to justify their stance, the radar graph indicates a single uniting theme: a potential threat to the balance of power on German boards. This concern stemmed from the fact that the GCGC's formulation referred only to board representatives elected by the shareholders, i.e., the capital side, while leaving rules for labour-elected board members untouched. Unsurprisingly, therefore, capital representatives saw in the proposal an "arbitrary differential treatment of the shareholder and the employee side" (Allianz) and a "clear deviation from the principle of equal legal status of all members of the supervisory board" (Deutsche Telekom AG). In their statement, chemical company and DAX member Merck put the concerns of capital in clear terms: "While employee representatives have five years to familiarise themselves with the subject matter, forge alliances and get to know the company from the supervisory board's point of view, shareholder representatives have only three years. Such discrepancy and the practical difficulties this entails lacks any objective justification" (my translations).

Given capital's alarms over the undeniable disadvantages of the reform, we might suspect that labour representatives should wholeheartedly support a proposal that promised to increase its relative strength on the board. However, a joint statement by the DGB, co-signed by works council representatives from various firms shows that in fact the opposite was the case: labour unions sided with capital.[40] The worker side had two main concerns. Firstly, they argued that the reform would nullify lessons drawn from the Great Financial Crisis that had led to a shift of companies' strategies "away from mere shareholder-primacy to reimbursement systems incentivizing long-term goals" (DGB 2019). Rainer Hoffmann, chairman of the DGB, argued in his statement that the reform proposal "would set considerable incentives for a short-term orientation of corporate policy and would stand in extreme contradiction to recent remuneration developments for board members, which (rightly so) increasingly take long-term incentives into account. The long-term future of

[40] Since labour representatives co-signed and submitted the same joint statement by the DGB multiple times, there is no variation of themes within this faction. Therefore, workers' interests cannot be integrated meaningfully as another faction into the radar graph and need to be discussed separately here.

the company would thus be lost from the view of the supervisory board with negative social and economic effects” (my translation).

Secondly, and most considerably, the balance of power argument raised by capital representatives found strong reiteration among unions, since supervisory board terms of labour and capital are tightly coupled under German law and the principle of parity:

> “Even though the GCGC refers to shareholder representatives only, it would equally affect the tenure of worker representatives. Pursuant to §15 section 1 of the Co-determination Act (MitbestG), the length of term in office for worker representatives of the supervisory board is bound to the length of term in office for shareholder representatives as determined by the articles of a company. In other words, recommendation B.1 would authorize shareholders to decide over the length of tenure for worker representatives in the supervisory board.” (DGB 2019)

This legal detail epitomises an important and powerful lever in Germany’s coordinated market economy: path-dependent complementarities stemming from past negotiations over corporate distribution of power that align the interests of diametrically opposed producer groups towards protecting existing institutions and rules of the game. Since board mandates in Germany are formally linked, opposed interest factions find themselves in the same boat when it comes to fundamental changes to the way the system works and forge strong majorities in its defence. Unions play a particularly important role in reinforcing this arrangement. Once they consider themselves an involved party, they will not tire to point out that curtailing the power of the capital side will have adverse implications for their *social* mandate, which intensifies the pressure on political decisionmakers. The capital side, in turn, will profit from unions’ involvement. As a result, symbiotic complementarities can lock actors into a pareto-efficient situation where existing institutions will be jointly defended.

To summarise my findings, qualitative content analysis and coalition mapping suggests that passive asset managers sided with activist investors in an attempt to undermine one of Germany’s trademark institutions of corporatist coordination: the dual supervision model. However, while their opinions regarding the objectives of the GCGC's reform proposal were strongly aligned, in their individual statements they specified different reasons. While activist investors voiced their aim to increase short-termism and flexibility in target firms, passives alleged improved accountability and sustainable decision making resulting from more intensive and frequent shareholder representation. This suggests that passive investors do constitute a corporate-political class of actors *in their own right*, who unite both, long-termist aims and short-termist strategies under one roof.

In contrast, the interest factions in opposition to the proposed reform appear much more heterogenous and conflicting. But a startling degree of unity in their coordination logic and their action against the proposal to weaken capital representatives on supervisory boards shows that domestic producer coalitions can continue to forge strong bulwarks against financialization pressures even when facing universally invested asset managers endowed with unlimited equity and considerable voting rights. The final section discusses the implications of these findings in more detail.

4.5 Discussion and conclusion

The attempt to reform the GCGC and weaken a central tenet of Germany's corporate governance framework—the dual board supervision model—gives political economy scholars front row seats to the high-staked battles over corporate governance that global asset managers engage in. Drawing on this critical case, this paper clarifies the internal logics guiding asset managers' interests vis-à-vis coordinated corporatist institutions and proposes a dynamic explanation for the power of international financial challengers conditioned by their ability to forge producer coalitions with domestic incumbents.

As passive investors but activist owners, asset managers distinguish themselves from other types of investors and should be understood and classified as a financial faction with characteristic traits and distinct interests. Recent contributions have painted passive asset managers as typical patient investors who lack exit options and remain financially involved in target firms in the long run (Deeg and Hardie 2016). However, although from the outside they seem to resemble patient capitalists by any of the standards employed in the past, at the same time, their relation to institutions of patience appears fundamentally antagonistic. As the case of the GCGC demonstrates, passive asset managers put into question the most fundamental rules of the game governing long-term oriented production systems and get into conflict with former champions of patience that form counter coalitions in defence of established customs. They are thus driven by an internal logic that easily clashes with that of proponents of coordination. Shareholder value constitutes their main guiding principle, they have little interest in the ability to coordinate with domestic producer groups, and they desire direct access to management to meet fiduciary duties.

Against this backdrop, my paper holds important lessons for the ongoing debate around passive asset managers and the power of international finance. To start with, ambiguity in asset managers' strategies of investment and corporate engagement suggest that the temporal duration of capital represents a necessary but insufficient condition of patience. When classifying financial actors, attention must also be paid to more qualitative characteristics of patient behaviour, first and foremost, the social relationships between investors, target firms and other producer groups, and the complementary or symbiotic effects for coordinated production regimes that patient capital underwrites. Asset managers' complicated (if not confrontational) relationship with coordinated institutions clearly distinguishes them from more classical patient capitalists we commonly refer to in political economy, such as relationship banks or family owners (*cf.* Höpner and Krempel 2004; Lehrer and Celo 2016).

Asset managers' undeniable contempt for the particularities of domestic corporate governance institutions makes their schizophrenic character all the more evident. As discussed in Section 4.3, the 'Big Three' like to paint themselves as champions of ESG values that only want the best for target firms in terms of long-term orientation and sustainable development. The classical image of the innovative and high-skilled "Made in Germany" manufacturing firm should serve as best-practice example. But ironically, in their desire for unitary corporate control to enforce these values, they tend to disregard and even destabilise the very institutions and complementarities that have guaranteed protection against increased short-termism in the past. A labour unions' statement on the GCGC reform proposal highlights this inconsistency: "International investors advocating of such a measure are not only ignoring best practice standards in German Corporate Governance system but are also disregarding the German Co-determination system by jeopardizing it readily" with "detrimental [effects] to the fairly long-term strategies that companies are currently following" (DGB 2019).

Turning to the power of international investors, proponents of convergence theory will note that in their statements passive asset managers clearly voice their ambition to align German corporate governance with international standards and empower shareholder interests. In that sense, they can be considered a potential force of corporate financialization with significant equity shares and voting rights. At the same time, however, the fulminant rejection of the reform proposal demonstrates an apparent discrepancy between the centrality of asset managers position in German equity markets and a lack of ability to re-design key pillars of the established corporatist order.

To understand this discrepancy, we need to unpack the coalitional dynamics guiding institutional change in Germany and the role of complementarities that shape and align the interests of unlike actors. As we have seen, producer coalitions in pursuit of mutual institutional outcomes must not necessarily share the same goals or convictions to forge a stable political alliance. It suffices for them to share the realisation that an external shock to the institutional order will likely put them in a worse position than *ex ante*, or, conversely, improve their joint position vis-à-vis other interest groups. Institutional complementarities and the legacies of past negotiations are important in aligning the internal logics of antagonistic actors who operate under the same model of capitalism. Qualitative content analysis demonstrated that labour unions and capital representatives—usually not natural allies, to say the least—united in strong opposition to the reform when both felt equally worse-dispositioned. The fact that even large commercial banks and domestic shareholder representatives joined the efforts to prevent the reform supports recent contributions which show that financial actors' interests are more heterogenous and internally conflictual than commonly assumed (Röper 2021). While truly 'strange bedfellows', the incumbent defenders of Germany's corporate governance model jointly realised that changing key institutions of co-determination is a complex, multi-dimensional operation. Even though this particular reform proposal targeted exclusively the powers of the capital side, labour came out against the proposal as well, because the consequences of realigning this central institutional cogwheel were more than unclear.

Still, when drawing conclusions about the power of asset managers, we should not forget that the case and statements I analysed in this paper provide only a limited snapshot of actual political agency. Future research should focus on finding additional innovative points of access into the political engagement of asset managers, for example, their lobbying activities or more direct interference with management boards.

To conclude, my results suggest that as long as the interests between financial challengers and incumbent producer groups remain misaligned, institutions are unlikely to change. Institutional resilience is therefore not simply a product of inertia. Quite to the contrary, it is an ineluctably political outcome of high-staked regulatory battles. Under coordinated types of production systems with a high number of veto points, financialization is unlikely to act as a steamrolling force. Now as before, agents of financialization need allies among incumbents to advance their interests. Only when their interests align with those of politically relevant insiders can financial challengers unleash meaningful institutional change. Producer group politics will therefore continue to decide the battle between converging and diverging forces in the future.

5

Conclusion

5.1 German finance and global money

We have now come full circle. In this conclusion, I will try to connect the key pieces from my introduction and three papers to construct a coherent picture of the evolution of the German financial model and consider some of their broader implications.

The starting point of this thesis rested on the insight that in the last thirty years—but especially since the Global Financial Crisis and its myriad repercussions—the German financial system has become much more pluralistic than ever before. Key institutional reforms opened up German equity markets, allowed domestic financial actors to venture into global investment banking, and, in turn, gave international investors opportunities to establish their business on German turf. Data on shareholding patterns and network analysis highlight that, today, giant American asset management firms—the most prolific of them being the "Big Three" BlackRock, Vanguard, and State Street—have acquired a central and dominant position at the heart of Germany's corporate network; one that resembles in eerie ways the position of big banks and insurances during the heyday of "Rhenish capitalism" (Albert 1993).

In the early 2000s, and more than ten years prior to the rise of the infamous asset managers, most comparative political economy scholars observed the rapid integration of global financial markets with a mix of hopelessness and despair. In their seminal contribution on the Varieties of Capitalism, Hall and Soskice (2001: 69) had already acknowledged in quite clear terms that "financial deregulation could be the string that unravels coordinated market economies" like Germany's. Now that fulminant reforms had cracked open previously bolted markets for capital, equity, and corporate control (Höpner and Jackson 2003), the endgame seemed quite clear: the breakdown of Germany's traditional insider-controlled and stakeholder-oriented model of capitalism was in the offing; and a transition to a more market-led, liberal model imminent (Rubach and Sebora 1998; Hackethal *et al*. 2005).

This thesis has investigated how the pressures of global financial integration are mediated politically and filtered through existing institutions. I put special emphasis on actors as the bearers of particular *institutional logics*—logics, which tend to clash more and more frequently as global connectivity gives rise to a plurality of interests. Throughout my papers, I have argued that the ways in which these pressures are dealt with come down to the dynamics of political coalition building. In contrast to how finance is often characterised, it does not appear to be powerful enough *in and by itself* to impose common institutional changes on very diverse types of capitalist systems. Instead, it requires the alignment of interests with other dominant and politically influential actors to turn demands into palpable institutional change (Pagliari and Young 2014).

Of course, as universal gatekeepers to credit and investment, financial actors have powerful means to align the interests of other stakeholders with their own agenda. However, this condition alone already brings accounts of wholesale institutional convergence into question. As it turns out, what has come to be known as a global process of *financialization* is in reality a deeply political process with an uncertain trajectory. The distributional consequences of substantial reforms, the interests of other stakeholders, the electoral calculations of policymakers, and the path dependency of foregone battles over institutional change restrict room for manoeuvre and create political constraints to be reckoned with.

This conclusion picks up what I consider some of the key points of my papers and engages with the broader implications that my thesis has for the power of finance and its meaning as a vector of capitalist development, for the future trajectory of the German model, and for the notion of patient capital. In the following, a summary of the key findings of my three papers is complemented by a discussion of these broader implications and a few thoughts on the generalisability of my results. Final remarks bring my thesis to a conclusion.

5.2 Summary of key findings

The first paper provided the conceptual framework for this thesis. It started from the insight that the structure of the German financial system has changed in fundamental ways along with the ever-closer integration of Europe's largest economy into world markets. Two sets of actors, in particular, have played a key role in injecting a new dynamic into Germany's financial model. In the late 1990s and early 2000s, big banks started divesting domestic equities, scaled back their domestic lending business, and bought their way into international investment banking. This shift in the business model of large banks reduced the cohesion of the German corporate system and allowed outside investors to place a foot in the door. Twenty years on, the largest of these international asset managers have established a dominant position at the centre of the corporate network. Yet, we still know very little about these new investors, about their interests and business models, as well as their political and corporate strategies of engagement. We are also largely in the dark when it comes to comparing and distinguishing different types of financial actors.

Actors as the social bearers of diverse and oft-competing systemic logics are rarely in the direct focus of scholars interested in the comparative political economy (CPE) of finance (*see* the special issue by Deeg *et al.* 2016 for an important step to address this gap). When they are of interest however, a distinction is made according to the type of capital they provide:

either patient and loyal in the longer run, or more “nervous” searching for exit options and short-term profits (*cf.* Hirschman 1970). While this binary distinction did suffice as analytical categories in the old days when actors could still be neatly divided into clearly distinguishable camps (think domestic versus international), today, we are in need of a more granular approach.

In this first paper, I propose additional categories to distinguish actors in the financial system. To the notion of patience understood as the long-term duration of an investment, I add the inclination of capitalists to engage in the corporate governance of target firms, as well as the degree to which their business models are embedded in and reliant on global financial markets. Together, these categories produce a (soft) trilemma for actors in the sense that a combination of any two will make the third one at least very difficult to attain without creating conflicts of objectives. I then go on to investigate the internal logics of different factions of capital—Rhenish capitalists, activist financial investors, and passive asset managers—along these categories. I argue that financial actors can establish institutional niches for themselves depending on the particular strategy or combination of objectives they pursue. However, I also show that these strategies are rarely stable. Instead, they are subject to internal conflicts of objectives, which, as they accumulate, lead actors to challenge the position of others. My conceptual considerations are underpinned by network analysis and illustrative case studies to demonstrate the use of the framework for empirical inquiry.

This paper makes at least two contributions which I hope can advance our understanding of the effects of global financial integration on coordinated market economies. First, empirically, this paper focuses on the character traits of financial actors, their internal conflicts of objectives, and on their heuristics for decision making to understand conflictual dynamics within the financial model. A more nuanced analysis of actors shows that financial sectors are highly pluralistic, made up of myriad types of factions who can be meaningfully distinguished by the categories proposed in my paper. This suggests that finance is not as homogenous a sector as it is often, at least implicitly, portrayed in much political economy literature. Instead, factions of finance often get into conflict with each other because they follow competing business logics that require very different institutional and regulatory frameworks (Röper 2021).

Theoretically, this first paper offers a dynamic account of contestation over institutional change in the financial system as conditioned by the (changing) strategies of diverse financial actors. The trilemma suggests that in the age of globalised finance no single financial faction will be able to dominate an institutional system. On the contrary, competing strategies imply externalities for other stakeholders and threaten to undermine established institutional niches (or, subregimes). This, in turn, signifies that systemic arrangements do not impose themselves in a linear way, but actors need to constantly find and revise strategies to protect, defend, and amend their institutional niches.

Whereas Paper 1 provides a conceptual framework for the thesis, Papers 2 and 3 explore the conflict between factions of finance in more empirical detail, supported by critical “policy-focused” case studies (Hacker and Pierson 2014). Paper 2 investigates the politics of a truly consequential reform which removed a significant obstacle to financial liberalisation: the abolition of capital gains taxes on the divestment of cross-shareholdings in 2000. This tax had prevented Germany’s big banks from off-loading domestic equity and freeing funds required to engage in international investment banking. Therefore, the tax was considered the formal ‘glue’ that kept Germany’s corporate network of cross-shareholdings (Deutschland AG) from disintegrating by raising the costs for exit beyond an acceptable limit. Since Deutschland AG provided many firms with protection against hostile takeovers and shareholder pressure and allowed for patient capital provision, the abolition of the tax had significant distributional consequences. How could big banks win this reform against opposed, and traditionally politically powerful, factions of capital?

I apply process tracing to a structured media analysis of over 100 reports in different languages, as well as seven semi-structured elite interviews with witnesses from politics and business to reconstruct the sequence of events that led to this pathbreaking reform. My results suggest that it took a sudden and radical reshuffling of political coalitions (and therefore, political leverage) to lift institutional stalemate. Key to this was an initially unconnected event. Shortly before the surprising announcement of the reform, Germany's second largest construction firm—Holzmann AG—went bankrupt and threatened to drag with it no less than 30,000 jobs. My analysis shows that the Social-Democratic Chancellor at the time, Gerhard Schröder, needed Germany's big banks as creditors of last resort to help save these jobs and thereby mute party-internal criticism and secure his re-election as leader of his party at an imminent convention. Organising a coordinated bailout for Holzmann leveraged the power of banks who had called for the abolition of the constraining capital gains tax for years. At the same time, it provided Schröder with a political window of opportunity to give banks what they wanted, to internationalise the German financial system, and implement liberalising EU reforms without creating the impression of "being in bed with the banks". In other words, the Holzmann crisis quite abruptly reshuffled the power dynamics between different factions of capital during the reform process, which eventually led to the bifurcation of Germany's financial system with big banks deserting domestic markets and smaller banks reinforcing their business on home turf.

The main contribution of this second paper lies in its joint analysis of structural and agentic forces which led to consequential financial liberalisation. While structural changes gradually undermined the long-standing consensus among Germany's financial and non-financial firms in support of the Deutschland AG network, for many years big banks, who increasingly felt disadvantaged by the existing arrangement, did not manage to win the reforms required to improve their situation. Instead, it took an unexpected window of opportunity to leverage their infrastructural powers vis-à-vis other producer groups (Braun 2020). In addition, the individual agency of Gerhard Schröder played a crucial role as he could instrumentalise the traditional links between big banks and Germany's largest firms for his own partisan and electoral benefit prior to dismantling them. Political agency, and also, political timing (Pierson 2004), thus play a key role in processes of financial liberalisation.

Intimately connected to this insight, Paper 2 lends for the German case support to previous findings which suggest that the power of banks is not a constant feature but comes in varieties and can fluctuate quite significantly, and even very spontaneously (Culpepper 2011; 2015; Fairfield 2015). Under complex social systems, with myriad capitalist factions and veto players, financial actors depend on the alignment of their interests with other political and/or industrial factions to leverage their demands into palpable policy change (Young and Pagliari 2014). This became clear not only in the run-up to the reform but also in its aftermath. When Germany's big commercial banks cut back their domestic credit business and severed many of their ties to industrial firms, they also lost much of their industrial and, thus political, relevance.

Where Paper 2 investigates the effects of global financial integration on domestic policy in more mediate fashion, Paper 3 focuses directly on international investors and their ability to reshape the German corporate governance system. Passive asset management firms like BlackRock are in the focus of attention here. We still know very little about their political motivations, strategies of corporate engagement, and influence over political decision making. So, this paper makes an important contribution by finding preliminary answers to these pertinent questions. Once again, this paper leverages a crucial case of conflict between factions of capital and finance, this time over a proposed reform of Germany's supervisory boards in 2018. I map the opinions of over 100 consulted stakeholders regarding the reform proposal to show that passive index funds sided with much more activist investors in an attempt to constrain the powers of supervisory boards and leverage shareholders' influence over corporate governance. However, these plans were blocked by a dominant coalition of incumbent actors whose interests aligned in support of the status quo.

This paper makes a couple of relevant contributions to a burgeoning comparative political economy of finance literature. Above all, it provides (to the author's knowledge) the first 'character analysis' of passive asset managers based on qualitative data. This analysis suggests that passive asset managers, indeed, follow quite bipolar logics of action. On the one hand, they are patient because their passive investment model ties them to a firm in the long run. However, they are also highly engaging champions of shareholder value. Asset managers like to portray themselves as champions of environmental, social and governance (ESG) values, and as pursuing them with the best of intentions for the development of their target firms, the pocketbook of their shareholders, and the advancement of society at large (BlackRock 2018). But they also interfere quite aggressively in target firms to translate their demands into action and show contempt for the particularities of domestic models of capitalism that might not grant shareholders the same access to firm-level decision making as other jurisdictions. Given their deep and comprehensive investment position in equity markets across the globe, they are certainly a force of change to be reckoned with now and in the future.

At the same time, my immediate focus on global financial actors corroborates the insight that *externally* imposed change, even from a coalition of most powerful financial investors, is not automatically guaranteed to gain political traction. Change needs to operate through domestic actors and is unlikely if interests remain misaligned. Once again, actors as the social bearers (and defenders) of institutional logics play an important role in explaining the power of finance over political economic institutions.

Having summarised the key findings from my papers, the next three sections discuss what I see as some of the broader implications of this thesis. Notably, they focus on the politics of financialization, the concept of patient capital in political economy research, and questions about the future of the German banking system.

5.3 The politics of financializaton

I have argued throughout this thesis that incumbent counter coalitions have the ability to neutralise (or, at the very least, mediate) the power of global finance. The effects of international financial integration rarely superimpose themselves in a linear fashion. Instead, they operate through actors by changing their payoffs from a given regime, destabilising the political economic coalitions underpinning an institutional arrangement, and thereby incentivising change from within (Deeg 2005). *Under such conditions*, global financial power is most effective. But this conclusion also means that the dynamics of actors' interests and the modes of coalition building play a key role in how financial dominance shapes up. Stated more poignantly, financialization is a deeply *political* process.

This view puts into doubt the classical economist's story about institutional change in financial systems, which is focused on the thrust of market forces. Indeed, if institutional redesign was purely driven by market forces, then there would be no question about the optimal arrangement of financial systems in the era of globalised finance: a convergence of domestic models of capitalism on market-based banking would be the only logical outcome, because for borrowers interest rates are lower, while lenders can offload credit risks from balance sheets and securitise them in the market—a win-win for everyone involved. But, as my papers demonstrate, there are other non-market factors that preserve varieties in models of finance.

Likewise, my actor-centred approach qualifies non-pluralist views of financial industry power (*see* Pagliari and Young 2014: 577ff.). For example, many scholars have long argued that policymakers could find themselves "captured" by the interests of global finance (Lindblom 1977). After all, finance commands more resources than most other sectors in the economy and should thus have an advantage in lobbying efforts (Igan *et al.* 2009; Johnson and Kwak 2010). This is aggravated by the 'revolving door' issue where young talents and seasoned personnel, attracted by astronomical wages, choose the private sector over public service (Braun and Raddatz 2010). An even more prevalent argument is provided by the structural power accounts (Strange 1998; Fuchs 2007). Since finance constitutes, in the famous words of Joseph Schumpeter ([1934] 2012: 126), "the headquarters of the capitalist system"[41], policymakers will be particularly attentive to its demands. On the one hand, policies that affect the financial sector could produce unintended consequences and spill overs for other sectors. On the other hand, the financial sector could punish decisionmakers for unpopular policies by restricting capital flows and hiking interest rates (Mosley 2000). Whichever way you see it, from a deterministic structuralist perspective, the power of finance seems largely inexorable.

In contrast, my argument speaks to a CPE literature which has long argued that institutions can, in a way, "refract" shocks to a system and produce outcomes that differ from other contexts (Steinmo *et al.* 1992; Hall and Soskice 2001), including global financial pressures. Yet, as we argue elsewhere, "while this helps understand many outcomes, the problem is that the causality is underspecified in this version of institutionalism: Which elements, actors, and actions play a critical driving role in that process?" (Hancké *et al*. 2022). My thesis is an attempt to find new answers to these pertinent questions.

The way in which financialization "works" through actors becomes more explicit when we contrast and relate the case studies from Papers 2 and 3. If we recall, in the case of the capital gains tax on cross shareholdings institutional change in the form financial system bifurcation became possible because insiders (i.e., big banks) with significant political influence aligned their interests with members from the highest ranks of

[41] In his quote, Schumpeter specifically refers to the money market.

government to use a window of opportunity for far-ranging reform. Global financial pressures worked through insiders by gradually changing the payoff structures for Germany's largest financial organisations, which, in a way, made change eventually inevitable, even if, both, the timing and outcomes of the reforms were not predetermined. In the case of the German corporate governance code (Paper 3), institutional change was prevented because external shareholder pressure failed to work through incumbents. The logics of international investors remained incompatible with the interests of a strong and politically well-connected domestic counter alliance which rallied in support of long-established principles of industrial citizenship.

In the broader picture, my argument has implications for the debate around financialization and its properties as a "unique" accumulation regime. In the eponymous literature, financialization is often, if only implicitly, characterised as a unique regime of capitalist accumulation that evolved out of the (non-financialized) Fordist production system and since the 1980s effectively overwrote it (Mader *et al.* 2020). My findings question this "exclusive" framing. Seen from an actor-centred perspective—and while no doubt hugely influential—financialization does not constitute a distinct epoch. Rather, political economy scholars should investigate the transformative power of financial integration in conjunction with other dynamics shaping the trajectory of modern capitalism. Since the dominance of global finance is malleable and dynamic, financialization is most likely but one of multiple vectors of capitalist evolution (Tooze 2021).

Finally, then, I would argue that my thesis also has meaningful implications for the CPE debate around institutional change and, specifically, the notion of "complementarities" and its conceptual utility. Scholars critical of the *Varieties of Capitalism* school have often taken issue with its implicit determinism (*e.g.*, Crouch 2005; Baccaro and Pontusson 2016; Hay 2020). In their view, VoC's focus on institutional equilibria does not do enough justice to the extraordinary dynamism with which modern capitalism seems to evolve. I partially agree with this argument to the extent that my focus on actors as social bearers of systemic logics suggests that competition over institutions is highly dynamic. Likewise, as many CPE contributions have done before (*e.g.*, Beyer and Höpner 2003), my introduction and papers document in detail the disbandment of some of the key formal institutions that underwrote complementarities in the past (the capital gains tax on cross-shareholdings being but one of many prominent examples).

Yet, my results equally provide an element of caution that we should not lay the concept to rest too prematurely. As Paper 3 has argued, informal complementarities continue to tie together and align the interests of incumbent producer groups in defence of the most fundamental institutions of coordination, but perhaps in more subtle and complex ways than depicted by more structuralist accounts. Taken together, the dynamics discussed in this section remain opaque as long as we do not accept financialization to be an inherently political process guided by the social organisation of actors under diverse political economies.

5.4 What is patient capital?

This thesis has been critically concerned with the heterogeneity of financial market actors—an aspect that is, still, only rarely at the centre of attention of CPE studies of financial markets. Where CPE has previously distinguished different actors, patient capital played an important discerning role. In fact, as has been discussed at different times throughout this thesis but particularly in Paper 1, the patience of investors serves as key differentiator under the classical bank-based/market-based dichotomy of financial systems. The idea that CMEs provide patient capital, while LMEs do not, rested on the conviction that financial markets as the guiding mode of social and industrial organisation failed to price in what were commonly seen as the non-monetary benefits of patient capital, such as larger market shares, employment security, or more investment in innovation (Deeg *et al.* 2016). Equity and bonds as the main sources of finance under the LME model were generally deemed more "impatient" than classical bank loans that long dominated the CME model (Hardie *et al*. 2013).

Notwithstanding this classical dichotomy, I would argue that my thesis has important implications for the perennial question of what patient capital really is and whether it can be provided by financial markets (Deeg and Hardie 2016). In particular, the rise of global asset managers as a new and unique type of investor class challenges us to reconsider and perhaps even redefine the notion of patience, as it provides us with a meaningful reference point to understand and discriminate its original historical conditions.

As I have argued, passive asset managers can be considered quite revolutionary actors that revive the concept of patience in entirely new ways. Network analysis in Paper 1 illustrates that these actors have obtained a central and dominant position in Germany's equity network which was formerly held by the "champions" of Deutschland AG, i.e., large private banks and insurers. Indeed, if we go by centrality, scope, and duration of investment positions, asset managers resemble in almost every way the classical patient investors at the heyday of German organised capitalism. Paper 3 provides more evidence in support of this assessment, showing that passive investors' discourse focuses on the long-term sustainable strategy in target companies, which contrasts notably with activist investors' focus on short-term flexibility.

At the same time, there are many credible reasons to question the patience of passive asset managers. As we have seen, BlackRock displays a fervent desire to retain and expand its influence over management committees and company decisions. Under the dual board system as it prevails in Germany, supervisory boards are considered a particularly important entry point to enforce long-term strategies in firms. Paper 3 suggested that passive asset managers put very little trust in coordinated institutions and their modes of decision making. Instead, they want to make sure *themselves* that a long-term logic is followed within companies. While corporate scandals like the discussed “Dieselgate” episode no doubt merit a certain level of distrust in the ability of coordinated systems to monitor and regulate themselves, asset managers also reveal a blatant disregard for key structural factors that underpin the continued success of the German model. As I have argued before, supervisory boards continue to represent, in a way, the cerebrum of a German firm where all its nerval chords come together. If well-run, boards facilitate extensive knowledge exchange both within and between firms, encourage cooperative relationships between capital and labour, and promote firm-level piece and prevent obstruction and conflict on the boards. The fact that passive asset managers seem concerned about the structures underlying these outcomes suggests that their conception of long-term strategic coordination diverges in very fundamental ways from the original patient production model that has characterised CMEs for decades.

In terms of the ‘bigger picture’, my findings add to growing concerns that asset managers, and especially BlackRock, will be very reluctant to actually walk the talk on their long-term oriented ESG commitments[42]. Our understanding of the mechanisms behind asset managers’ business, or, “value” model (Christophers 2015), is still in its infancy. But two recent examples of diligent analyses into the ETF investment model give strong support to my own pessimistic assessment. The first concerns the way that indices, which asset managers use as basis for their ETFs, are constructed (Simpson *et al*. 2021; *see also* Petry *et al*. 2021). One of the world’s largest index providers for ESG investments is American financial company MSCI, and MSCI’s biggest customer is BlackRock. BlackRock portrays ESG investing as a key heuristic for portfolio composition, whereby target firms that form part of an index must adhere to fundamental environmental, social, and governance principles. However, upon closer analysis, it turns out that membership of companies in an ESG index is gauged upon “the potential impact of the world on the company and its shareholders”

[42] Financial Times, ‘How ESG investing came to a reckoning’, 6 June 2022, URL: https://www.ft.com/content/5ec1dfcf-eea3-42af-aea2-19d739ef8a55.

(Simpson *et al.* 2021). Consequentially, a firm is not rated based on its impact on the environment, but conversely, on the potential harm that environmental issues could have for the company. This means that a firm's climatic footprint has little, if any, impact on the decision of ESG index membership (which explains why the world's largest meat processor McDonald's continues to receive favourable ESG ratings from MSCI despite generating more global greenhouse gas emissions than some European member states). From this angle, asset managers' insistence on ESG values and corporate sustainability appears as nothing more than a brazen greenwashing scheme.

This was recently exemplified when a crash in tech stocks coincided with a boom in fossil fuel revenues powered by the Russia-led war in Ukraine. This double crisis laid bare the precise workings of passive asset managers' revenue model and the potentially disastrous repercussions it could have for our climate. As mentioned at different points during this thesis, asset managers' main source of revenue comes from fixed management fees, which will increase as the overall asset base grows. In other words, their main monetary incentive lies in rising asset prices. Revenues depend on the stock-market valuation of portfolio firms including those which rank among the least green we could imagine. Asset managers therefore quickly face a tough trade-off between meeting the ESG demands of numerous individual investors (which like to take comfort in buying "green" ETFs) and securing revenue from expanding assets under management regardless of underlying ESG ratings.

The coinciding events mentioned above illustrate this dilemma in quite clear terms. The global tech sell-off rapidly decreased the value share of tech firms in asset managers' portfolios, while the boom in fossil fuel prices due to the Russia-induced energy crisis led to a relative increase of the relevance of the fossil fuel industry for revenue flows. Unsurprisingly, this has made BlackRock and other powerful asset managers much more reluctant to stress rapid decarbonisation through corporate governance intervention, or even to divest from fossil fuel firms altogether, than they might have portrayed themselves to be merely a year ago.[43] As so often, it turns out that cash is king.

Against this background, I would argue that patience ought to be understood not simply in terms of the duration of an investment, nor by its centrality and scope alone. Likewise, a lack of exit options is not automatically a robust indicator of patient behaviour. Instead, when classifying different financial actors, the spotlight should lie on more social characteristics, above all, the relationship between investors and target firms. What is commonly understood as outcomes of patient institutions, i.e., the ability to resist short-term financial performance pressures, investment in specific skills, firm-level employment protection, or counter-cyclical investment during economic slumps, can only persist if financial and non-financial producer groups mutually agree (or, at least, implicitly understand) that they will benefit from these arrangements. Patient investment behaviour therefore implies preserving the coordinated institutions and related complementarities required to bring about those very outcomes.

Even though global asset managers have obtained a central and dominant position at the core of Germany's equity network, their apparent contempt for coordinated institutions, labour representation, as well as their shareholder value and asset price guided logic distinguish them very clearly from what we always understood to be more classical patient capitalists like relationship banks or family owners (Lehrer and Celo 2016). For asset managers like BlackRock, patience is purely a side-effect of their passive investment model which, above all, is cyclical in nature. If a target company faces economic stress, and, as a result, drops out of a tracked index, passive asset managers have no other choice (and certainly no other incentive) but to divest, thereby worsening the firm's position further. Their investment decisions are functionally determined without any meaningful strategic interest.

[43] Financial Times, 'BlackRock warns it will vote against more climate resolutions this year', 10 May 2022.

In stark contrast, Papers 1 and 3 illustrated that Rhenish investors' support for coordinated institutions continues to be driven by strategic considerations. In fact, even the big commercial banks, which forfeited much of their more "patient" investment business in recent decades, still seem to esteem the incentive functions that coordinated institutions produce. This thesis has only begun to scratch the surface of the important debate around the past, present, and future of patient capital provision. However, it has followed more recent contributions (Deeg and Hardie 2016; Deeg *et al.* 2016) that stress that patience is an important differentiator that helps political economists conceptualise and understand heterogeneity within the financial sector more clearly. To gauge the differences between various types of investors, future research could focus more directly on the relationship between patient capitalists (especially families and foundations) and international asset managers and other institutional investors, and the interactions and potential conflicts that may arise in the corporate governance of target firms.

5.5 The future of the German banking system

Finally, I would like to carefully gaze into the future and reflect on the implications of my findings for the prospective development of the German financial system. I have argued that incumbent counter coalitions can prevent externally imposed change. Without using an overly normative tone, this ability could be considered beneficial as it allows to alleviate, at least to some degree, the pressure of international finance and the many negative consequences associated with it. Yet, institutional resistance is a double-edged sword. Too much of it can result in adamant inertia, procedural opacity, inefficient capital allocation; and, at times, even foster corporate scandals.

The German banking system has struggled with insufficiencies for decades. With its three financial pillars—big banks, Landesbanken, and local savings banks and cooperatives––the country is notoriously overbanked. Finance and politics are deeply intertwined, especially at the regional and local level, which might help to coordinate financial rescue efforts during crisis (Hancké *et al.* 2022) but can also create significant inertia during normal times. Financial supervision is highly ineffective, subordinated to different public institutions, and characterised by a general lack of competence and diffused responsibilities. These structural issues affect the market position of Germany's big banks, which, ever since their venture into investment banking, have struggled to catch up with their international competitors (Beck 2021). Stubborn running costs and falling revenues hamper profitability (Detzer *et al*. 2017: 125ff.). Innovation in German banks seems almost a taboo topic (pointing to its shocking state of non-digitalisation, insiders jokingly refer to Commerzbank as a "paper processing plant with an attached bank branch"). In terms of cost-to-income ratio, German banks rank 3rd in Europe (and this includes better performing savings banks; Statista 2022). Deutsche Bank, in particular, faces competitive disadvantages versus American investment banks and trailed rivals JP Morgan and Citygroup on fees, revenue, and net income ever since its expansion into global investment banking.[44] As a result, it cut back large parts of its unprofitable international investment business in recent years by closing its global equities division on Wall Street in 2019 and axing almost 20 percent of employees in US operations.

In short, one must not look far to find ample room for improvement in the German financial system. But what is the likelihood for change? I can see at least three possible avenues for system wide reform. Firstly, the advancement of the European Banking Union (Culpepper and Tesche 2021) and the single market for financial services may exert external pressure on the German model, just like it has done in the past (if we recall, European financial integration has played an important role in breaking up the Deutschland AG network). Secondly, domestic pressure to restructure the financial industry has mounted in recent years, not least as a reaction

[44] Financial Times, 'The rise and dramatic fall of European investment banks in the US', 2 March 2020.

to appalling financial scandals like the Wirecard episode, which wiped out the savings of thousands of small-scale investors. Thirdly, after 16 years of Angela Merkel's conservative reign, Germany has seen domestic political change with the election of Social Democrat Olaf Scholz and his Green-Liberal coalition. Financial reform has been on the agenda and in election manifestos of the governing parties, especially the Greens. Against this background, some form of systemic change seems at least imaginable.

Yet, my findings suggest that major reform efforts to the German banking model remain rather unlikely. Importantly, reforms targeting the structural issue of overbanking are expected to be met with fierce opposition from powerful savings banks and local financial institutions, who, unlike big commercial banks, have retained deep and comprehensive political connections with heads of regional governments and mayors on their boards (*see* Paper 2; Markgraf and Véron 2018). Likewise, one should not place too much hope on the ability and willingness of recently elected leaders to push for decisive change. Many of these decisionmakers were in one form or another involved in previous wrongdoings. Current Chancellor Olaf Scholz himself, in his former roles as federal finance minister and mayor of Hamburg, is said to have had a role in the mismanagement of the Wirecard Scandal and the "Cum ex" tax fraud scheme, which are still to be fully elucidated by parliamentary inquiries (Spiegel 2022).

But even though structural change seems unlikely, minor reform efforts might be in the offing, especially with regards to financial supervision and improved transparency.[45] Here, mounting pressures from the public and the media could indeed play a decisive role. As it turns out, the Wirecard scandal in particular—which soon evolved into the single biggest accounting scandal in German history—has put a spotlight on the grave insufficiencies of German financial supervision. Flaws in domestic supervision become all the more obvious when considering the

[45] Financial Times, 'Germany to overhaul accounting regulation after Wirecard collapse', 28 June 2020.

astronomical fines that Deutsche Bank, Volkswagen, and others had to (or will have to) face for their wrongdoing in foreign jurisdictions, above all in the US. Compared to the mighty American Securities and Exchange Commission (SEC), Germany's Federal Financial Supervisory Authority (BaFin) looks little angst-inducing, to put it mildly.

Even though the issue of financial supervision does not rank among the most urgent or salient, the outcry over collusion, mismanagement, and financial damage has motivated a first set of minor changes. In the future, BaFin's mandate to monitor domestic financial institutions will be broadened with more independence and competencies in forensic auditing. Under previous regulations, BaFin required confirmation from the so-called Financial Reporting Enforcement Panel (FREP) if it wanted to engage in investigations—a debilitating rule that will be eliminated. In addition, the Wirecard scandal prompted the resignation of BaFin's President Felix Hufeld. His successor, British-born Mark Branson, is the former head of Swiss financial watchdog agency Finma. Notably, Branson is the first external candidate to oversee German financial supervision. Thus, his appointment marks a notable turn away from an insider-driven culture, which has spurred the hope of further reform. Of course, it remains to be seen if these initial changes can produce meaningful effects. Without a doubt, this outsider will face the same challenges in overcoming incumbent opposition against change as so many others have before him. Without meaningful backing from government circles, additional and more deep-cutting reforms remain rather unlikely.

5.6 Generalisability and an avenue for future research

Before coming to my final remarks, I would like to briefly reflect on the external validity of my case selection, as well as some ideas for future research. In the introduction to this thesis, I argued that Germany presents a critical case to analyse the impact of international financial integration on national models of capitalism (Hancké 2009: 68ff.; Eckstein 1975; Gerring

2001; 2007). Firstly, Germany has always been at the vanguard of debates around financialization, either as a case of least-likely change, or as one of unexpected resilience. Secondly, Germany is ideally suited for a pluralist analysis of factional conflict. A great variety of actors abound, and veto players command many points of access during policymaking processes, which allows researchers to scrutinise the clash of competing logics of action. Thirdly, Germany represents a case to explore how the financial sector deals with both, exogenous and endogenous challenges in the context of an export-led economy that is dominated by non-financial interest groups. This promises high degrees of sectoral conflict and, consequentially, insightful distributional struggles over regulatory reform.

But even if Germany constitutes a critical case in its own right, this still begs the question of if and how the findings could 'travel' to other countries. I would argue that the conceptual/analytical framework presented in form of the "soft" trilemma in my first paper can, in principle, be applied for the analysis of any political economy, be they coordinated in nature, mixed, or liberal. While the dominance of different strategies and the factions pursing them will differ in fundamental ways, the scope conditions of the three distinguishing factors *patience*, *corporate governance intervention*, and *financial market integration*, should apply unilaterally. Likewise, there is no reason to expect that the internal conflicts of objectives of various types of financial actors will differ fundamentally between country cases. What will differ are the political solutions that are found to solve factional conflict over institutional reform, since these are a derivative of factional power dynamics. To substantiate this claim, let us briefly consider the examples of France and the United Kingdom (UK), a mixed market economy, and a liberal market economy.

The trajectory of financialization in France resembles in many ways Germany's experience in that certain coalitions managed to protect insider privileges against mighty outside pressures, albeit in slightly different ways and with the help of more statist intervention (Zysman 1983). As discussed briefly in Paper 1, the *noyaux durs* system centred around Paribas, Société

Générale, Suez, Banque Nationale de Paris (BNP), and AXA insurance group was an almost perfect copy of the German Deutschland AG network of cross-shareholdings, in which a handful of leading financial institutions obtained a dominant and omniscient position (Culpepper 2005: 187). Under the French model, power at the firm level is more concentrated and managers and CEOs enjoy a greater degree of autonomy (Goyer 2011). Network-based coordination therefore takes a slightly different form than in Germany, but for a long time it achieved the same outcomes. Then, just like in Germany, the structure of the French financial model changed fundamentally in the 1980s and 1990s when privatisation and state-led liberalisation opened the financial system to international markets (Story and Walter 1997). In the run-up to these reforms, firms at the core of the corporate network had begun to struggle with conflicts of objectives very similar to those I describe for Germany. And yet, "paradoxically, the privatization process expanded its insider-oriented stakeholder norms" as many members of the *noyaux durs* emerged as the benefactors of "targeted" efforts to privatise the industry (Clift 2014: 247). Even though the corporate network has been decimated in ways similar to Germany, both formal and informal ties appear to have outlived the most fundamental reforms (Jabko and Massoc 2012). As summarised by Clift (2014: 248), "While firm finance is increasingly reliant on capital markets, the network based co-ordination of stakeholder capitalism remains a prevalent feature in French capitalism".

As we all know, the picture looks very different in the UK. Here, the infamous "Big Bang" reform under Prime Minister Margaret Thatcher in 1986 led to a precipitous reshuffling of power dynamics, and a radical overhaul of the growth model (Moran 1991). Until this reform, patient capital provision to non-financial manufacturing firms had played a similarly important role as in so many other fast-industrialising countries. The Big Bang led to a merging of large banks (both foreign and domestic) with major retail banks and made a finance-driven growth model the dominant solution (Baccaro and Pontusson 2016). In combination with a crushing defeat of coordinated institutions, above all, of labour unions, this has put the UK on a liberal trajectory with little room to escape the pressures short-term pressures of financial capital.

Even though the outcome of these radical reforms differs fundamentally from the experience of more coordinated political economies such as Germany or France, the scope conditions of this thesis should still allow for an in-depth analysis of the power dynamics between different factions of capital and their ties to political decisionmakers which ultimately led to these diverging results. Nonetheless, it goes without saying that these brief reflections can provide only hasty snapshots of case comparisons. Future research could use an actor-focused lens as proposed in this thesis to dig deeper into the factional and coalitional dynamics that brought about variegated financial system change across Europe, not least to uncover the sometimes idiosyncratic and time-sensitive political factors which go on to unfold into palpable institutional change, and to explore potential paths *that were not taken* (Hancké and Goyer 2005).

Then, before ending this conclusion, I would like to propose what I consider a particularly promising avenue for future research. In this thesis, I have argued that as long as the interests of challengers and incumbents remain misaligned, incumbents are able to defend institutional arrangements against outsiders. Of course, this is not to suggest that institutions are in and by themselves immovable and static. There are, indeed, many imaginable mechanisms that could lead to a closer alignment of domestic interests with those of international financial challengers. In my opinion, the most potent force of change lies in growing asset ownership among "decisive" middle class voters, be it in the form of home ownership (Ansell 2012; 2014), or other types of financial assets such as stock market investments or private pension savings (Fligstein and Goldstein 2015; Chwieroth and Walter 2019; 2020; Pagliari *et al.* 2020). This development has received increased attention from political economists more recently and suggests a consequential shift from preference building in labour markets (through wage income and unemployment) to an "asset dominance" model where electoral interests are predominantly shaped by asset ownership (Ansell 2012).

In terms of the 'bigger picture', this shift implies that the formerly stark distinction between the interests of "Main Street" and "Wall Street"—one of the more fundamental principles of political economy research for decades—is beginning to blur (Pagliari *et al.* 2020). Still, my findings suggest that shifts in voter preferences alone will not automatically be reflected in a change in policymaking (as a rich electoral behaviour literature would perhaps imply; *see* Beramendi *et al*. 2015). Instead, it will depend on the ability of interest groups to bank on shifting electoral preferences to leverage their own influence over policymaking. As middle-class voters' wealth and income bases become more and more dependent on financial markets, future research projects could thus ask how changes in asset ownership affect the convergence of domestic models of capitalism and their financial systems.

To find answers to this overarching question, political economists need to focus on differences in the structure of financial wealth among the electorate across countries, how structural shifts affect policy preferences, and, above all, how financialised policy preferences get translated into policymaking via interest groups. Finding answers to these questions could help gauge the likelihood of an alignment of financial challengers' interests with incumbent voter groups, which—as this thesis has argued—could leverage their political power and potentially lead to meaningful institutional change.

5.7 Final remarks

Financial markets are fascinating social constructs. At their best, they are the gatekeepers to productive investment, and, as such, almost sort of time machines that help us transfer future consumption (where it might be otiose) into the present (where it is needed). At the same time, as we painfully experienced repeatedly during this young century, they are also exuberant, boisterous, risk-producing, and fragile, and can eradicate unfathomable amounts of wealth in a matter of blips. Whichever form they take, the question of how financial markets work is no doubt paramount to understanding the evolution of modern political economies.

In our modern lingo, it often seems as if markets have required a life of their own. A subscriber to the Wall Street Journal or the Financial Times will open the paper and not have to search long to read what financial markets *did* on that day, where they *moved*, and how they *reacted* to current world events. What seems often lost, however, is the basic understanding that financial markets are—at their most granular level—also made up of individual human beings that make decisions in the context of their personal social, political, and economic microcosms. Depicting markets, if only unwittingly, as entirely impersonal machines risks treating them like a black box. While this makes it hard enough to comprehend what comes out of them, it becomes impossible to understand what is going on inside.

In this thesis, I have argued that to better understand the inner workings of financial markets and their relationship to the outside world, comparative political economists should ask even more often *who finance is*. This conviction rests on the assumption that the pressures of global financial integration are mediated and filtered through domestic institutions to produce different outcomes across diverse political economies. However, just like markets, institutions themselves are not merely "passive" refractors that simply leave their mark, if you will, on an effect to produce a distinct outcome. Instead, it is actors as the social bearers of institutional logics that play a key role in *negotiating* the outcomes of institutional contestation.

This more actor-centred perspective, I hope, can shine a different light on financial markets. In my study, finance emerges as a highly heterogenous sector constituted of a plurality of interest groups which follow their own business logic and may have very different institutional requirements and objectives. It would therefore be misleading to speak of *the* financial markets as a homogenous entity, when in fact, they are riddled with internal diversity, conflict, and factional infighting. Processes of deep financial integration promise to make these conflicts only evermore salient. To advance a modern comparative political economy of financial markets research programme, we need to be mindful of the complex—and deeply political—role that actor dynamics play in the constitution and the reorganisation of financial institutions. This thesis should be understood as an attempt to support CPE scholarship in its shift in this very direction.

Appendix

Appendix A

This appendix provides supporting information for Paper 1: *In Bed with the Banks? The Power of Producer Groups and the Politics of Financial Liberalisation in Germany.*

Table A.1 List of interviewees

Interviewee	*Function*	*Date*	*Type*
Deutsche Bank informant	Former senior manager and advisor to various Deutsche Bank CEOs	03/01/2020	In person
Holzmann AG informant	Member of supervisory board of Holzmann AG	07/01/2020	In person
KfW informant 1	Former senior employee Kreditanstalt für Wiederaufbau (KfW)	30/01/2020	In person
Dr. Hans Eichel	Former finance minister of the Federal Republic of Germany	07/05/2020	Telephone
Commerzbank informant	Former senior manager Commerzbank	25/05/2020	Telephone
KfW informant 2	Former senior employee Kreditanstalt für Wiederaufbau (KfW)	26/05/2020	Video call
Ministry of Finance informant	Advisor to Finance Minister Hans Eichel, Federal Ministry of Finance	27/05/2020	Video call

Appendix B

This appendix provides supporting information for Paper 3: *Corporate Governance Battles in the Age of Asset Management: A Coalition Analysis.*

Table B.1 List of stakeholders by faction and position regarding Proposal B.1

Faction	*Actor*	*Position*
Labor representatives	DGB	Against
	Ver.di (same as DGB)	Against
Employer & industry representatives	Bundesverband der Deutschen Industrie (BDI)	Against
	Deutscher Industrie- und Handelskammertag (DIHK)	Against
	Bundesvereinigung der Deutschen Arbeitgeberverbände (BDA)	Against
	Verband der Chemischen industrie (VCI)	Against
Supervisory board representatives	Arbeitskreis Deutscher Aufsichtsrat e.V. (AdAR)	Against
	Vereinigung der Aufsichtsräte in Deutschland e.V. (VARD)	Against
Investor representatives	Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW)	Against
	Deutscher Investor Relations Verband (DIRK)	Against
	Deutsches Aktieninstitut e.V.	Against
DAX30	DAX30 Prüfungsausschussvorsitzende	Against
	E.On	Against
	Deutsche Telekom	Against
	Merck KGaA	Against
	Siemens AG	Against
	Siemens Healthineers	Against
	BASF SE	Against
	Infineon	Against
Government	Federal Ministry of Finance	Against
Legal & academic experts	Deutscher Anwaltverein	Against
	Bundesrechtanwaltskammer	Against

	Institut der Wirtschaftsprüfer (IDW)	Against
	White & Castle LLP	Against
	Prof. Dr. Böcking (Goethe Universität Frankfurt)	Against
	Prof. Dr. Schüppen (lawyer)	Against
	Dr. Kaum (lawyer)	Against
	Prof. Dr. Wilhelm Haarmann (lawyer)	Against
Banks & Insurances	Joint statement by Chairmen of Supervisory Boards of Allianz, Deutsche Bank & Siemens	Against
	Commerzbank (same as DGB)	Against
	Allianz	Against
	Deutsche Bank	Against
	Gesamtverband der Deutschen Versicherungswirtschaft e.V.	Against
Others	Evonik	Against
Non-DAX firms	Grillo Werke	Against
	Satorius AG	Against
	K+S AG	Against
	Schmalenbach Gesellschaft	Against
	Fuchs Petrolub SE	Against
	Lufthansa	Against
Passive investors	BlackRock	In favour
	Vanguard	In favour
	State Street Global Advisors	In favour
	Norges Bank	In favour
	Legal & General Investment Management (LGIM)	In favour
Active Investors	Allianz Global Investors	In favour
	Aberdeen Standard Investments	In favour
	Aviva Investors	In favour
	Baillie Gifford & Co	In favour
	BMO Global Asset Management	In favour
	DWS Investment GmbH	In favour
Proxy advisors	Glass Lewis	In favour
	Pension & Investment Research Consultants Ltd. (PIRC)	In favour
Umbrella associations	International Corporate Governance Network (ICGN)	In favour
	Deutsche Vereinigung für Finanzanalyse und Asset Management e.V. (DVFA)	In favour
	Aufsichtsräte Mittelstand in Deutschland e.V. (ArMiD)	In favour
	ProSiebenSat.1 Media SE	Undecided
	Prof. Dr. von Werder (TU Berlin)	Undecided

	Vereinigung für Unternehmens- und Gesellschaftsrecht (VGR)	Undecided
	IVOX Glass Lewis	Undecided
	Stiftung Familienunternehmen	No statement
	AOK	No statement
	Dr. Maximilian Zimmerer (Münchener Rück)	No statement
	HKP	No statement
	Dr. Stefan Mutter (lawyer)	No statement
	Merck (Dr. Kuhnert)	No statement
	Mercer	No statement
	DAX Kreis	No statement
	Flossbach von Storch AG	No statement
	METRO AG	No statement
	Linklaters	No statement
	Expert Corporate Governance Services (ECGS)	No statement
	Prof. Dr. Küpper (LMU München)	No statement
	Prof. Dr. Schwalbach (HU Berlin)	No statement
	Kion Group AG	No statement
	Deutsches Institut für Effizientprüfung	No statement
	Frankfurt University of Applied Sciences	No statement
	Schmalenbach-Gesellschaft für Betriebswirtschaftslehre e.V.	No statement
	CMS Hasche Sigle	No statement
	Schmid (PwC Switzerland) and Prof. Dr. Wagner (University of Zurich)	No statement
	Better Finance	No statement
	Bundesverband Investment und Assetmanagement e.V. (BVI)	No statement
	Willis Towers Watson GmbH	No statement
	Fidelity International	No statement
	Vonovia	No statement
	Aareal Bank	No statement
	Abschlussprüferaufsichtsstelle APAS beim Bundesamt für Wirtschaft und Ausfuhrkontrolle	No statement
	Dr. Bangert Consulting	No statement
	Deutsche Börse AG	No statement
	Dr. Backhaus (Lawyer)	No statement
	Dr. Kunz (Lawyer)	No statement
	European School of Governance	No statement
	Mrs. Anke Linnartz	No statement
	Hermes Investment Management	No statement
	Mr. Tomkos (CEO & Board Practice Russell Reynolds Associates)	No statement

Mr. Hexel (former member of GCGC commission)	No statement
RPMI Railpen	No statement
Research Group on Sustainable Finance (Universität Hamburg)	No statement
Institut für Organisationsökonomik (Westfälische Wilhelms-Universität Universität Münster)	No statement
Taylor Wessing	No statement
Aufsichtsratsvorsitzende Aareal Bank, Commerzbank, Deutsche Bank	No statement

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