

Julien Etienne, Gerhard Schnyder **Logics of action and models of capitalism: explaining bottom-up non-liberal change**

**Article (Accepted version)
(Refereed)**

Original citation:

Etienne, Julien and Schnyder, Gerhard (2014) *Logics of action and models of capitalism: explaining bottom-up non-liberal change*. [Swiss Political Science Review](#), 20 (3). pp. 365-387. ISSN 1424-7755

DOI: [10.1111/spsr.12082](https://doi.org/10.1111/spsr.12082)

© 2014 [Swiss Political Science Association](#)

This version available at: <http://eprints.lse.ac.uk/60940/>

Available in LSE Research Online: February 2015

LSE has developed LSE Research Online so that users may access research output of the School. Copyright © and Moral Rights for the papers on this site are retained by the individual authors and/or other copyright owners. Users may download and/or print one copy of any article(s) in LSE Research Online to facilitate their private study or for non-commercial research. You may not engage in further distribution of the material or use it for any profit-making activities or any commercial gain. You may freely distribute the URL (<http://eprints.lse.ac.uk>) of the LSE Research Online website.

This document is the author's final accepted version of the journal article. There may be differences between this version and the published version. You are advised to consult the publisher's version if you wish to cite from it.

Logics of action and models of capitalism: Explaining bottom-up non-liberal change

Julien Etienne, London School of Economics and Political Science, Houghton Street, WC2A 2AE, London, UK, Tel: +44 (0)20 7955 6349; E-mail: j.etienne@lse.ac.uk

Gerhard Schnyder, King's College London, Franklin Wilkins Building, 150 Stamford Street, SE1 9NH, London, UK, Tel: +44 (0)20 7848 4633; E-mail: gerhard.schnyder@kcl.ac.uk

Bios:

Julien Etienne is a Research Fellow at the London School of Economics and Political Science. His work focuses on regulation, technological risks, and theories of compliance.

Gerhard Schnyder is a Senior Lecturer in comparative management at King's College, University of London. His work focuses on processes of institutional change in the area of national corporate governance regimes and on comparative capitalism more broadly.

The final, copy-edited version of this article has been published in the Swiss Political Science

Review, volume 20, Issue 3, pages 365-387, September 2014

<http://onlinelibrary.wiley.com/doi/10.1111/spsr.12082/abstract>

Abstract:

Recent institutionalist scholarship has theorized the liberalization or “disorganization” of capitalism as the result of shifts in economic actors’ “logic of action” towards opportunism. Little attention has been given to the reverse possibility that shifts in economic actors’ “logic of action” away from opportunism might contribute to “embedding” or “organizing” capitalism. This paper builds on recent scholarship to theorize this scenario and then

demonstrate its empirical validity with an historical institutionalist study of the emergence of such a “non-liberal” institution in Switzerland in 1961. The theoretical framework links three “logics of action” – opportunism, enlightened self-interest and strong solidarity – to Höpner’s typology of capitalist institutions – organized, coordinated, and liberal. It theorizes the interactions between these logics and the social mechanism – goal signaling – that can explain a shift from one logic of action to another, potentially leading to change from one type of institution to another.

Keywords: Capitalism, Institutional change, Logics of action, Actor-centered institutionalism, Banking sector

JEL classification: N0 economic history, P16 political economy

1. Introduction

In the current climate it is difficult to imagine managers or bankers to put collective interests before the maximization of profit-making without external pressure to do so. Both critics and advocates of capitalism tend to agree that, either in actual fact or as an ideal, depending on the point of view, the ‘business of business is business’; to use Friedman’s formula. In other words, economic actors (individual or collective) are solely motivated by the profit motive. For critical authors, this is a regrettable but inevitable truth of capitalism (Korpi 2006, Streeck 2009a); for advocates of capitalism it is a constantly threatened but crucial element of any market economy (Friedman 1970). In this paper, we explore the seemingly unlikely possibility that economic actors may voluntarily embrace self-restraint. Arguably, the current literature in political economy largely neglects such a possibility. The literature rather suggests that capitalism almost naturally tends towards liberalization and moves towards “non-liberal” institutions would generally result from top-down processes (e.g. Streeck 2009a, 2001; Thelen 2012; Höpner 2007).¹ The presence of an external force is generally seen as a necessary condition for corporations to act in their long-term self-interest or to act in the collective interest. In that sense, economic actors as “rule-takers” would generally be compelled to comply with external pressure from the state or unions. However, neo-institutionalist scholarship in political economy has also increasingly acknowledged that such “rule-takers” often play a central role in institutional change. Empirical support for this insight comes from cases of liberalization of formerly constrained or “embedded” market economies (e.g. Hall and Thelen 2009; Mahoney and Thelen 2010; Streeck and Thelen 2005). The increased focus on economic actors’ behaviors within institutional constraints has led to the realization that formal regulatory and legal change only leads to actual change if actors’ behaviors change too (Culpepper 2005). This has led to a recent realization that change in modern capitalism takes place when *rule-takers*’ logic of action shifts. Thus, Streeck and Thelen write: “[f]undamental change [...] ensues when a multitude of actors switch from one logic of action to another” (2005: 18). To be more specific, the “disorganization” or

liberalization of capitalism can be understood as a process by which a utilitarian logic becomes the dominant logic for rule-takers. As a theory of change this approach remains in its infancy, and it is unclear how change as a collective shift in logics of action might unfold or what causes shifts in logics of action. Moreover, this insight has been applied only to liberal change so far. Nonetheless, it is a promising approach not just to conceptualize liberalization, but also for understanding non-liberal change, as this paper will show.

Our goal in this article is to explore the possibility – opened but not further explored by this recent scholarship – that rule-takers could be central players not just in processes of liberalization but also in institutional change moving in the opposite direction, i.e. towards the “organization” of capitalism through institutions fostering collective interests (Höpner 2007). In other words, we intend to propose a framework for dynamic, rule-takers-driven shifts from liberal to non-liberal political economy institutions.

The framework presented in this paper combines two elements. Firstly, we link the liberal-, the coordinated-, and the organized types of capitalism – categories that we take from Höpner (2007) – with particular logics of action, which we term “opportunism”, “enlightened self-interest” and “strong solidarity” respectively. Secondly, we theoretically elaborate a mechanism that allows us to explain the shift from one of these logics to another. Finally, we discuss at length an empirical example from the Swiss financial industry: the institutionalization of protection against foreign share ownership in Swiss firms in 1961. This case constitutes an example of the emergence of an institution that forces economic actors to refrain from maximizing their profits in the name of collective non-material interests. We argue that neither the state nor trade unions were a real threat for powerful and well-organized business interests. Trade unions are weak in Switzerland and the state was very slow to act and open to the lobbying and intervention by business interests. Rather, the emergence of that institution was a bottom-up process, where the central actors have been bankers and industrialists, i.e. rule takers.

We use this example as a “critical case” (Gerring 2007) to demonstrate shortcomings in current explanations of “organization” in market economies, and as a test case for our own

theoretical framework. The paper thus contributes to our understanding of processes of bottom-up institutional change by complementing current actor-centered institutional theories (Mayntz and Scharpf 1995) and the political economy literature.

2. State of the art: the growing importance of agency in neo-institutionalist political economy

Several recent contributions in comparative political economy and historical institutionalism have emphasized the need for a better theoretical understanding of agency in processes of change. This has particularly been the case of the literature on preference formation (cf. Katznelson & Weingast 2005).² Peter Hall (2005 and 2010) has underlined the necessity for historical institutionalists to explain the actions of political actors with reference to the multiple dimensions characterizing the social relations in which actors are embedded. Wolfgang Streeck has also increasingly focused on the micro-level processes that are at play in the transformations of capitalism (and more specifically in liberalization). Streeck has emphasized how a better specification of the relationship between actors and institutions would “fill the empty space caused by over-generalized concepts of action, like rational choice, or by neglect of the need for a micro-foundation of macro-sociological theorizing” in the political economy literature (Streeck 2009b: 30).

One promising way to further our understanding of processes of preference formation is through the concept of “logics of action.” A “logic of action” can be defined as the set of goals or motivations that influence the way in which actors organize their preferences. It captures hence a more general and fundamental set of predispositions than preferences. “Logic of action” has been a rather divisive concept in institutionalist political science (e.g. Goldmann 2005), after March and Olsen (1989) used it to distinguish between a “logic of consequences” and a “logic of appropriateness.” Yet, it can also be integrative and associate various dimensions of human rationality within a single approach.

In the political economy literature, apart from some early discussions of this topic (e.g. Dore 1983 on “dispositions to action”), Zysman (1994) was one of the first to elaborate on

this notion of “logic of action”. He suggested that a typical “logic of action” is linked to any given model of capitalism. Deeg (2005) has adopted a more complex view by considering how several “logics of action” might coexist and compete within a given political economy (also Crouch and Keune 2005; Lounsbury 2007). Höpner (2007) has developed further the link between actors’ logics of action and institutional contexts, by focusing on the status of business corporations in society, i.e. the extent to which a given institution expects private businesses to act purely in their narrow self-interest, or rather expects them to take into account collective goals and interests beyond profit-seeking. He writes:

Historical and regional forms of capitalism can be distinguished with respect to the status of firms in society. The distinctive feature is the extent to which economic matters inside firms, beyond firm-level rationality, are in the service of collective interests beyond the firm level. At the one end of the spectrum, firms are the private business of their owners and insiders. At the other, they are quasi-public infrastructures and, therefore, constrained in their economic decisions by institutionally sanctioned collective interests. (Höpner 2007: 6-7)

Höpner’s perspective allows us to distinguish between variants of non-liberal capitalisms depending on whether the firm’s sole goal is profit-making, or whether profit-making is subservient to non-utilitarian goals defined by a “collective interest”. Theorizing the relation between political economy institutions and individual “logics” or “rationalities” is particularly important, because scholars increasingly consider institutional change to result from shifts in the rationality and behavior of collectives. Most explicitly, Deeg (2005) and Streeck and Thelen (2005) developed the idea that institutional change corresponds with a shift in the logic of action experienced by multiple actors collectively. Streeck has explored this idea further, focusing on the importance of a shift towards “a typically opportunistic, non-traditionalist, individualistic, rational-egoistic, and utility-maximizing actor disposition” (2009b: 27) and the subversion of non-utilitarian goals in liberalization processes, and the corresponding departure from institutions that impose collective interests on economic actors.

In Streeck's (2009a) view, capitalism has an inherent tendency to encourage actors' opportunistic behavior, but he also acknowledges the possibility (without much optimism, however) of a "reconstruction of normatively institutionalized limits on the egoistic-rational pursuit of interests" (Streeck 2009b: 27). The literature has explained the existence and persistence of institutions constraining profit-making behavior as the result of a strong and active state (Streeck 2001; Manow 2001; Martin and Thelen 2007). Alternatively, strong counter-powers to corporate actors in the form of strong unions may impose collective goals on firms and employers (the so-called "power resource approach"; e.g. Kinderman 2005; Korpi 2006, 1983; Martin & Swank 2012; Thelen 2012). In other words, an external force is needed to ensure that collective interests "beyond firm-level rationality" – i.e. the profit motive – are protected in a capitalist economy (Höpner 2007; also Hall and Soskice 2001; Thelen 2012).

The possibility that firms might pursue collective interests voluntarily has generally been neglected in this literature. Arguably, this is because it runs against the deeply ingrained belief that in a capitalist system economic actors are motivated by purely selfish, material goals. Such assumptions may allow for some degree of coordination between capitalists for the sake of their long-term interests. However, they do not allow for institutions that sacrifice self-interests to emerge spontaneously, because that would assume altruistic behavior, which the model does not allow for. In the works of several scholars (e.g. Dore 1983; Lounsbury 2007; Mizuchi 2013; Vogel 1978) there is some evidence that the latter – voluntary self-restraint without regard for long-term self-interests – does exist in certain circumstances. The question becomes hence, under what circumstances such non-gain-oriented logics might be activated and then become institutionalized.

In sum, one finds in the recent literature in political economy an increasing awareness that the institutional context affects actors' broad dispositions to act (what we call "logics of action") and that such logics of action may be an important element in understanding institutional change. Yet, to date there are only sketches of a theory that explains these links

between institutions and actors as well as how and when actors might shift from one logic of action to another. Similarly, relatively little has been written on the causal link between shifts in rationalities or logics of action on the one hand, and liberal and non-liberal change in political economy on the other hand. In the following two sections, we propose a theoretical framework that addresses these shortcomings.

3. Linking institutions and logics of actions in two steps

3.1. Step 1: types of capitalist institutions and logics of action

To understand change in economic actors' logic of action and how this might change political economy institutions, we propose at first to further specify Höpner's three types of capitalist institutions ("liberal", "coordinated", and "organized") and their respective link with different logics of action. Like Höpner, we focus on firms as central actors.

In accordance with the insights of Cyert and March (1963) we see the rationality of firms as *inherently* characterized by multiple goals "competing" for the same limited resource: attention. For the sake of simplicity we reduce these goals to two categories. Following Lindenberg's goal framing theory (Lindenberg 1983, 1992), we consider that most goals are either "gain" goals or "normative" goals. Gain goals correspond with the preservation or increase of one's resources. As such, they can be linked to utilitarianism and the pursuit of self-interest. Gain goals focus the actor's attention on relative prices, and make them a determining criterion for choosing among courses of action. By contrast, normative goals can be summarized as striving to "do the right thing."

Normative goals focus the actor's attention on the relative appropriateness of options. They are the motivational embodiment of Durkheim's order of obligation (Streeck 2011), and often favor collective interests. "Solidarity" is another term for normative goals that is commonly used in the context of political economy. Since firms, like individuals, cannot be attentive to multiple goals at the same time (Cyert and March 1963), attention is distributed between goals: some get most of the attention – they are salient – while others remain in the

background, where they may attenuate the influence of the salient goal on preferences (Etienne 2011).

In our definition, logics of action are the various combinations of gain and normative goals. An “opportunistic, non-traditionalist, individualistic, rational-egoistic, and utility maximizing actor disposition” (Streeck 2009b: 27) corresponds obviously with a case where gain goals dominate and normative goals are weak. This combination we may call “opportunism”, or “self-interest with guile” to quote Williamson (1985), since it leaves very little space for others and for non-consequentialist considerations, and encourages the exploitation of any advantage in economic relations. This is the logic of action that is assumed and cultivated by “liberal” institutions.³

However, in some circumstances, firms might also overcome myopic self-interest to voluntarily coordinate with other firms and stakeholders in order to achieve long-term economic success. This corresponds to a logic of “enlightened self-interest” (Williamson 1985), in which gain goals are still predominant, but they are checked by relatively strong normative background goals (e.g. loyalty, trust), which impose a longer-term view on the pursuit of profit and some consideration for the moral appropriateness of alternative courses of action. Enlightened self-interest is similar to the logic of “weak solidarity”, which, as Lindenberg has argued, undergirds cooperative business relationships (Lindenberg 1988; cf. Uzzi 1997). This is the logic assumed and cultivated by what Höpner and the Varieties of Capitalism literature (Hall and Soskice 2001) call “coordinated” institutions. In Höpner’s (2007) terminology, such institutions are also termed “Williamsonian institutions”, following Olivier Williamson’s transaction costs approach. Williamsonian institutions are arrangements that serve to reduce transaction costs and serve the long-term self-interests of the actors involved. They are hence close to the rational choice institutionalist definition of institutions as collective “problem-solving devices”

The third logic of action is defined by the precedence of collective interests over individual profits. In this configuration, it is normative goals that dominate, with gain goals taking a secondary place. We may call this logic “strong solidarity” (Lindenberg 1992) as it

entails the potential sacrifice of self-interest for the sake not just of long-term material interests, as in the logic of “enlightened self-interest”, but even of non-utilitarian goals.⁴ This is because actors whose logic of action is dominated by normative goals are hence relatively inattentive to cost-benefit considerations. “Organized” institutions, in Höpner’s terminology, correspond to such a logic of action. Höpner also speaks of “Durkheimian institutions” that “force the individual to act in view of ends which are not strictly his own, to make concessions, to consent to compromises, to take into account interests higher than his own”; (Durkheim quoted in Höpner 2007: 10). In other words, they do not rely on or encourage self-interest. It is important to distinguish such “institutions of organization” from the previous notion of “institutions of coordination”. It should be noted that the VoC literature usually does not distinguish these two aspects, which explains why “coordination” and “organization” are used interchangeably. Following Höpner (2007), we consider that there is an important analytical difference between the two. Therefore, the two terms should not be confounded.

Different types of institutions assume and encourage in economic actors different types of behaviors that are in turn related to different logics of action. However, it should be noted that the relation between these assumptions and actual behaviors under the institution are not completely determined. There are many reasons why the logic assumed by an institution and actors’ actual behaviors may diverge. A complex institutional landscape might foster different logics from one social activity to another, or even encourage more than a single logic within a given social activity. Also, institutions are not the only contextual element that influences logics of action. Sources of influence other than institutions may lead actors to follow logics of action that are in contradiction with the logic that the institution assumes and encourages. Eventually, an institution and the logic of action of actors under that institution may become “decoupled” (Meyer and Rowan 1977), as is the case for “weak institutions” that may persist despite their evident mismatch with actual behaviors (Levitsky and Murillo 2009).

Possible mismatches notwithstanding, there is considerable evidence that institutions influence actors’ preferences and their logic of action (e.g. Bowles 1998). Conversely, actors themselves often contribute to shaping their institutional environment in ways that fit their

own goals (Jackson 2010). Hence, there is a complex interaction process between both levels that could lead to alignment between institutions and actors' logics of action. Table 1 illustrates this ideal typical, but not necessary, accordance between logics of action and type of capitalist institution. A purely opportunistic logic corresponds with purely liberal institutions that do not try to bend actors' selfish behaviors. "Institutions of coordination" presuppose and encourage enlightened self-interest, making cooperation possible in the actors' long-term interest. Institutions of organization presuppose and encourage strong solidarity among actors, i.e. a logic that makes sacrifices in the name of the collective good possible.

[insert table 1 about here]

The value added of our conceptualization is that, by reformulating logics of action as the relative weight of gain and normative goals, a shift in logics of action can be studied as a change in the relative strength of gain and normative considerations. For example, if actors in an enlightened self-interest logic were to give increasing importance to gain relative to norms, their logic could shift eventually towards opportunism. The challenge for a theory of institutional change is obviously to account for what may trigger such a change in the goals of corporate actors. This is the object of the next section.

3.2 Step 2: the social mechanism behind shifts in logics of action: goal signaling

The literature suggests that there are many causes and paths through which an actor's goals might change. Different contributions point to the influence of various types of signals. In political science, Licari and Meier (2000) have argued that policy tools such as taxes had not only the effect of altering relative prices affecting thus cost-benefit calculations, but they also had an additional, "signaling" effect that could alter goals as well. For example, the so-called "sin taxes" on alcohol or tobacco communicate a normative dimension ("it is bad to smoke and drink"). In political economy, Culpepper (2005) has argued that the changing behavior of significant others provided a powerful signal that could induce a profound shift in

the behaviors of a group of actors, for example leading that group to abandon commitment to an interest-constraining institution and rather behave opportunistically. In economics, Frey (1997) has argued that introducing monetary incentives or disincentives to regulate behaviors would crowd out “intrinsic motivation”, a notion borrowed from psychology that includes what has been called earlier “normative goals” (also Bowles 2008; Gneezy and Rutchini 2000). Experimental psychology has provided particularly strong evidence that external signals may shift the logics of action of those who receive these signals simply as a result of grabbing their attention and thus affecting motivation *via* cognition (a “goal pull effect”; Shah and Kruglanski 2002). For instance, in a striking experiment, Liberman, Samuels and Ross (2004) have showed that depending on the way a social dilemma game was labeled, the logic of action of participants changed dramatically. Calling the game “Wall Street game” led to only 31% of cooperative behaviors, while calling it “community game” led to 66% of cooperative behaviors. The name of the game influenced the relative force of gain and normative goals, making it either more or less likely that players would follow an opportunistic logic when interacting with others.

Building on this vast, multidisciplinary literature, we propose to name “goal signaling” the social mechanism (Hedström and Swedberg 1998) whereby a range of environmental factors have such “goal pull effects” on actors, and thus may alter those actors’ logic of action. From the perspective of a rule-taker, as Streeck argues (2009a), the logic assumed and encouraged by institutions is to an important extent generated by the goal signals sent by other actors complying with them and by those enforcing compliance. Strategic behaviors and discourses that challenge institutions may also influence the logic of action of listeners or watchers, particularly if they are produced by “important others” (large firms, famous CEOs, prominent politicians, other individuals in positions of authority, etc.) (cf. for the role of ideas and discourses Schmidt 2010).

In the short run, signals do not socialize, but they rely on socialization to work. Indeed, for goal signals to be effective, certain disposition must be present already even if only latent, which signals may then activate. Therefore, the success of goal signals is rooted in processes

of socialization through which actors may have internalized either normative or gain dispositions (Bowles 1998). Socializing organizations such as the family, the school, the army, or the church may contribute to nurturing normative dispositions among the population. These dispositions may then be activated in order to impose constraints on economic actors' self-interested behavior. However, the traditional family, the conscription army, and religion have lost significant ground, notably in Western Europe and Northern America. By contrast, various organizations and institutions have increasingly cultivated utilitarian dispositions: firms through their training systems and incentive structures for their staff (e.g. Boltanski and Chiapello 2004; Ericson and Doyle 2006), academia and the media (e.g. Miller and O'Leary 1987), the advertisement industry, or the law (e.g. O'Malley 2000). All have contributed to increasingly "shape" people as calculative opportunists (e.g. Ericson and Doyle 2006; more generally Bowles 1998). In this context, new gain signals may increasingly easily activate established dispositions of utilitarianism and egoistic self-interestedness and thus expand the domain in which a logic of enlightened self-interest or opportunism would dominate social activities.

Goal signaling might appear as a catch-all mechanism, since it embodies a single dimension – the capacity to trigger a "goal pull effect" – that is potentially present in many heterogeneous phenomena: behaviors, events, discourses. Yet it leaves also considerable space to the complexity of the real world: in line with recent historical institutionalism, it transforms the assessment of what determines logics of action and their evolution to an empirical enquiry into the multiple goal signals that economic actors may be subject to "in space and time" (Hall 2010), that is, in particular decision situations.

In sum, we propose to read the environment of corporate actors in terms of the goal signals that this environment sends. Goal signals influence actors' logic of action by affecting the relative strength of gain and normative goals. As such, changes in goal signaling may trigger a shift in logics of action, either towards more opportunism or towards more solidarity. That may then lead to institutional change, either towards liberalization or towards

organization. The typology presented in section 3 and the mechanism presented in section 4 are thus the building blocks of our dynamic framework.

4. The institutionalization of protection against foreign share ownership in Switzerland

Above, we developed a theoretical framework that can account for a rule-taker driven (“bottom up”) change in political economy institutions *towards* greater “organization”; not just *away* from it (liberalization). Many political economy scholars may find such a scenario highly unlikely. Indeed, constraints on self-interested behavior are generally considered to occur only when they are imposed by an external force (Höpner 2007, Korpi 2006). By contrast, voluntary self-restraint is possible only if in the actors’ self-interest (e.g. Martin & Swank 2012). In the following sections we present a critical empirical case, which shows that in certain specific circumstances the theoretical shift from liberal institutions towards institutions of organization without direct external pressure can indeed be observed in real life. The case we present refers to the institutionalization of protections against foreign equity ownership in Swiss firms in 1961.

4.1. Methods

The empirical part of this paper is based on a single case study of the Swiss banking sector. We apply a historical institutionalist approach and use an analytical narrative of our case on the basis of abundant archival data. Our core concern is identifying the “logics of action” of economic actors at different points in time.

The Swiss banking industry can be considered as a “critical” or “crucial case” for the phenomenon that we want to explain, i.e. the existence of a *voluntary* institution of *organization*. A crucial case is “one that on all dimensions except the dimension of theoretical interest, is predicted not to achieve a certain outcome and yet does so” (Gerring 2007: 232). The outcome of interest is the presence of an “institution of organization”, which we argue exists in the case at hand. The theoretical dimensions according to which we would predict

such institution to be impossible in the present case are the relatively weak, decentralized and non-interventionist state in Switzerland and the weak and fragmented labor movement. As mentioned above, these are the two most-often cited variables that explain why institutions of self-constraint can be imposed on employers. The dimension of theoretical interest to our argument is the prevalence of a “strong solidarity” logic of action among the actors involved, which makes organization possible in spite of the absence of an external force. As we will show below, there is indeed evidence that such a logic of action has been successfully fostered in the Swiss banking industry after 1961. Therefore, as one would expect of a critical case design, the current case would lead us to predict the outcome of interest only based on the dimension we are interested in (strong solidarity behavior), while according to the other dimensions (strong external forces) it constitutes a “least likely case” for the outcome of interest.

Furthermore, our research design allows us to increase explanatory leverage by focusing on a period of time that reaches from before the adoption of a new institution to the time after the adoption of this institution. This allows us to compare actors’ behaviors and discourses before and after and to assess whether there was a perceptible change. While in our case the institutional change is not the explanatory but the dependent variable, this research design makes it possible for us to show that the logics of action that prevailed before and after were indeed different (cf. Lieberman 2001).

Like any motivational variable, “logics of action” are notoriously difficult to measure. To tackle this challenge, we make full use of statements made by economic actors in confidential meetings behind closed doors, and thus least likely to be hypocritical “cheap talk”. The choice of our case allows us to further increase the explanatory leverage of our study by attenuating a problem common to many studies that argue that employers voluntarily agree to establish institutions that impose self-restraint. Indeed, Korpi (2006) criticizes such studies, because they often focus on the late stages in a policy-making process. At that stage, strategic considerations may push employers to accept institutions of self-restraint even though they are against their “fundamental preferences”. The case we are analyzing is pre-political. That

is, it is a case of self-regulation before the issue had become subject to the official policy process. This implies that one important explanatory variable – labor power – can be eliminated as direct influence on the outcome. We consider that the pre-political nature of the case at hand allows us to come closer to identifying what Korpi (2006: 170) calls employers’ first-order-preferences, as opposed to their “second best-” or “strategic preferences”. In Gerring’s (2007: 238) terms our case is hence a “pathway case” that allows us to investigate the impact of one explanatory variable (the prevalence of a strong solidarity logic of action) on an outcome variable (the existence of an institution of organization), while eliminating – or at least reducing - the possible confounding influence of a competing explanatory variable (labor power).

We further strengthen our analysis by making a number of counterfactuals that test not only our own theory but also the firms-as-pure-utility-maximizers approach. Counterfactuals are a central element of hypothesis testing in historical political science (e.g. Fearon 1991; Kiser and Levi 1996).

4.2. Swiss Shares in Foreign Hands and the Gentlemen’s Agreement of 1961

For most of the 20th century Swiss companies were wary to prevent what was considered excessive foreign influence on the Swiss economy notably through ownership (a phenomenon called *Überfremdung*, literally “over-foreignization”). The main instrument to prevent *Überfremdung* since WW2 was the limitation of the transfer of registered stock from seller to buyer. This instrument, called *Vinkulierung* (from Latin *vinculare*, to bind), made it possible for a company (in large companies usually the board or the management) to refuse to register in the stock ledger buyers of registered shares if they did not fulfill certain criteria defined in the corporate charter. One criterion usually was nationality. These shareholders were then unable either to exercise voting rights or receive a dividend.

However, this central pillar of insider control in Swiss corporate governance was based on highly ambiguous legal provisions. One provision of the Stock Corporation Law of 1937 stipulated that the owner of a share legally became a shareholder only with the registration in

the stock ledger. Yet, another provision stated that the transfer of ownership of registered shares did not depend on the registration of the buyer in the stock ledger (Lüpold 2008: 864-5). This legal ambiguity made it possible that the company did not recognize the buyer of a share as shareholder, but the shareholder legally owned the stock certificate. Since the 1940s legal experts had debated the implications of the non-registration for the owner of the stock. One legal doctrine stated that the rights appending to a share could not be “divided”, which implied that refusal to be registered in the stock ledger meant that the buyer of a share obtained neither the financial rights (dividend and liquidation proceedings) nor the associational rights (voting right during the AGM). Another theory – the so-called “theory of division” (*Spaltungstheorie*) –, took the contrary view and held that the dispositions of the 1937 Code allowed companies “merely” to prevent the buyer of a share from exercising the “societal rights” (in particular the voting right), not from enjoying the economic benefits of share ownership.

Consequently, while foreign investors were still able to purchase registered stock subject to *Vinkulierung* (so-called “bound shares”) they had no guarantee that they would actually be able to benefit from the financial rights appending to the shares. In order to circumvent this problem, many Swiss banks started to use one of two ways around the *Vinkulierung* procedure. Firstly, some banks established investment trusts, which invested in Swiss stock but were open to foreign investors. The official owner of the shares was the Swiss bank behind the trust, or the investment trust itself, while the ultimate beneficial owner may have been foreign. Secondly, banks also started using Swiss “straw men” – often a bank employee – to register stock on behalf of foreign clients. Such opportunistic practices were strongly criticized by non-financial firms.

In reaction, an increasing number of companies included in their bylaws a provision that simply prohibited foreign ownership of its shares or prohibited artificial persons – such as investment trusts – from holding shares.

Another challenge to the *Vinkulierung* regime came in 1957 when the Swiss Supreme Court – the Federal Tribunal – ruled that the Stock Company Law had to be interpreted in

accordance with the above-mentioned “theory of division”.⁵ By securing investors’ financial rights and establishing legal security, this ruling greatly increased the attractiveness of shares of Swiss companies for foreign investors. It also created the opportunity for banks to expand their trading with Swiss stock for foreign clients. Some banks seem to have taken advantage of this situation and sold Swiss stock increasingly to foreign investors against the will of Swiss companies. Indeed, a representative of Nestlé in a meeting with the Swiss Bankers Association (SBA) on February 1, 1961 expressed his disappointment with “certain banks, or maybe just certain bank clerks” who had indulged in such activities.⁶

This ruling could have seriously weakened *Vinkulierung*, but in a remarkable move, the SBA took the initiative in 1960 to solve the problem of foreign share ownership. The aim was to establish a Gentlemen’s Agreement (GA) with the non-financial companies in order to protect Swiss companies from “excessive” foreign influence. The GA was sent to the member banks on April 6, 1961 and stated that banks should refrain from buying and registering bound shares in the name of foreign investors and should check a client’s eligibility to buy Swiss registered shares before executing a transaction.⁷

Such a set of rules was clearly contrary to the banking industry’s immediate material interests. Indeed, while the first large listed companies issued bound registered shares in 1942, banks themselves did not introduce bound shares before the 1970s and had hence nothing to gain from a strengthening of *Vinkulierung* (Lüpold 2008: 859). On the contrary, since the 1940s companies had started to further restrict the criteria for becoming a shareholder, which made trading bound shares increasingly difficult. Brokering deals between sellers and buyers of Swiss stock was, however, a crucial part of Swiss banks’ business model. More generally, reducing liquidity hurts the interest of the stock exchanges and the banks that operated them. Thus, representatives of the SBA underscored in a meeting with the industrial companies that “the banks are making considerable sacrifice with the suggested measures” (memo Lusser a, p.2, our translation).

In the early 1960s, the material interests of banks and non-financial companies were hence diametrically opposed. This is illustrated by the tensions that existed between the two

sides. Thus, Alfred Schaefer, vice-president of the SBA and chairman of the board of the Union Bank of Switzerland, lamented after an initial meeting with the industrial companies that their mood was “anything but bank-friendly”. He referred to the resentment of companies over banks’ willingness to act as “straw men” for foreign buyers and mentioned “rather fierce statements” during the meeting (Minutes of the 238th meeting of the BoD of the SBA; March 15th, 1961, p.8). At the meeting, the representative of Nestle for instance, complained bitterly about the fact that banks “exploited unscrupulously” the Federal Tribunal’s ruling (memo Lusser a, p.3, our translation).

At first, different bankers opposed the gentlemen’s agreement of 1961 strongly because of its negative impact on the liquidity of shares and hence on the banks’ material interests (Lüpold 2008: 874). Consequently, the SBA attempted to obtain different concessions from the industrial companies in exchange for their help. Thus, the SBA wanted industrial companies to refrain from limiting the number of shares that Swiss shareholders could hold, to stop rejecting shareholders without giving any reason, and provide banks with a quota of bound shares that could explicitly be sold to foreigners (memo Lusser a, p.4). The companies refused all these concessions and the GA of 1961 consequently did not mention these points.

One vague commitment that the banks got from the non-financial companies was to refrain in the future from reinforcing *Vinkulierung* criteria. Yet, this promise was clearly not kept, as is illustrated by the increasing number of firms that adopted limitations to the transfer of their shares up until the 1990s.

Also, banks attempted to get a commitment from companies not to exclude Swiss institutional investors anymore. This commitment was at first accepted by the companies. One could hence argue that this concession provided banks with a material interest in accepting the GA. However, the practice of refusing legal persons as shareholders continued and the companies’ commitment was explicitly abandoned just a year after the signing of the GA (Lüpold 2008: 877). This does not appear to have impacted the banks’ respecting the GA in any significant way, which indicates that the material counter-part was not what motivated banks to accept the agreement.

In short, the agreement of April 1961 went – at least in the form it was implemented – in all points against the banks’ material interests. With its adoption by the SBA, banks committed to support industrial companies in preventing foreigners from acquiring the stock of Swiss companies without any significant concession that would have compensated for their losses. In this sense the GA imposed a “collective goal” (keeping Swiss companies in Swiss hands) on banks that went against their profit-making motive. As such, the GA is clearly an ‘institution of organization’ in Höpner’s (2007) sense. This implies that the banks’ collective behavior shifted from opportunism (selling Swiss stocks to foreigners against the issuers’ will) to a strong form of self-restraint, i.e. one that went not just against their short-term, but also their long-term material interests. Banks could have taken advantage of the 1957 Supreme Court ruling to continue and even expand their stock trading activities. Yet, on the contrary, they institutionalized self-restraint. This indicates that during the period 1957 (when the Supreme Court legitimated the banks’ opportunistic behavior) to 1961 (when the bankers association voluntarily renounced previous practices) a shift in banks’ dominant goals took place (from material interests towards normative considerations).

We argue that this shift was made possible by a strategic signaling of normative goals to the actors involved. The internal documents of the SBA contains heavily symbolic language that revealed and implied a sentiment of obligation among member banks towards industrial companies and is very likely to have contributed to the member banks’ accepting the GA. Indeed, the SBA Board repeatedly referred to the legitimacy of the industrial companies’ desire to keep foreign owners at bay and underscored the SBA’s obligation to support them in the name of the “national interest.” Tellingly, this argument was made not just in communications with member banks or in public statements, but even in confidential meetings of the SBA Board. Thus, one banker explicitly supported the SBA’s vice-president’s view that “in the national interest, we should support whenever possible the industry” (237th meeting of the SBA Board, December 7th, 1960, our translation).

In line with the above-mentioned existing explanations of the emergence of non-liberal capitalist institutions, such a shift would have to be explained by an external force – such as the state or a strong labor movement – forcing economic actors to consider the “public interest” in their decisions. There is indeed some evidence of the threat of state intervention in the sphere of financial markets, where self-regulation had so far prevailed, influenced the banks’ and industrial companies’ behavior after the 1957 ruling.

Following the ruling of 1957, Leon Schürmann, a Christian-democratic Member of Parliament, had submitted a “parliamentary postulate” to the Swiss Parliament demanding a stock corporation law reform in order to make sure that Swiss companies would remain in Swiss hands despite the ruling. This was supported by chemical and pharmaceutical companies from the Basel area, but vehemently opposed by the banks – led by the SBA⁸ –, which had not been consulted by Schürmann (cf. Lüpold 2008: 884). Bankers were concerned that a legal solution to the problem of *Vinkulierung* would necessarily lead to a political debate about the stock corporation law, which was bound to give rise to additional reform claims that could go against the business elite’s interests, such as co-determination and profit sharing arrangement for employees (memo Lusser a). The “legislatory path” would also undermine the “liberal order” of the Swiss economy.⁹ While such fears appear unwarranted with hindsight, they may explain why the banks were ready to “sacrifice” part of their profits to avoid state intervention.

Yet, different factors lead us to propose an alternative interpretation. Indeed, the “shadow of hierarchy” argument may not be the most plausible explanation. For one, the fear of state intervention does not explain why banks would sign such a disadvantageous agreement, given that non-financial companies had similar incentives to avoid state intervention. Indeed, during a meeting with Schürmann and the chemical companies who had supported him (Ciba AG, Sandoz AG, Geigy AG), banks and industry agreed that “[a] reform of the stock company law should be avoided if a liberal solution can be found, which effectively averts the danger of over-foreignization”.¹⁰ It is also telling that the SBA and the argument about state intervention was only used in the correspondence with member banks in order to convince

them to respect the GA, but not in meetings of the SBA board, where a much more normative discourse prevailed. This may attest the relative weakness of dormant normative dispositions among member banks, in a situation where opportunism has prevailed for a number of years, but the relatively stronger sense of obligation of the bankers' elite (those represented in the SBA's board) towards the rest of the Swiss business elite.

Moreover, if the aim of the agreement was to avoid state intervention, the strategy failed miserably: in 1965, the government initiated an encompassing reform of the stock corporations law, which aimed, among other things, at addressing the question of *Vinkulierung*. If avoiding state intervention was a direct material motivation for banks to initiate this agreement, then how can we explain that banks continued to respect the GA once the state intervened anyway? The materialist interpretation would lead us to assume that banks might go back to selling shares to foreigners, as state intervention could not be prevented. We argue that the reason why banks did not abandon the GA is that their logic of action when it came to trading shares shifted to becoming more influenced by a normative element. This normative element was the banks' moral obligation to support Swiss companies' opposition to foreign influence. In other words, as far as trading shares was concerned, this normative goal had taken a greater importance in the bankers' logic than gain considerations. This is not to say that the latter had disappeared, which would be a very unrealistic claim indeed: simply, they had taken a secondary role as far as that particular activity of shares trading was concerned.

Further evidence against the "shadow of the state" interpretation is that the reform of 1965 clearly showed that the business elite had little to fear from state intervention due to the power relations within the Swiss polity. Indeed, the very consensual political process provided many "veto points" for economic actors to block too extreme reform proposals, *which they did extensively*. As a result, the reform nearly broke down several times and the new law was only adopted in 1991, after nearly thirty years of negotiations (cf. Schnyder 2008). To be sure, the actors at the time may not have anticipated their ability to block the most far-reaching reforms (although this is unlikely considering that the power relations in

Switzerland have always been very clearly favorable to centre-right parties and economic interests). Still, the question arises: why would banks stick with such an unfavorable agreement once the reform was underway if its only – or even just its most important goal – was to avoid state intervention? In fact, they could probably have obtained a better deal in Parliament. Therefore, the above-mentioned “postulate Schürmann” and the looming “shadow of hierarchy” certainly pushed bankers into action and constituted an important argument for the SBA’s board in convincing the member banks to change their behavior. However, they do not explain the form that the GA took and in particular that the banks accepted an agreement that went completely against their material interests. Other solutions were conceivable and indeed debated (e.g. giving banks a quota of shares that could be sold abroad). In spite of the fact that the non-financial companies did not accept these alternatives, the banks committed to the GA. This constitutes strong evidence that material interests were not the banks’ main concern in this instance.

An alternative explanation based on the “null hypothesis” that material interests alone explain behaviors would be that banks did perceive their own long-term material interests to be linked to the question of foreign ownership. Indeed, this issue had proved a major problem during World War 2 when the US government decided that – due to the identity of its ultimate beneficial owners – the Swiss company Interhandel AG had to be considered as a German company, and seized its assets in the US in 1942. After the war, the conflict dragged on until the mid-1960s when the US government and Interhandel reached an out of court settlement. During the post-war years, both economic and political actors often used the conflict around Interhandel as the main reason – or excuse – to be wary of foreign influence over Swiss companies. It has arguably contributed to an “*overforeignization psychosis*” (*Überfremdungpsychose*) among the Swiss business elite (Lüpold 2008: 885). Therefore one could construct a – long-term and rather vague – material interest of banks in preventing foreign ownership. It is indeed always possible to construct such a material motivation. Sen (1977: 322) argues that “[i]t is possible to define a person's interests in such a way that no matter what he does he can be seen to be furthering his own interests in every isolated act of

choice”. The main problem with interpreting the evidence in such a way is that it does not allow us to explain why banks would disregard such long-term considerations before the 1957 ruling and pay attention to them afterwards, or why their perceived material interests would suddenly shift from extensively doing business with foreign investors (between 1942 and 1957) to avoiding foreign influence over Swiss firms (after 1961). In other words, while an explanation referring to actors’ long-term self-interest may explain why an institution like the GA exists, it does not allow us to understand the change from short-term opportunism (before 1957) to long-term self-interest (after 1961). Here our GFT-based approach clearly provides more explanatory power.

We also fail to identify any strong evidence of altered relative prices of trading shares with foreigners. From a purely gain-oriented perspective, such a change in relative prices could explain the shift in bankers’ practices, from selling Swiss stock to foreigners, to not doing so. Therefore, we concluded that the SBA initiative to stop its member banks from selling stock to foreign investors and the banks’ adhering to this recommendation – independently of whether the initial motivation was to prevent state intervention or not – implies that banks moved from profit-seeking behavior to submitting their material interests to a “collective interest”. This *volte-face* is difficult to explain based on purely material interests even if they are defined as long-term interests.

This remarkable episode can hence be understood as a collective shift in the logic of action from opportunism to strong solidarity with industrialists. The reinforcement of the banks’ normative goals relative to their gain goals made the “organization” of this aspect of Swiss capitalism possible, where previously banks pursued profit-maximizing strategies. The prevalence of normative goals over gain goals explains why banks voluntarily adopted a materially disadvantageous agreement, when the Supreme Court had effectively made it easier for them to pursue their material self-interest. This is not to say that banks had become completely insensitive to gain goals, but simply that the GA institutionalized and signaled that normative considerations had to be taken into account when buying and selling stock.

Support for our interpretation comes from the focus of the banks' argumentation on the "national interest" and the perceived patriotic duty of banks to support Swiss companies. The final version of the GA makes it clear that banks did not support the practice of *Vinkulierung* due to its negative impact on the liquidity of shares. Yet, they appealed to the national interest to justify the sacrifices that banks had to make. Thus, the GA states:

"For obvious reasons, the banks are in the first place interested in the free circulation of securities.

[...] The banks hope that the industrial companies will henceforth abstain from limiting the transferability of registered shares through their articles of incorporation and [renounce], in particular, to transform their bearer shares into registered shares. [...] *Our Board of Directors [...] considers that it is – despite the above [reservations] – the Swiss banks' duty to support the industry in its efforts when it is in the superior national interest*". (GA 1961; our translation, emphasis added)¹¹

These passages from the GA illustrate perfectly the tension between the banking sector's material interests and collective interests, which is a common trait of most situations where institutions of organization exist (cf. Höpner 2007). By 1961 the dilemma was solved in favor of the latter. The GA both resulted from and further supported the influence of normative goals. If we accept this interpretation of bank behavior being informed by a logic of strong solidarity, the question becomes hence what explains the increasing strength of normative goals during the early 1960s and the corresponding shift in the bankers' logic of action. There is empirical evidence that various signals contributed to reinforcing normative goals relative to gain goals.

For one, the signal of support for the banks' opportunism sent by the Court was inherently weak: it was well known that the Federal Tribunal's decision had been taken at a short majority (4 votes against 3) and one of the Justices involved – Hans Tschopp – publicly stated sometime after the ruling that the Tribunal would probably not take the same decision

again.¹² This signaled economic actors that support for the “theory of division” was relatively weak even within the juridical sphere.

Moreover, important actors such as the chemical company Geigy AG and its chairman Carl Koechlin played a crucial role in the shift toward a logic of strong solidarity. Indeed, it was Geigy who sought to convince policy makers, economic actors, and the press that the ruling of 1957 jeopardized the independence of the Swiss economy (Lüpold 2008: 870). It appears that at the time Geigy was under a real takeover threat stemming from American competitors and had hence an immediate material interest in the issue (Lüpold 2008: 871). Other actors involved and in particular the banks were not facing similar issues, and all did not buy into Geigy’s alarmist argumentation. The *Journal de Genève* for instance rejected the measures against foreign influence, adopted by Geigy, calling them “draconian and very questionable” (*Journal de Genève* April 10th, 1961). Yet, clearly Geigy’s strategic normative signaling tapped into the “ideology of vulnerability” that is widespread in small countries (Katzenstein 1985), and contributed to shifting others’ attention away from gain goals towards collective interests.

More generally, the late 1950s and early 1960s were a time in Switzerland where nationalistic “signals” were abundant not just in relation with the question of share ownership. One example is the establishment in 1961 of an anti-immigration party with the name “National Action against the Over-foreignization of Nation and Country” (*Nationale Aktion gegen die Überfremdung von Volk und Heimat*). This illustrates a renewed concern since the late 1950s with the “over-foreignization” of Switzerland that first appeared as a political issue during the 1930s.¹³ The Swiss concern with its “neutrality” in case of a new armed-conflict was also fueled by recurring tensions at the international level (Khrushchev’s accession to power in 1953, the formation of the Warsaw Pact 1955, the crushing of the uprising in Hungary in 1956 and the Berlin Crisis of 1961; Lüpold 2008).

The prior socialization of the Swiss business elite may further explain the efficacy of appeals to “neutrality,” “independence,” and the national interest. Indeed, a very large majority of Swiss businessmen traditionally occupied the higher echelons of the Swiss militia

army, which constitutes a formidable arena for socialization and the internalization of norms of patriotism and national independence (cf. Pilotti et al. 2010). More generally, the concept of neutrality is a central element of the Swiss brand of “constitutional nationalism,” which is – in a country with four different linguistic groups and no obvious common culture – a crucial element of national identity.

Concern for the “superior national interest” was hence activated by various contextual signals and certain actors strategically linked it to *Vinkulierung*, triggering the necessary support for the agreement. The GA of 1961 made of *Vinkulierung* an efficient protectionist mechanism for another three decades until the stock company law reform of 1991 considerably weakened the companies’ leeway in this respect (Schnyder 2011).

5. Discussion & Conclusion

In this paper we have explored the possibility that political economy institutions might evolve in a direction opposite to liberalization, as a result of a shift brought about by economic actors themselves. This unlikely scenario can be theorized by combining recent scholarship in historical institutionalist political economy and theories of action developed outside that field. We started from the important insight that bottom-up change can be conceptualized as a collective shift in actors’ logics of action. We have argued that despite this insight and an increasing focus on actors’ behaviors in institutional theory, there are relatively few theoretical tools to understand what exactly such shifts involve, how they relate to particular “models” of capitalism, and what causes them. We have developed a conceptual framework, which complements historical institutionalist approaches in political economy by relating different logics of action to different models of capitalism, and by specifying a social mechanism – “goal signaling” – that mediates the influence of the environment on logics of action. The theoretical framework we developed contributes to filling the gap in current institutional theory regarding the explanation of how and in what circumstance a collective shift in logics of action may happen. We then presented the critical case of a Gentleman’s Agreement adopted by Swiss bankers in 1961, by which bankers committed to refrain from

selling Swiss companies' stocks to foreigners. We showed that our framework is able to explain not just processes of liberalization – for which the notion of change as shift in logics of action was initially developed –, but also processes of “embedding” economic activity in a normative framework.

Indeed, the GA of 1961 constitutes an example where a shift from opportunism towards a strong solidarity logic permitted to reinforce an institution that had been challenged both exogenously (the ruling of the Federal Tribunal) and endogenously (banks finding ways to sell Swiss stock to foreigners). The shift constitutes in this instance a reproductive mechanism through which continuity of practice is achieved by rule takers through informal institutions.

The GA of 1961 was an institution of organization. It imposed collective objectives on banks that were not in their material interest. It went hence beyond an institution of coordination, which essentially aims at solving collective action problems in order to increase profitability in the long run. It is always difficult to impute motives to actors. Therefore, our claim that the GA was an institution of organization may not be unambiguous. Readers may be inclined to favor a reading that does not reject the “null hypothesis” that, when adhering to the GA, bankers were motivated only by profit maximization. However, in our view, the evidence for an interpretation of the GA as an outcome of self-interested behavior is weaker than for an interpretation in terms of normative behavior. Nevertheless, we do not completely reject the explanation through material interests and indeed our theoretical framework assumes that normative and material motivations co-exist in any given logic of action. In that sense, we do not argue that institutions of organization imply completely selfless actors, but rather actors whose behaviours may be structured by their environment so that they are relatively insensitive to gain/loss considerations and relatively more sensitive to normative considerations (“do the right thing”). Indeed, the evidence points towards a situation where the normative concern with the “national interest” dominated the material concern with profit-making, leading to the emergence of a voluntaristic institution of organization.

This example holds important lessons for historical institutionalism in terms of the preconditions for “organization” in Höpner’s sense. A self-regulatory institutional

arrangement that goes beyond mere “coordination” seems counterintuitive from a historical institutionalist perspective. Höpner for instance argues that voluntaristic institutions come about in order to “coordinate” actors’ behaviors in a way that increases in the long run the overall payoff for the actors involved. Like institutions in rational choice institutionalism, such “Williamsonian institutions” solve collective action problems. “Organization”, on the other hand would require some form of external force – e.g. the state – to impose “public interest” concerns on profit-orientated economic actors (Höpner 2007: 10-1). Yet, the GA of 1961 shows that economic actors may establish such institutions of organization and maintain them over time without state intervention.

Due to its voluntaristic nature, the GA belongs to a different type of institutions than Höpner’s ‘Durkheimian institutions’ precisely because it is neither imposed nor enforced by an external force. This type of institutions is more compatible with a Parsonsian conception of internalized norms, which goes a step further than the way in which Höpner defines Durkheimian institutions.¹⁴ “Parsonsian institutions” imply that actors have internalized the moral obligation to act in the appropriate way. This internalization of moral obligations explains why “strong solidarity” can emerge even in the absence of a powerful state or labor movement pushing economic actors towards self-restraint. This also explains why even in countries with weak central states and weak labor counterweights to the power of business – like Switzerland – organized institutions could emerge and last. It is certainly telling, however, that in the Swiss case strong solidarity existed in an area where only members of the business elite were concerned, while the employee side was excluded. Thus, the possibility of institutions of organization to emerge voluntarily may depend on the group to which actors’ solidaristic dispositions apply. In other words, even within “organized” capitalism, the strength – or rather the “reach” – of solidarity (within group or beyond one’s own group) may vary.¹⁵

We have argued that voluntary institutions of organization are almost completely ignored in the historical institutionalist literature and that “embedding” of capitalism is relatively less well studied than liberalization. This raises the question of how common such institutions and

this type of institutional change are. The literature suggests that such occurrences are highly unlikely. However, the literature is not without bias. We agree with Crouch and Keune that “a key problem” of neo-institutionalist analysis is that it “often starts from an assumption of homogeneity, that is, it depicts the institutions of a society as highly systematic, with everything operating according to a single logic, with endogenous actors operating within a single action space.” (2005: 83). Accordingly, cases such as ours, which do not “fit” into a given society’s “model”, might be more frequent than we know, because scholars might have a tendency to not see them or discount them as noise. The relative rarity of such a pattern of change is a matter to be explored in future studies.

Our empirical case speaks directly to Streeck’s (2009a) arguments on the inevitable march of capitalism towards liberalization / disorganization. Streeck has argued that capitalists tend to share an “ethos of unruliness” (p. 4), which leads them to continually undermine collective institutions that impose social obligations on individual actors, and to replace them “with economically expedient contractual arrangements that are voluntary rather than obligatory” (p. 5). Our empirical study contradicts this view, by showing that capitalists actively worked to set up a voluntary institution that imposed social obligations on individual actors. Streeck acknowledges the existence of solidaristic behaviors among economic actors, but he sees that motive as exceedingly weak. He writes: “Solidarity, again, is not unknown to capitalists, and neither are the advantages of economic traditionalism; but the moment a potential winner exits in entrepreneurial pursuit of new ways, as capitalists can always legitimately do in a capitalist world, nobody can afford to be left behind in a solidaristic community of losers” (p.245). What we are showing, however, is a case where “potential winners”, whose opportunistic behavior had the backing of the courts, were successfully disciplined by their peers and returned hence to the “community of losers”. Again, scholars might argue that such examples are exceptional. Yet, their very existence implies that theories of capitalist institutions such as Streeck’s are too limited.

Our proposal to extend theories of capitalist institutions implies refining the underlying “model of man” commonly used in political economy. Such a model can be drawn from

advances in the theorization of rationality. We have built on Linbenberg's goal framing theory, which offers a model of man pursuing multiple and heterogeneous goals, with some of these goals taking prominence as a function of decision environments. In our view, this directly speaks to the way agency is approached in current scholarship in political economy. Indeed, while assumptions of self-interested behavior still dominate, many references to other motives can be found.

To give but one example, Walter Korpi's Power Resource Approach (PRA) strongly relies on materialistic goals and on power relations as the only constraint on selfish utility maximization (2006, 2001). In particular, Korpi considers that in a capitalist system, the employers' interests will always be to make profits (Korpi 2006: 172). He therefore quite explicitly assumes that material interests constitute in capitalist societies stable and universal pre-strategic preferences. Nevertheless, Korpi (2006: fn 18) does acknowledge that actors can follow "non-material values". Indeed, such behaviour is – according to Korpi – part of his notion of "bounded rationality". However, he does not theoretically elaborate what model of man could accommodate this insight. He uses "bounded rationality" as shorthand to subsume different types of motivations/behaviors, without tackling the issue of how such goals can coexist and under what conditions one orientation or logic will prevail over the other.

In another piece, Korpi (2001) is somewhat more explicit about the model of man underlying the PRA. Korpi (2001: 249f.) explains that societal cleavages can be "accentuated" or "downplayed" by certain institutions, leading to the formation of specific "values, interests and identities" among citizens. Influential actors can then strategically use such identities to overcome collective action problems and push into action individuals who define their "interests with reference to the values and identities of the collectivity" (p.250). An individual that is part of such a "social movement" would hence not be "rational" in a strict, material sense, but would be part of a Weberian "value rational" collective action (*ibid.*). This discussion softens considerably his otherwise strongly materialistic approach to rationality and seems perfectly compatible with our conception of rationality and motivations. However, like many political economists, Korpi essentially leaves it at that and does not undertake any

attempt to integrate these insights into a coherent theory of human action. This is precisely where our approach makes a contribution to improving the micro-foundations of institutionalism. It offers elements of a micro-level theory of what motivates actors and provides us with tools to specify how these motivations are embedded in actors' social environment. This study attempted to illustrate that such an approach can indeed make an important contribution to our understanding of empirical phenomena in the field of political economy.

Acknowledgements:

The authors would like to thank Alexandre Afonso, Olivier Butzbach, Pepper Culpepper, Bob Hancké, Martin Höpner, Daniel Kinderman, Siegwart Lindenberg, Martin Lodge, André Mach, Martino Maggetti, and Vivien Schmidt for most helpful comments on previous versions of this paper. This article also profited from discussions with Marie-Laure Djelic, Michael Lounsbury, Cathy Jo Martin, and Kathleen Thelen and from feedback provided by participants in the SASE 2011 annual meeting and in the King's College London DPE seminar series. All remaining errors are our own.

6. References

- Boltanski, L., and E. Chiapello. (2004). *The New Spirit of Capitalism*. London, New York: Verso.
- Bowles, S. (1998). Endogenous Preferences: The Cultural Consequences of Markets and Other Economic Institutions. *Journal of Economic Literature* 36(March): 75–111.
- . (2008). Policies Designed for Self-Interested Citizens May Undermine "The Moral Sentiments": Evidence from Economic Experiments. *Science* 320(5883): 1605–9.
- Crouch, C., and M. Keune. (2005). Changing Dominant Practice: Making Use of Institutional Diversity in Hungary and the United Kingdom. In Streeck, W. and K. Thelen (eds.), *Beyond Continuity. Institutional Change in Advanced Political Economies*. Oxford: Oxford University Press (83–102).

- Culpepper, P. (2005). Institutional Change in Contemporary Capitalism. *World Politics* 57:173–99.
- Cyert, R., and J. March. (1963). *A Behavioral Theory of the Firm*. Englewood Cliffs: Prentice Hall.
- Deeg, R. (2005). Change from Within: German and Italian Finance in the 1990s. In Streeck, W. and K. Thelen (eds.), *Beyond Continuity: Institutional Change in Advanced Political Economies*. Oxford, Oxford University Press (169–202).
- DiMaggio, P., and W. Powell. (1991). Introduction. In DiMaggio, P. and W. Powell (eds.), *The New Institutionalism in Organizational Analysis*. Chicago: Chicago University Press (1–38).
- Dore, R. (1983). Goodwill and the spirit of market capitalism. *British Journal of Sociology* 34(4): 459–482.
- Durkheim, E. (1998[1930]). *De la division du travail social*. Paris: Quadrige/PUF.
- Ericson, R., and A. Doyle. 2006. The institutionalization of deceptive sales in life insurance. *British Journal of Criminology* 46(6): 993–1010.
- Etienne, J. (2011). Compliance Theory: A Goal Framing Approach. *Law & Policy* 33(3): 305–333.
- Fearon, J., (1991). Counterfactuals and hypothesis testing in political science. *World Politics* 43(January): 169–95.
- Frey, B. (1997). *Not Just for the Money: An Economic Theory of Personal Motivation*. Cheltenham: Edward Elgar.
- Gerring, J. (2007). Is There a (Viable) Crucial-Case Method? *Comparative Political Studies* 40(3): 231-253.
- Gneezy, U., and A. Rustichini. (2000). A Fine is A Price. *The Journal of Legal Studies* 29(1): 1–17.
- Goldmann, K. (2005). Appropriateness and Consequences: The Logic of Neo-Institutionalism. *Governance* 18(1): 35–52.
- Hall, P., and D. Soskice. (2001). *Varieties of Capitalism. The institutional foundations of*

- comparative advantage*. Oxford, Oxford University Press.
- Hall, P. (2005). Preference Formation as a Political Process: The Case of European Monetary Union. In Katznelson, I. and B. Weingast (eds.), *Preferences and Situations: Points of Intersection Between Historical and Rational Choice Institutionalism*. New York: Russell Sage Foundation (129–160).
- . (2010). Politics as a Process Structured in Space and Time. Paper presented at the *Annual Meeting of the American Political Science Association*. Washington D.C.
- Hall, P., and K. Thelen. (2009). Institutional Change in Varieties of Capitalism. *Socio-Economic Review* 7(1): 7–34.
- Hedström, P., and R. Swedberg. (1998). Social mechanisms: An introductory essay. In Hedström, P. and R. Swedberg (eds.), *Social Mechanisms: An Analytical Approach to Social Theory*. Cambridge: Cambridge University Press (1–31).
- Hirschman, A. (1970). *Exit, Voice, and Loyalty: Responses to decline in firms, organizations, and states*. Cambridge, MA, Harvard University Press.
- . (1997[1977]). *The Passions and the Interests. Political arguments for capitalism before its triumph*. Princeton, NJ: Princeton University Press.
- Höpner, M. (2007). Coordination and Organization. The Two Dimensions of Nonliberal Capitalism *MPIfG Discussion Paper* No. 07/12.
- Jackson, G. (2010). Actors and Institutions. In Morgan, G. Campbell, J. Crouch, C., Pedersen, O. and R. Whitley (eds.), *The Oxford Handbook of Comparative Institutional Analysis*. Oxford: Oxford University Press (63–86).
- Katzenstein, P. (1985). *Small states in world markets: industrial policy in Europe*. Ithaca, N.Y., Cornell University Press.
- Katznelson, I., and B. Weingast (2005), (eds.). *Preferences and Situations. Points of Intersection between Historical and Rational Choice Institutionalism*. New York: Russell Sage.
- Kinderman, D. (2005). Pressure from without, Subversion from within: The Two-Pronged German Employer Offensive. *Comparative European Politics* 3: 432–463.

- Kiser, E. and M. Levi. (1996). Using Counterfactuals in Historical Analysis: Theories of Revolution. In Tetlock, P. and A. Belkin (eds.), *Counterfactual thought experiments in world politics: logical, methodological, and psychological perspectives*. Princeton: Princeton University Press (187–207).
- Korpi, W. (1983). *The Democratic Class Struggle*. London, Routledge & Kegan Paul.
- . (2001). Contentious Institutions: An augmented rational-action analysis of the origins and path dependency of welfare state institutions in Western countries. *Rationality and Society* 13(2): 235-283.
- . (2006). Power Resources and Employer-Centered Approaches in Explanations of Welfare States and Varieties of Capitalism. *World Politics* 58: 167-206
- Levitsky, S, and M. Murillo. 2009. Variation in Institutional Strength. *Annual Review of Political Science* 12: 115–133.
- Liberman, V., Samuels, S., and Ross, L. (2004). The name of the game: Predictive power of reputations versus situational labels in determining prisoners dilemma game moves. *Personality and Social Psychology Bulletin*, 30: 1175–1185.
- Licari, M., and K. Meier. (2000). Regulation and Signaling: When a Tax is not Just a Tax. *The Journal of Politics* 62(3): 875–885.
- Lieberman, E. (2001). Causal Inference in Historical Institutional Analysis. A Specification of Periodization Strategies. *Comparative Political Studies* 34(9): 1011-1035.
- Lindenberg, S. (1983). Utility and Morality. *Kyklos* 36 (3): 450–468.
- . (1988). Contractual Relations and Weak Solidarity: The Behavioral Basis of Restraints on Gain-maximization. *Journal of Institutional and Theoretical Economics* 144(1): 39–58.
- . (1992). An Extended Theory of Institutions and Contractual Discipline. *Journal of Institutional and Theoretical Economics* 148(1): 125–154.
- Lounsbury, M. (2007). A Tale of Two Cities: Competing Logics and Practice Variation in the Professionalizing of Mutual Funds. *Academy of Management Journal* 50(2): 289–307.

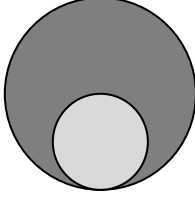
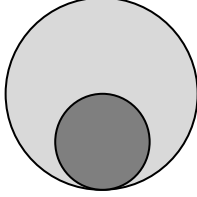
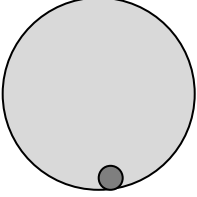
- Lüpold, M. (2008). *Der Ausbau der "Festung Schweiz": Aktienrecht und Corporate Governance in der Schweiz, 1881–1961*. Unpublished PhD Dissertation. University of Zurich.
- Mahoney, J., and K. Thelen. (2010). A Theory of Gradual Institutional Change. In Mahoney, J. and K. Thelen (eds.), *Explaining Institutional Change. Ambiguity, Agency, and Power*. Cambridge: Cambridge University Press (1–37).
- Manow, P. (2001). Welfare State Building and Coordinated Capitalism in Japan and Germany. In Streeck, W. and K. Yamamura (eds.), *The Origins of Nonliberal Capitalism: Germany and Japan In Comparison*. Ithaca: Cornell University Press (94–120).
- March, J., and J. Olsen. (1989). *Rediscovering Institutions: The Organizational Basis of Politics*. New York: Free Press.
- Martin, C., and K. Thelen. (2007). The State and Coordinated Capitalism. *World Politics* 60(1): 1–36.
- Martin, C. and D. Swank. (2012). *The Political Construction of Business Interests. Coordination, Growth, and Equality*. Cambridge: Cambridge University Press.
- Mayntz, R., and F. Scharpf. (1995). Der Ansatz des akteurzentrierten Institutionalismus. In Mayntz, R. and F. Scharpf (eds.), *Gesellschaftliche Selbstregulung und politische Steuerung*. Frankfurt/Main: Campus (39-72).
- Meyer, J. and B. Rowan. (1977). Institutionalized Organizations: Formal Structure as Myth and Ceremony. *American Journal of Sociology* 83: 340–363.
- Miller, P., and T. O'Leary. (1987). Accounting and the Construction of the Governable Person. *Accounting, Organizations and Society* 12(3): 235–265.
- Mizruchi, M. (2013). *The Fracturing of the American Corporate Elite*. Cambridge: Harvard University Press.
- O'Malley, P. (2000). Uncertain subjects: risks, liberalism and contract. *Economy and Society* 29(4): 460–484.
- Pilotti, A., Mach, A., and O. Mazzoleni. (2010). The Swiss Members of Parliament between

- democratisation and professionalization, 1910-2000. *Swiss Political Science Review* 16(2): 211–245.
- Scharpf, F. (1991). Games Real Actors Could Play: The Challenge of Complexity. *Journal of Theoretical Politics* 3(3): 277–304.
- . (1997). *Games Real Actors Play. Actor-Centered Institutionalism in Policy Research*. Colorado: Westview Press.
- Schmidt, V. (2010). Taking ideas and discourse seriously: explaining change through discursive institutionalism as the fourth “new institutionalism”. *European Political Science Review* 2(1): 1-25.
- Schnyder, G. (2011). Revisiting the Party Paradox of Finance Capitalism: Evidence from Switzerland, Sweden and the Netherlands. *Comparative Political Studies* 44(2): 184-210.
- Schnyder, G. (2008). *Comparing Corporate Governance Reforms: Law, Politics and the Social Organisation of Business in the case of Switzerland, 1965-2005*. Unpublished PhD Dissertation. Lausanne : Université de Lausanne.
- Sen, A. (1977). Rational Fools: A Critique of the Behavioral Foundations of Economic Theory. *Philosophy & Public Affairs* 6(4): 317–144.
- Shah, J., and A. Kruglanski. (2002). Priming against your will: How accessible alternatives affect goal pursuit. *Journal of Experimental Social Psychology* 38: 368–383.
- Streeck, W. and K. Thelen. (2005). Introduction: Institutional Change in Advanced Political Economies. In Streeck, W. and K. Thelen (eds.) *Beyond Continuity: Institutional Change in Advanced Political Economies*. Oxford: Oxford University Press (1–39).
- Streeck, W. (2001). Introduction: Explorations into the Origins of Nonliberal Capitalism in Germany and Japan. In Streeck, W. and K. Yamamura *The Origins of Nonliberal Capitalism. Germany and Japan in Comparison*. Ithaca/London: Cornell University Press (1–38).
- . (2009a). *Re-forming Capitalism. Institutional Change in the German Political Economy*. Oxford: Oxford University Press.

- . (2009b). Institutions in History. Bringing Capitalism Back In. *MPIfG Discussion Paper* No. 09/8.
- . (2011). Taking capitalism seriously: towards an institutionalist approach to contemporary political economy. *Socio-Economic Review* 9(1): 137–167.
- Thelen, K. (2012). Varieties of Capitalism: Trajectories of Liberalization and the New Politics of Social Solidarity. *Annual Review of Political Science* 15: 137–159.
- Uzzi, B. (1997). Social Structure and Competition in Interfirm Networks: The Paradox of Embeddedness. *Administrative Science Quarterly* 42(1): 35–67.
- Vogel, D. (1978). Why Businessmen Distrust Their State: The Political Consciousness of American Corporate Executives. *British Journal of Political Science* 8(1): 45–78.
- Williamson, O. (1985). *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*. New York: The Free Press.
- Zysman, J. (1994). How Institutions Create Historically Rooted Trajectories of Growth. *Industrial and Corporate Change* 3(1): 243–283.

Table

Table 1: Assumed logics of action in different types of capitalist institutions

Type of institution	Organized	Coordinated	Liberal
Logic of action	Strong solidarity	Enlightened self-interest / Weak solidarity	Opportunism
Relative strength of gain and normative goals			
	■ Normative □ Gain		

¹ We borrow the term “nonliberal capitalism” from Streeck & Yamamura 2001. These authors use the term to distinguish “socially and politically” more embedded forms of capitalism than the “normal capitalism” of the Anglo-American brand (Streeck 2001: 1). In our usage of the term it encompasses two distinct types of “embedding” of economic relationships, one has come to be known as “coordination” the other one as “organisation” (see below for more details). Non-liberal change is hence a move away from less embedded forms of markets towards markets that are more strongly constrained by hard and soft institutions.

² Preferences can be defined as the ordering of an actor’s options in a given decision situation in terms of their perceived/expected ability to satisfy the actor’s goals.

³ This is not to deny that certain moral norms undergird liberal capitalism. “Greed is good” can be seen as a moral norm in the widest sense, but it is one that pushes actors to be more consequentialist rather than to disregard the costs and benefits of their action, as we define normative goals. Hence, normative arguments in favor of selfish behavior can certainly contribute to encouraging opportunism. This is indeed in some sense the story that Hirschman (1997[1977]) tells regarding “moral arguments” in favor of capitalism and markets, before the capitalist system had become wide-spread (see also Streeck 2011: 163).

⁴ The term “strong solidarity” should not be taken to necessarily imply a positive connotation in terms of social outcomes. Lindenberg (1988, 1992) and Scharpf (1991) have argued that strong within-group

solidarity is “incompatible with the functioning of a modern, capitalist economy” (Scharpf 1991: 297 n28).

⁵ Ruling BGE 83 II 297 can be found at:<http://www.bger.ch/index/jurisdiction/jurisdiction-inherit-template/jurisdiction-recht/jurisdiction-recht-leitentscheide1954.htm> [last visited on 4/8/2011]

⁶ Archives SBA, annex to the board meeting no. 238 of March 15, 1961; Memo Lusser from February 28, 1961 regarding SBA meeting with non-financial companies of February 1, 1961. (henceforth: memo Lusser a) .

⁷ The official title of the document is "Handänderungen von vinkulierten Namenaktien bestimmter Schweizer Gesellschaften" and is classified in the archives SBA as A 102.4 Zirkulare Vinkulierte Namenaktien, März 1963-Juli 1990, circular letter no. 2901 of 6.4.1961 (henceforth Circular SBA no. 2901). Also available at:

http://www.ub.unibas.ch/fileadmin/redaktion/wwz/pdf/CHSWABV2_SBVg_GentlemensAgreement_1961_Text_d.pdf [accessed on April 11, 2013].

⁸ Archives SBA, minutes of board no 237 of December 7, 1960.

⁹ Circular SBA no. 2901 .

¹⁰ Archives SBA, annex to the board meeting no. 237 of December 7, 1960; Memo Lusser from December 1, 1960 regarding meeting with Councillor Schurmann and interested companies (Ciba AG, Sandoz AG, Geigy AG) of 17th November 1960 (henceforth: memo Lusser b), p.1, our translation.

¹¹ Circular SBA no. 2901, emphasis added

¹² Archives Novartis, JRG, GV 18, Aktennotiz Christ 25.4.1960; Lüpold 2008: 873.

¹³ Dictionnaire Historique de la Suisse, Keyword “Fremdenfeindlichkeit” <http://www.hls-dhs-dss.ch/textes/d/D16529-1-3.php> [accessed July 19, 2011].

¹⁴ Durkheim used the concept of “internalization” and influenced Parsons’ thinking in important ways (DiMaggio & Powell 1991). Höpner, however, emphasized that the shade of hierarchy remains crucial in spite of internalization (2007:11).

¹⁵ In this sense, “strong solidarity” bears similarities with the Durkheimian notion of “mechanical solidarity,” which is based on shared values and beliefs and more generally on “sameness” of members of a group (cf. Durkheim 1998[1930]).