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How multilevel governance affects the clash of capitalisms

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MPIfG Discussion Paper 08/5

How Multilevel Governance Affects the Clash of Capitalisms

Helen Callaghan



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Abstract

This article challenges the methodological nationalism of the convergence debate by arguing that multilevel governance destabilizes the coalitions thought to underpin liberal and coordinated varieties of capitalism. Existing efforts to explain how coherent production regimes emerge and persist assume that some dominant social bloc ensures coherence by imposing its interests across all relevant regulatory subspheres. This assumption is not tenable in systems of multilevel governance. Three features of multilevel governance diminish the scope for a uniform social bloc to ensure a tight coupling of complementary regulations. First, the strategic opportunities for playing multilevel games vary across regulatory subspheres. Second, willingness to exploit these opportunities varies, because the transnational scope of legislation adds a “constrain-competitor” dimension to actors’ decision-making that may either strengthen or weaken interest group cohesion. Third, the institutional set-up at the supranational level of Europe’s multilevel polity multiplies alignment options. To illustrate these claims, the article draws on case studies of EU company law initiatives concerning takeovers and worker participation.

Zusammenfassung

Der vorliegende Aufsatz wendet sich gegen den in der Konvergenzdebatte vorherrschenden methodologischen Nationalismus, indem er aufzeigt, dass Koalitionsbildung in Mehrebenensystemen jene Koalitionen unterminiert, die gemeinhin als Stützen der liberalen und koordinierten Spielarten des Kapitalismus gelten. Versuche zu erklären, wie kohärente Produktionsregime entstehen und fortbestehen, gehen bisher davon aus, dass ein dominanter sozialer Block seine Interessen in allen relevanten regulativen Teilbereichen durchsetzt. Diese Annahme ist für politische Mehrebenensysteme nicht haltbar. Drei Aspekte von Mehrebenenpolitik verringern die Möglichkeiten eines dominanten sozialen Blocks, komplementäre Regulierungen eng zu verknüpfen. Erstens unterscheidet sich der Spielraum für strategische Mehrebenenspiele in den einzelnen Teilbereichen kohärenter Produktionsregime. Zweitens unterscheidet sich die Bereitschaft zur Ausnutzung dieses Spielraums, weil die transnationale Reichweite von Gesetzen dem Entscheidungskalkül von Akteuren eine „Constrain-Competitor“-Dimension hinzufügt, die den grenzüberschreitenden Zusammenhalt von Interessengruppen entweder stärkt oder schwächt. Drittens erweitert das Institutionsgefüge auf der europäischen Ebene die Vielfalt der Koalitionsmöglichkeiten. Fallstudien zu EU-Richtlinien zur Regelung von Unternehmensübernahmen und betrieblicher Mitbestimmung veranschaulichen diese Thesen.

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1 Introduction

“Capitalism vs. capitalism” – some fifteen years ago, an airport bestseller caused a stir by noting that the “battle of the systems” had not ended with the demise of socialism. The post-Cold War world, it claimed, was not left with a single unambiguous answer to the question of economic organization, but with “two opposing models of capitalism locked in a conflict whose outcome is far from certain.” By highlighting the diversity of modern capitalist economies, Albert (1993: 14) popularized what political economists had been arguing for decades, starting with Shonfield’s (1965) path-breaking treatise. Today, most scholarship in comparative political economy is devoted to identifying, classifying, examining the effects of, and explaining differences in the institutional arrangements of capitalist countries.

Because people care about the chances for the survival and spread of their preferred variety of capitalism, there has been much debate on whether intensified global competition on capital and product markets will force all countries to converge on a single model. For some time, this debate focused on whether there is a unique most competitive set of institutional arrangements. Believers in a unique best model argued that diversity would end once market pressures became strong enough to ensure that only the fittest companies survive (e.g. Hansmann/Kraakman 2001). Believers in multiple roads to competitiveness questioned the inevitability of market-driven convergence. Assuming that different models equip firms to perform better at some activities and worse at others, they argued that growing international trade might even increase diversity by encouraging a global division of labor (e.g. Porter 1990; Hall/Soskice 2001). More recently, the debate has moved on to recognize that the battle of the systems is fought in the political as well as in the economic realm, over distributional as well as efficiency matters (see, for example, Hancké/Rhodes/Thatcher 2007). To gauge the prospects for continued capitalist diversity, it is not enough to establish whether different models are capable of holding their ground in a Darwinian struggle for economic survival, because alternative roads to economic competitiveness may not be equally viable politically. For diversity to persist, the political battle will need to keep playing out differently across countries.

The present article contributes to this debate by discussing how the increasing salience of the European Union as a transnational political arena affects the clash of capitalisms. It bridges the literatures on Europeanization (e.g. Risse/Cowles/Caporaso 2001; Héritier et al. 2001) and Varieties of Capitalism (e.g. Hall/Soskice 2001), which are still disjoint despite their common focus on convergence. Research in the Varieties of Capitalism tradition, concerned with examining whether distinct national varieties of capitalism can withstand the *economic* pressures resulting from *globalization*, has neglected the *political* pressures for convergence that emanate from *Europe*. Research on Europeanization,

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which does emphasize political, EU-induced convergence pressures, has neglected key battlegrounds in the clash of capitalisms. Menz (2005) and Schmidt (2002) are notable exceptions.

Existing work mostly suggests that European political integration favors market-oriented models of capitalism. Scharpf (1999, 2007: 13) emphasizes the bias towards “negative” integration produced by the asymmetric reach of judicial power: The European Court of Justice can strike down national regulations that impede the free movement of goods, services, and people, to which EU governments are committed by treaty; it cannot step in to re-regulate at the European level. Streeck (2001) warns that the reduced capacity of national governments to impose “beneficial constraints” threatens non-liberal forms of capitalism. Offe (2005: 154) suggests that “embeddedness” may be more easily lost than gained, “in much the same way as, to quote Walensa, it is easier to make fish soup out of an aquarium than the other way around.” Schmitter and Streeck (1991) explain why labor finds it more difficult than capital to get its way at the European level. Höpner and Schäfer (2007) claim that recent policy initiatives by the European Commission systematically target the institutions of organized capitalism.

My article challenges this view by arguing that multilevel governance affects preferences and cleavage patterns in ways that threaten to undermine both liberal and coordinated varieties of capitalism. Three separate mechanisms are at work. First, the strategic opportunities for playing multilevel games vary across the separate components of coherent production regimes, depending on the distance of EU proposals from the domestic status quo. Second, the willingness to exploit these opportunities varies, because the transnational scope of EU legislation adds a new dimension to actors’ decision-making problem, which I label the “constrain-competitor effect” of legislation. Laws passed at the European level apply throughout the European Community, and people take this into account when they try to decide whether or not they like a legislative proposal. The value of constraining competitors influences cleavage patterns. Negative constrain-competitor effects strengthen transnational interest group cohesion, while positive constrain-competitor effects undermine it. Third, the institutional set-up at the EU level of Europe’s multilevel polity facilitates the simultaneous advancement of mutually incompatible reforms. Multiplication of alignment patterns makes it more difficult for a dominant social block to impose its preferences across all the regulatory subspheres of coherent production regimes. The battle of the systems currently fought in the European political arena is therefore likely to produce neither convergence nor continued coexistence but hybrid models combining elements of both.

The article proceeds as follows: Section two introduces the concepts of coherence and institutional complementarity and situates them within the convergence debate. For the sake of concreteness, I focus on rules concerning takeovers and worker participation as key elements of the institutional infrastructure that distinguishes coherent models of capitalism (see Vitols 2001; Höpner 2005). Section three explains why multilevel governance diminishes the scope for a dominant social block to ensure coherence by imposing

its interests across all relevant subspheres. The final section concludes by drawing out the implications of my argument for debates on multilevel governance, economic performance and institutional change.

2 Background: Institutional complementarity and dominant social blocks

Corporate governance – the division of power inside companies between workers, managers, and owners – varies across advanced capitalist economies. Decades of scholarship on comparative capitalism have yielded a vast range of typologies and labels, but most authors distinguish dichotomously between shareholder-oriented and stakeholder-oriented models. The shareholder model makes managers accountable only to shareholders and relies on market mechanisms to address principal–agent problems. It features takeover rules that promote active markets for corporate control by eliminating barriers to hostile bids. The stakeholder model makes managers accountable not just to shareholders but also to employees. It relies mainly on company-internal monitoring devices to keep managers in check. Mandatory worker participation provides employees with voice both at the company board level and on the shop floor (Woolcock 1996; Vitols 2001).

Corporate governance is politically contentious because of its distributional implications. Not only do workers have less voice in shareholder systems, but the share of national income accruing to labor as opposed to capital is lower, and there is greater income inequality between the managers of corporations and the remainder of the workforce (de Jong 1996; Coffee 2005: 203; Pendleton/Gospel 2005: 66–69). The perceived fairness of alternative distributional outcomes hinges on one’s ideological stance on property rights in the firm. Advocates of the shareholder model view shareholders as the sole risk bearers and thus as legitimate claimants to the entire residual value of the firm after contractual payments have been made. Advocates of the stakeholder model argue that employees making non-transferable, firm-specific investments in human capital bear risks not covered by their contracts and therefore “have as much claim to being owners of the corporation as do shareholders, and perhaps more so” (Blair 1995: 239).

However, the political economy literature has also identified efficiency implications as a less normatively charged reason to care about the choice of model. According to the theory of comparative institutional advantage, different models favor different production strategies. The stakeholder model is thought to support strategies that rely on well-trained workforces with specialist, firm-specific skills and on stable long-term supplier relationships – strategies typically characterized by incremental innovation and “diversified quality production” (see Streeck 1991). Examples are high-quality, engineering-intensive industries such as advanced machine tools, luxury automobiles, or specialty chemicals. The shareholder model is thought to support strategies that depend on ven-

ture capital and/or flexibility to hire and fire. Examples include products and services requiring radical innovation, such as certain segments of the software, biotech, and financial services industries, or mass products that compete on price rather than quality and require a ready supply of cheap, unskilled labor (Hall/Soskice 2001: 36–44).

For the purposes of the present article, it is important to note that the models of capitalism thought to generate comparative institutional advantage are not just random configurations of rules but display what political economists call institutional complementarities (see Aoki 1994). Some combinations of rules are considered more efficient than others, because they interact to jointly provide the incentives and constraints that are required for the achievement of comparative institutional advantage. For example, workers have greater incentives to invest in the company-specific skills required for diversified quality production where the financial system shield companies from shareholder demands for short term profits, because this allows firms to maintain skilled workers during economic downturns. Patient capital in turn requires stable labor relations. Conversely, short-term finance, which requires quick entry and exit from business activities, is supported by industrial relations systems that allow inexpensive hiring and firing. Given the importance of complementarity in the theory of comparative institutional advantage, gaging the survival prospects of coherent models of capitalism in the European political arena requires forecasting not just whether governments will continue to support different rules, but whether they will continue to support combinations of rules that complement each other.

The sources of institutional complementarity have only recently become a subject of research (cf. Höpner 2005; Shalev 2001). As Crouch (2005: 23) observes, characteristics of economies are still all too often “bundled together as coherent wholes with inadequate attention being paid to the forces which produce the bundles.” The surge in interest stems from growing dissatisfaction with functionalist explanations. The theory of comparative institutional advantage provides a reason why governments exposed to strong international competition *ought* to resist convergence on a single set of rules. By catering optimally to a subset of all conceivable production strategies, countries can provide firms engaging in these strategies with a competitive edge in world markets. Mutual gains from trade can allow nations to “prosper not by becoming more similar, but by building on their institutional differences” (Hall/Soskice 2001: 60). Nevertheless, like other functionalist arguments, comparative institutional advantage is unsatisfactory as an explanation for persistent cross-national convergence because, as Hall and Soskice (2001: 52) note themselves, regulatory action by governments is often “motivated by considerations going well beyond efficiency.” What, then, “makes for the internal coherences, or consistency, of national models ... given that institutional change is not normally driven by a societal master plan” (Streeck 2001: 37)?

Efforts to provide actor-centered explanations have produced widespread agreement that coherent models of capitalism owe their existence to some dominant social bloc whose interests systematically prevail across policy spheres. Complementarities are

thought to arise because “actors whose interests are served well by a particular set of industrial-relations institutions ... have an interest in seeing complementary institutions maintained in the sphere of corporate governance or product markets” (Hall/Soskice forthcoming). Different perspectives disagree only on the identity and motivations of this bloc. In the power resource literature, the dominant social bloc is either capital or labor, depending on the relative power resources available to these groups in different national political settings (Korpi 1983, 2006; Stephens 1979). Employer-centered approaches maintain that capital gets its way in all advanced industrial democracies, and that different models persist because employer preferences differ across countries (Swenson 2002; Mares 2003). Some authors point to political forces outside the class nexus, such as conservative parties and state traditions shaped by religious influences (van Kersbergen 1995). Others emphasize the “historical role of the state in fighting disintegrative tensions and tendencies toward ‘regime incoherence’ by authoritatively imposing obligations on market participants” (Streeck 2001: 37). Regarding the motivations, some authors suspect institutional engineering, suggesting that actors intentionally “foster the development of institutions complementary to those already present in the economy in order to secure the efficiency gains they provide” (Hall/Soskice 2001: 18). Others see institutional complementarity as an unintentional by-product of isomorphic choices (e.g. Kitschelt/Streeck 2003: 3). While disagreeing over the identity and motivations of the dominant bloc, these different perspectives concur that the separate components of coherent models are chosen by a single set of actors.

The role of a dominant social bloc in creating and maintaining institutional complementarity implies that coherent models of capitalism are more fragile than static equilibrium analyses suggest. Hall and Soskice (2001) received much criticism for failing to elaborate why countries would ever move away from a position of comparative institutional advantage (e.g. Hay 2005: 106; Blyth 2003; Howell 2003). As Thelen (2004: 287) observes, institutional stability requires “a high degree of continuity in who the powerful agents are, both across various institutional arenas and over time.” Amable (cited in Crouch et al. 2005: 372) warns that “a changing environment may modify the strategies of the groups that form the dominant bloc, which in turn may lead to a restructuring or breaking-up of the bloc.”

The following section examines these concerns in the context of European integration. I argue that multilevel governance reduces the scope for a uniform social bloc to dominate policy-making. This may precipitate a decoupling of the separate components that together form coherent models of capitalism.

3 How multilevel governance affects the clash of capitalisms

The term multilevel governance describes the dispersion of power away from national governments, both upward to the supranational level and downward to the subnational level of provincial, state, and municipal governments. It contains both vertical and horizontal dimensions. While ‘multilevel’ refers to the proliferation of territorial layers, ‘governance’ signals the growing interdependence between governments and non-governmental actors (cf. Bache/Flinders 2004: 3). Widely studied in the context of European integration (e.g. Scharpf 1994; Hooghe/Marks 2001), the phenomenon is also familiar to political economists and critical geographers, sometimes under alternative labels such as ‘multi-tiered governance’, ‘rescaling’ or ‘glocalization’ (see Harmes 2006: 725–726; Marks/Hooghe 2003).

So far, research on the implications of multilevel governance for economic policy-making has focused on shifts in power that result from new strategic opportunities for playing off different levels against each other. Putnam’s (1988) seminal article on two-level games in particular has inspired much theoretical work in this direction. According to Putnam, clever players in multilevel settings will “spot a move on one board that will trigger alignments on other boards, enabling them to achieve otherwise unobtainable objectives” (1988: 434). Whether these strategic opportunities strengthen or weaken national governments vis-à-vis non-governmental actors has been subject to lively debate. Marks and Hooghe emphasize the opportunities for interest groups to bypass their national governments by lobbying the European Commission to promote change at home. Moravcsik (1997) counters that multilevel governance strengthens the state by reallocating important power resources in favor of national executives. Other authors formally model situations in which multilevel governance serves to increase leverage in either international or domestic negotiations¹ (Fearon 1994; Schneider/Cederman 1994; Mo 1995; Pahre/Papayouanou 1997).

Unnoticed by this literature, multilevel governance affects not just the direction, but also the coherence of economic policy. Three distinct aspects of multilevel governance contribute to reducing the scope for a homogenous social bloc to impose its preferences across all the separate subspheres that together form coherent models of capitalism. First, the strategic opportunities for using the European level of policy-making as part of a multilevel game to change legislation at the domestic level vary across subspheres. It depends on whether domestic requirements exceed or fall short of proposed EU legislation. Directives, the favored legislative instrument at the EU level, only set minimum standards and leave national legislators to fill in the details. As a result, multilevel governance can help introduce new stakeholder-friendly legislation into Britain’s liberal

1 This idea goes back to Schelling’s “paradox of weakness.” Schelling remarks that “the power to constrain an adversary may depend on the power to bind oneself; that, in bargaining, weakness is often strength, freedom may be freedom to capitulate, and to burn bridges behind one may suffice to undo an opponent” (Schelling 1960: 22).

market economy and new shareholder-friendly legislation into Germany's coordinated market economy, but it cannot help with removing existing shareholder-friendly or stakeholder-friendly legislation because national governments can choose to maintain stricter requirements than those laid down by the EU.

Second, the *willingness* of interest groups to exploit the strategic opportunities associated with multilevel governance varies across the separate subspheres of coherent models of capitalism. The European scope of legislation adds a new dimension to actors' decision-making problem, which I label the "constrain-competitor effect" of legislation. Laws passed at the European level apply throughout the European Community, and people take this into account when they try to decide whether or not they like a legislative proposal. Apart from considering whether they are better or worse off if they themselves are subjected to a European law, they also consider how it affects them that the same law will apply abroad. The value of constraining competitors influences cleavage patterns. Where the constrain-competitor effect is negative, class cohesion is reinforced, inducing workers and employers to join transnational coalitions with their peers abroad. Where the constrain-competitor effect is positive, transnational class cohesion is weakened, and cross-class coalitions between workers and employers embedded in the same production regime are more likely.

Third, and specific to the EU, the current institutional set-up at the supranational level of Europe's multilevel polity allows competing coalitions to simultaneously advance mutually incompatible reforms. The European Commission is ideologically more heterogeneous than most national administrations because its members are appointed by the governments of member states. As a result, reform efforts regarding the separate regulatory subspheres of coherent production regimes are more likely to be inspired by conflicting ideologies and interests. In the Council of Ministers, qualified majority voting (QMV) can force governments to adopt EU legislation that is not endorsed by a political majority in their own country. It thereby reduces the scope for actors at the national level to safeguard the regulatory coherence of their production regime. At the same time, QMV discourages the formation of a dominant bloc capable of imposing coherence at the European level. Winning coalitions in the Council of Ministers would almost inevitably continue to differ across regulatory subspheres even if QMV were to replace national vetoes on all issues, because the currently 25 member states of the European Union do not all fall neatly into the two broad categories that dominate the Varieties of Capitalism literature.

Barring other yet-to-be-identified sources of coherence, the reduced scope for a homogeneous social bloc to dominate policy-making threatens both liberal and coordinated varieties of capitalism. Variation in the size and composition of support coalitions implies that the rules governing different subspheres differ in their vulnerability to shifts in the balance of political power. Where broad cross-class coalitions support a rule, government positions should remain relatively unresponsive, because parties representing different clienteles will support similar policies. Where the support coalition is less broad,

a change in government is more likely to bring about policy change. In other words, “tight coupling” by virtue of a dominant social bloc does not work under conditions of multilevel governance. Whether it ever was the main source of institutional complementarity remains to be established. If it was, as most authors still assume, then European integration will precipitate the disintegration of coherent models of capitalism.

To illustrate how multilevel governance affects actors’ opportunities to promote competing visions of capitalism across regulatory subspheres, the following section documents the support coalitions underpinning EU legislative proposals regarding takeovers and worker participation from 1970 onward.

4 Case study: EU company law harmonization

EU company law harmonization provides occasion for political actors of all ideological persuasions to intervene in the battle of the systems on behalf of their preferred variety of capitalism. Since the establishment of the European Economic Community in 1957, the European Commission has the authority to interfere with the national laws of member states “to the extent required for the proper functioning of the common market” (Art. 3 h EEC). The case for EU intervention in company law is relatively uncontroversial despite competing views on what it means for the market to function properly and how this goal is best achieved. “Neoliberals” see it as a means of removing obstacles to the free play of market forces by facilitating cross-border business ventures, while “transnational social democrats”² see it as a means of preventing a race to the bottom where governments outbid each other in their efforts to cut back standards to attract footloose investors. But while both camps favor some legislative convergence, their respective preferred outcomes are inspired by different models of capitalism. The possibility of EU intervention thus brings the battle of the systems into the European political arena.

So far, the European Commission’s efforts to promote company law harmonization have enjoyed only limited success. More than thirty years after the first EU company law proposals, EU member states are still far from agreeing on rules that affect the influence of shareholders and workers on managerial decisions. The EU Takeover Directive, adopted in December 2003, left so much discretion to national governments that Internal Market Commissioner Bolkestein judged it “not worth the paper it was written on.”³ More ambitious drafts of the directive had encountered insurmountable resistance in 1974, 1994, and 2001. Disagreement over worker participation rights at board level or on the shop floor prevented adoption of the Fifth Company Law Directive (1972 and

2 The labels are borrowed from Apeldoorn (2000).

3 *Financial Times Deutschland*, December 17, 2003, p. 30.

1983), the so-called Vredeling Directive (1980 and 1983), and several drafts for a European Company Statute (1970, 1975, 1989, and 1991). The European Works Councils Directive (1994) and the Information and Consultation Directive (2001) were passed only after Britain had negotiated special concessions.

Nevertheless, the struggle over these directives illustrates the difficulties for a uniform social bloc to ensure a tight coupling of complementary regulations in settings of multilevel governance. First, the strategic opportunities for using the European level of policy-making as part of a multilevel game to change legislation at the domestic level varied across subspheres. The EU worker participation directives helped British unions obtain more participation rights than they could have achieved in a purely domestic game. Britain's opt-opt from the Social Chapter of the Maastricht Treaty did not exempt British multinationals from the requirement to set up European works councils for staff in their non-British subsidiaries. Due to the practical difficulties of excluding their British workers from these bodies, more than 90 percent of the companies concerned ended up implementing "voluntarily" what they and their government had bitterly opposed (Clement 1996; Lorenz/Smith 1994). The Information and Consultation Directive, passed in 2001, is another example of a small step towards hybridization of the shareholder model that would have been inconceivable in a purely domestic game. The directive, which mandates a minimal degree of worker participation in all British companies with more than 50 employees, was opposed not just by employers but also by the British government. Within weeks of his election as Prime Minister, Tony Blair warned the European Commission not to use Labour party support for EU social provisions as an excuse for advancing a raft of laws adding to business costs and stifling job creation. Blair's government strongly opposed the Information and Consultation Directive, which it saw as unnecessary and inconsistent with the principle of subsidiarity.⁴ Peter Mandelson, trade and industry secretary, warned that the directive would threaten competitiveness, slow down corporate decisions and strengthen the trade unions.⁵ British opposition was not sustainable indefinitely because the Information and Consultation Directive was subject to qualified majority voting. Blair finally signed in June 2001 – within days of his second election victory – after negotiating some minor concessions for British companies.⁶ Similarly, EU takeover directives provided shareholders of German companies with a means of pushing for greater shareholder protection than they would have been able to obtain in a purely domestic game. If two British MEPs had not arrived late for the final vote on 4 July 2001, the shareholder-oriented Takeover Directive would have passed without approval from the German government and against the united opposition of German delegates across all parties in the European Parliament (Callaghan/Höpner 2005). However, while multilevel governance can thus help introduce new stakeholder-friendly legislation into Britain's liberal market economy

4 *Press Association*, March 16, 1998 and October 16, 1998.

5 *Financial Times*, December 1, 1998, p. 15.

6 In the UK, the directive applies since 2008 to employers with 50 or more staff. In the rest of the EU, the directive since from 2005 to employers with 20 or more staff.

and new shareholder-friendly legislation into Germany's coordinated market economy, it cannot help with removing existing shareholder or stakeholder-friendly legislation. German employers cannot achieve a reduction in worker participation requirements within Germany by fighting the EU worker participation directives. Likewise, British workers do not gain better insulation from hostile bids by fighting the EU takeover directives. In both cases, national governments can choose to maintain stricter requirements than those laid down by the EU.

Second, the *willingness* of interest groups to exploit the strategic opportunities associated with multilevel governance varied across subspheres. German and British employers were deeply divided over EU proposals concerning takeover bids. British employers gave “strong support to Commission initiatives which aim to remove structural barriers to contested takeovers in the EC,” urging their government to “put its weight behind the draft Directive on Takeovers ... [which] will give a degree of harmonization of shareholders' rights and put some restraints on defensive measures available to boards” (CBI 1989). German employers failed to see “the slightest need for such a directive” and “emphatically reject[ed]” EU efforts to promote shareholder primacy in takeover situations. By contrast, German and British employers united against the EU worker participation initiatives. During the 1970s, they fought the provisions for board level participation in the European Company Statute and the Fifth Company Law Directive. During the early 1980s, “the rejection of the [Vredeling] directive proposal by European Trade [was] both unanimous and decisive” (BDA/BDI 1983a). During the early 1990s, employers in both countries rejected European works councils as cumbersome, bureaucratic and expensive (BDA/BDI 1991; BDI 1994; CBI 1991). During the late 1990s, the Information and Consultation Directive came under concerted employer attack. “In agreement with the European industrial and employer associations in the framework of UNICE, [German employers] reject[ed] a directive of this sort” (BDA 1998).

The opposite direction of the constrain-competitor effects helps explain why cleavage patterns varied. As noted by the German peak employer federation, “the consequences of the proposed rules for employers in other member states are also relevant from a German perspective and must not be ignored” (BDA/BDI 1983b). In the case of the takeover directives, a positive constrain-competitor effect undermined transnational cohesion. Managers like seeing their competitors defenseless, and this created divisions inside the European peak federation between employers on opposite sides of the non-level playing field. British employers wanted to end a situation where “successful British businesses can be hijacked by Europeans with bullet-proof waistcoats,”⁷ while German employers saw “no reason why a situation which has proved satisfactory in the past, and which has developed without any formal harmonization, should give rise to problems in the future” (BDI 1987). In the case of the worker participation directives, negative constrain-competitor effects strengthened transnational cohesion. German employers thought that they would be worse off if the rules binding them were spread across Europe:

7 *The Independent*, February 22, 1990, p. 32.

If the imposition of those extensive worker participation rules ... causes friction and a decline in company performance [in other EU member states], then this could only myopically be regarded as a competitive advantage for German companies. In actual fact, it would be a loss of competitiveness for the Common Market as a whole, which would be cause for concern also from a German point of view. (BDA/BDI 1983b)

Among other things, they warned that EU worker participation directives would “provide employees with much leeway to make demands beyond the rules contained in the directive proposal and in the German Works Constitution Act” (BDA 1998), that “implementation of the directive proposal would [not] be possible without the dispute on co-determination in the Federal Republic of Germany being rekindled with all its bitterness” (BDA/BDI 1983a), and that “a binding legal instrument in the EC would prejudice the treatment of the issue area ‘transnational enterprise’ by other international institutions” (BDA/BDI 1981).

Third, the fact that directives on takeovers and worker participation could be promoted side by side shows that the current institutional set-up of Europe’s multilevel polity allows for the simultaneous advancement of contradictory reforms. Directives concerning these issues were underpinned by different normative conceptions of property rights in the firm and rival projects for European integration. The draft takeover directives sought to strengthen the rights of shareholders vis-à-vis stakeholders and remove barriers to the market for corporate control. From the outset, the British City code – the world’s most shareholder-oriented set of takeover rules – served as the blueprint for drafts of the EU takeover directives (see Callaghan 2006: 38-43). A declared aim was “harmonization conducive to corporate restructuring” (CEC 2002). As Internal Market Commissioner Bangemann explained, takeover bids were seen “in a positive light in that they encourage the selection by market forces of the most competitive companies and the restructuring of European companies which is indispensable to meet international competition.”⁸ His successor, Internal Market Commissioner Frits Bolkestein, explicitly rejected the “Rhenish model of capitalism, where stakeholders are pampered instead of shareholders, and where consultations take place on numerous round tables.” He insisted that, “if Europe really wants to become the most competitive and most modern economic area, it must leave the comfortable setting of the Rhenish model and subject itself to the harsher conditions of the Anglo-Saxon form of capitalism, where the rewards, but also the risks, are higher.”⁹ By contrast, the worker participation directives sought to strengthen the rights of stakeholders vis-à-vis shareholders by deploying politics against markets. The preambles to the directives emphasize that “[t]oo great a divergence in the laws regulating the role of employees in relation to the decision-making structures of companies constitutes not only a barrier to cross-frontier movements of companies, capital and employees, but, more fundamentally, it is also a denial of the idea of a Community as far as employees are concerned” (CEC 1975). They insist that “further development of the Internal Market must be properly balanced, maintain-

8 *M&A Europe*, May/June 1990, p. 35.

9 *Neue Züricher Zeitung*, November 9, 2002.

ing the essential values on which our societies are based and ensuring that all citizens benefit from economic development” (CEC 1999) and that “the development of big transnational companies promoted by the Single Market requires enhanced dialogue between management and employees in these companies if this development is to take place in a harmonious fashion” (1994 EWC Directive, cited in Knutsen 1997).

By itself, this simultaneous promotion of market-making and market-taming efforts is not a threat to the coherence of national varieties of capitalism, because the European Commission faces more institutional veto players than most national executives. As mentioned above, several draft directives concerning takeovers or worker participation were rejected either by the Council of Ministers or by the European Parliament, while others were passed only after amendments that rendered them worthless in the eyes of their initial advocates. However, Britain’s surrender to the EWC and Information and Consultation Directives as well as Germany’s narrow escape from the 2001 Takeover Directive show that the scenario of governments having to adopt legislation that is not endorsed by a political majority in their own country and may erode comparative institutional advantages is more than a remote hypothetical possibility.

5 Conclusion

In sum, the present article challenges a fundamental premise of the convergence debate by highlighting how multilevel governance affects the clash of capitalisms. Existing efforts to uncover the political underpinnings of institutional complementarities assume that some dominant social bloc ensures a tight coupling of the separate components of coherent production regimes by imposing its interests across all relevant regulatory subspheres. This premise suggests that change, if it occurs at all, will take the form of a switch from one coherent model to another. I argue that the premise does not hold in systems of multilevel governance. By reducing the scope for a uniform social bloc to dominate policy-making, multilevel governance precipitates a decoupling of the separate components that together form coherent stakeholder-oriented or shareholder-oriented models.

I do *not* claim that European integration in general, or multilevel governance in particular, is causing the collapse of coherent production regimes that could otherwise survive. Several considerations preclude this line of argumentation. First, the threats to regime coherence posed by multilevel governance are amplified by other centripetal pressures, including the differential impact of economic downturns and changes in ownership patterns on the coalitions supporting takeover rules and worker participation requirements. During economic downturns, the cross-class coalition against takeover liberalization is strengthened, because foreign takeovers are more likely and any job cuts potentially associated with them are more painful. At the same time, class con-

flict over worker participation intensifies as managers blame weak economic performance on their lack of flexibility. Changes in ownership patterns due to privatization or tax reforms are likely to affect the preference distribution more noticeably in the case of takeover rules than worker participation requirements. Ownership structure affects preferences with regard to takeover regulation because only companies with dispersed ownership are vulnerable to hostile bids and because ownership dispersion increases the number of minority shareholders and other groups who have an interest in active markets for corporate control. The effects of ownership structure on preferences towards worker participation are less significant.

Second, it remains to be established whether a dominant social bloc did play a crucial role in the emergence of coherent production regimes even at the national level. Boyer and others argue that complementarity was never masterminded, either wittingly or unwittingly, and that, instead, it grew out of trial, error, and “muddling through” (see, for example, Boyer/Saillard 2002). Multilevel governance may therefore not be a necessary ingredient of hybridization. Streeck (2008: 29) explains the observed trend towards growing disorganization of the German political economy by pointing to the endogenous dynamics (*Eigendynamik*) of capitalism. Capitalist development is presented as inherently dialectical, driven by a fundamental conflict between market expansion and market containment. On this view, change in the separate subspheres that jointly constitute the German model, “while proceeding in the same direction, originated independently and endogenously, with no need for external destabilization” Streeck (2008: 100).

Third, one could suggest, as Streeck (2008: 28) does, that endogenous institutional change, besides preceding internationalization, *has significantly shaped its course*. In other words, in the vein of intergovernmentalist accounts of European integration, the devolution of power to the EU level of Europe’s multilevel polity might have been less extensive if domestic actors had cared to maintain the coherence of their national production regime. Multilevel governance, rather than causing change in preferences and coalitions, may merely reflect them. Such multiple and reciprocal causation poses problems for empirical research. Due to the small number of advanced capitalist democracies, it is not possible to isolate the causal effect of multilevel governance by holding all other variables constant, and counterfactual cases are impossible to find. How would the German production regime evolve outside Europe’s system of multilevel governance? Comparison with Japan or with early post-war Germany can shed only limited light on this question. What can be safely said on the basis of analytic reasoning, however, is that multilevel governance adds to the centripetal pressures on coherent production regimes – both of the liberal and organized varieties. The multiplication of alignment options makes it more difficult for a hegemonic class to form and impose a coherent blueprint. The battles currently fought out in the European political arena are therefore likely to produce neither knock-out nor continued co-existence of stakeholder capitalism and shareholder capitalism, but hybrid systems combining elements of both.

Is hybridization cause for concern? Answering this question requires determining whether hybrid systems mixing components of different models underperform pure models, or, as Crouch puts it, whether “pedigree dogs are better than mongrels” (Crouch 2005: 48). This is difficult to ascertain empirically because many other factors influence macroeconomic performance and may compensate for underlying institutional mismatch. The existing evidence is mixed and not robust to time periods and country classifications (cf. Jackson/Deeg 2006: 35). Hall and Gingerich (2004) find that economic performance positively correlates with the degree of a country’s inter-institutional coherence, while Kenworthy (2006) finds no correlation. Boyer (2004) identifies multiple institutional configurations conducive to economic growth. Recent theoretical advances suggest that hybridization may be less worrisome than Hall and Soskice (2001) suggest. Crouch (2005: 55) draws out “advantages of the mongrel over the pedigree animal. The latter have heavily reinforced characteristics, which means that vulnerabilities are exaggerated, while the mongrel avoids such reinforcement and may therefore appear more balanced.” Among other advantages, hybrid systems may “facilitate innovation, both by presenting actors with alternative strategies when existing paths seem blocked and by making it possible for them to make new combinations among elements of various paths” (Crouch 2005: 23). However, there is clearly a need to distinguish between resource-enriching heterogeneity and unhelpful incompatibility (cf. Crouch 2005: 59). Beyond the scope of the present article, this is a subject worth further research.

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