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## Journal of European Public Policy

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/rjpp20>

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Published online: 18 May 2010.

To cite this article: Helen Callaghan (2010) Beyond methodological nationalism: how multilevel governance affects the clash of capitalisms, *Journal of European Public Policy*, 17:4, 564-580, DOI: [10.1080/13501761003673351](https://doi.org/10.1080/13501761003673351)

To link to this article: <http://dx.doi.org/10.1080/13501761003673351>

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#### **MPIfG Journal Article**

Helen Callaghan: Beyond Methodological Nationalism: How Multilevel Governance Affects the Clash of Capitalisms. In: *Journal of European Public Policy* 17(4), 564 - 580 (2010). Taylor & Francis

The original publication is available at the publisher's web site: <http://dx.doi.org/10.1080/13501761003673351>

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# Beyond methodological nationalism: how multilevel governance affects the clash of capitalisms

Helen Callaghan

**ABSTRACT** This article challenges the methodological nationalism of the convergence debate by arguing that multilevel governance destabilizes the coalitions thought to underpin liberal and co-ordinated varieties of capitalism. Many attempts 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 homogenous social bloc to ensure a tight coupling of complementary regulations. First, the incentives for interest groups to unite at the transnational level vary across regulatory subspheres, because the transnational scope of legislation adds a ‘constrain-thy-neighbour’ dimension to actors’ decision-making that may either strengthen or weaken interest group cohesion. Second, the strategic opportunities for playing multilevel games vary across subspheres. Third, the institutional set-up at the supranational level of Europe’s multilevel polity reduces the capacity of state actors to impose coherence from above. To illustrate these claims, the article draws on case studies of EU legislative initiatives concerning takeovers and worker participation.

**KEY WORDS** Complementarity; convergence; cleavage patterns; Europeanization; hybridization; varieties of capitalism.

## 1. INTRODUCTION

The battle of ‘Capitalism vs. Capitalism’ (Albert 1993) has been at the centre of research in political economy for almost two decades, but the effects of changes to the political arena in which this battle is fought out remain insufficiently understood. After the collapse of real socialism in the late 1980s, many scholars built on the pioneering work of Shonfield (1965) and others to study the ‘battle of the systems’ (Story and Walter 1997) between ‘opposing models of capitalism locked in a conflict whose outcome is far from certain’ (Albert 1993: 14). The ensuing debate on whether globalization would cause convergence initially focused on the economic pressures associated with intensified competition on capital and product markets. Believers in a unique most competitive set of institutional arrangements argued that diversity would end once market pressures were

strong enough to ensure that only the fittest companies survive (e.g., Hansmann and 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 labour (e.g., Hall and Soskice 2001; Porter 1990). More recently, scholars have come 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 (e.g., Hancké *et al.* 2007), but most continue to assume that the rules governing the economy are forged at the domestic level.

The present article advances the convergence debate by discussing how transnationalisation of the European political arena affects the clash of capitalisms. 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 European Union (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 labour finds it more difficult than capital to get its way at the European level. Höpner and Schäfer (2010) claim that recent policy initiatives by the European Commission systematically target the institutions of organized capitalism.

I challenge the prevailing view by arguing that multilevel governance affects preferences and cleavage patterns in ways that threaten to undermine both liberal and co-ordinated varieties of capitalism. Three separate mechanisms are at work. First, the *incentives* for interest groups to unite at the transnational level vary across the separate regulatory subspheres of coherent production regimes, because the transnational scope of legislation adds a new dimension to actors' decision-making problem, which I label the 'constrain-thy-neighbour effect' of legislation. Laws passed at the European level apply throughout the European Community, and people take this into account when assessing legislative proposals. The value of constraining competitors influences cleavage patterns. Negative constrain-thy-neighbour effects strengthen transnational interest group cohesion. Positive constrain-thy-neighbour effects undermine it. Second, the strategic *opportunities* for playing multilevel games vary across subspheres depending on the distance of EU proposals from the domestic status quo. Because EU directives only set minimum standards which national legislators are free to exceed, EU legislative action can raise domestic standards through the back door, but it cannot help lower them. Third, the institutional set-up

at the EU level of Europe's multilevel polity reduces the *capacity* of state actors to impose coherence from above. 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 may therefore produce neither one-sided convergence on the liberal model nor continued coexistence of liberal and co-ordinated market economies 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. Section three explains why multilevel governance diminishes the scope for a homogenous social block to ensure coherence. Section four illustrates the argument with case studies of EU company law initiatives concerning takeovers and worker participation. The conclusion highlights what the argument implies for debates on multilevel governance, economic performance and institutional change.

## 2. BACKGROUND: INSTITUTIONAL COMPLEMENTARITY AND DOMINANT SOCIAL BLOCKS

How capitalist diversity is best conceptualized remains hotly debated (see Jackson and Deeg 2006: 21–30). Some authors contrast only two types, while others identify up to six families of capitalism. Yet others view each country as having a unique constellation of institutions. I follow Hall and Soskice (2001) in distinguishing liberal market economies (LMEs) and co-ordinated market economies (CMEs). In LMEs such as the US, the UK or Canada, the market plays the dominant role in co-ordinating economic behaviour. In CMEs such as Germany, Sweden or Switzerland, economic behaviour is strategically co-ordinated to a larger extent through non-market mechanisms.

For the purposes of my argument, the number of models matters less than the idea that different models favour different production strategies. According to the theory of comparative institutional advantage, 'the institutional structure of the political economy provides firms with advantages for engaging in different kinds of activities' (Hall and Soskice 2001: 32). Co-ordinated market economies are 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' (Streeck 1991). Examples are high-quality, engineering-intensive industries such as advanced machine tools, luxury automobiles and specialty chemicals. Liberal market economies are thought to support strategies that depend on venture 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 labour (Hall and Soskice 2001: 36–44).

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 so-called institutional complementarities (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. Hall and Soskice identify four relevant regulatory subspheres: financial systems and corporate governance; industrial relations; education and training systems; and the inter-company system. Complementarity across subspheres is seen as advantageous. For example, workers have greater incentives to invest in the company-specific skills required for diversified quality production where the financial system shields 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 labour 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, the survival prospects of coherent models of capitalism in the European political arena depend not just on whether governments will continue to support different rules, but on 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 and 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)?

Most efforts to provide actor-centered explanations implicitly assume 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 2006: 191). Different perspectives disagree mainly on the identity and motivations of this bloc. In the power resource literature, the dominant social bloc is either capital or labour, depending on the relative power resources available to these groups in different national political settings (Korpi 1983, 2006; Stephens 1979). Employer-centred approaches maintain that capital gets its way in all advanced industrial democracies, and that different models persist because employer preferences differ across countries (Mares 2003; Swenson 2002). 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 and Soskice 2001: 18). Others see institutional complementarity as an unintentional by-product of isomorphic choices (e.g., Kitschelt and Streeck 2003: 3). While disagreeing over the identity and motivations of the dominant bloc, these different perspectives mostly share the implicit assumption 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 received much criticism for failing to elaborate why countries would ever move away from a position of comparative institutional advantage (e.g., Blyth 2003; Hay 2005: 106; 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 (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 homogenous social bloc to dominate policy-making.

### 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 (Bache and Flinders 2004: 3). Widely studied in the context of European integration (e.g., Hooghe and Marks 2001; Scharpf 1994), the phenomenon is also familiar to political economists and critical geographers, sometimes under alternative labels such as 'multi-tiered governance', 'rescaling' or 'glocalization' (Harmes 2006: 725–6; Marks and 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 (1988: 434), 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'. Whether these strategic opportunities strengthen or weaken national governments *vis-à-vis* non-governmental actors has been subject to debate. Marks and Hooghe (2001) 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 favour of national executives. Other authors build on Schelling (1960: 22) to formally model situations in which multilevel governance serves to increase leverage in either international or domestic negotiations (Fearon 1994; Mo 1995; Pahre and Papayouanou 1997; Schneider and Cederman 1994).

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 incentives for interest groups to unite at the European level vary across the separate regulatory 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-thy-neighbour dimension of transnational law (Callaghan 2011, forthcoming). Laws passed at the European level apply throughout the European Community, and interest groups take this into account when assessing a legislative proposal. Apart from deciding whether they are 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. Depending on the issue, they may derive advantages or disadvantages from seeing their neighbours constrained, and this affects their willingness to team up with these neighbours in the fight against transnational laws. Positive constrain-thy-neighbour effects undermine transnational cohesion, because interest groups embedded in different national jurisdictions will attach different values to levelling the playing field. Those already constrained by domestic legislation benefit from EU-wide laws, while those unconstrained by domestic legislation benefit from the status quo. Negative constrain-thy-neighbour effects strengthen transnational cohesion, because those already

constrained by domestic legislation have an incentive to join the fight against EU-wide laws even where the proposed laws imply no change to the legislative status quo in their own country.

Transnational cohesion matters because interest groups can presumably lobby more forcefully where they manage to speak with a single voice. If cohesion varies across the relevant subspheres of coherent production regimes it becomes more difficult for a homogenous social bloc to ensure tight coupling of complementary rules.

Second, 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, depending on whether domestic requirements exceed or fall short of proposed EU legislation. Directives, the favoured legislative instrument at the EU level, only set minimum standards and leave national legislators to fill in the details. As a result, EU legislative action can help raise domestic standards through the back door, but it cannot help lower them. EU directives can insert new stakeholder-protecting measures into Britain's liberal market economy or new shareholder-protecting measures into Germany's co-ordinated market economy, but they cannot remove existing protective measures because national governments can choose to exceed the standards laid down by the EU. This matters because it implies that some EU directives get more political support than others, and that support coalitions differ across the different subspheres of coherent production regimes.

Third, and specific to the EU, the current institutional set-up at the supranational level of Europe's multilevel polity reduces the capacity of state actors to impose coherence from above. The European Commission is ideologically more heterogeneous than most national administrations because its members are appointed by the governments of member states (Hix 2005: 44–5; Hooghe 2001: 26). As a result, EU legislative initiatives regarding the separate regulatory subspheres of coherent production regimes are more likely to be inspired by conflicting ideologies and interests. At the same time, qualified majority voting (QMV) in the Council of Ministers reduces the scope for national governments to veto initiatives that threaten the regulatory coherence of their country's production regime. Beyond that, 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 homogenous social bloc to dominate policy-making poses a challenge to both liberal and co-ordinated 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, 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.

#### 4. CASE STUDY: EU COMPANY LAW HARMONIZATION

Rules pertaining to takeovers and worker participation are regarded by production regime scholars as central to the regulatory infrastructure that generates the comparative institutional advantages of coherent models of capitalism, because such rules affect the incentives for investment in specialist skills or equipment and the constraints on rapid restructuring (Höpner 2005; Vitols 2001). The threat of hostile takeovers discourages long-term and firm-specific investment by encouraging rapid restructuring. Managers under pressure to maximize shareholder value have incentives to lay off trained workers during economic downturns and to raise dividends instead of investing in human capital (e.g., Stein 1988). Workers and suppliers in doubt that their relationship with a particular firm will last lack incentives to acquire non-transferable skills (Shleifer and Summers 1988). Worker participation encourages long-term and firm-specific investment by placing constraints on rapid restructuring. It facilitates worker input into production processes and co-operation in times of economic difficulty at the cost of some delay in decision-making (Freeman and Lazear 1995). For these reasons, firms engaged in diversified quality production are thought to prosper in regulatory environments that combine high levels of worker participation with insulation from hostile bids, while firms engaged in radical innovation are thought to require low worker participation requirements and active markets for corporate control.

Both issues have been subject to transnational legislative efforts since the early 1970s. Takeover regulation was the objective of the Thirteenth EU Company Law Directive, often referred to as the Takeover Directive, which was first presented in 1974 and then redrafted in 1989, 1996 and 2002. Its most contentious aspect, the so-called neutrality rule, required that managers ask shareholders for permission before using poison pills to block a hostile bid. The first two drafts of the Takeover Directive failed because of disagreement in the Council of Ministers. The third draft was rejected in the European Parliament by the narrowest possible margin. The fourth draft was adopted in 2003 after the neutrality rule had been removed. Worker participation rights, either at the board level or on the shop floor, featured in numerous

draft directives, including the European Company Statute (1970, 1975, 1989 and 1991), the Fifth Company Law Directive (1972 and 1983), the so-called Vredeling Directive (1980 and 1983), the European Works Councils Directive (1991, 1994) and the Information and Consultation Directive (1998). The strength of the proposed participation rights declined over time, as did the aspired degree of transnational harmonization. During the 1970s, the European Commission sought to impose uniform participation requirements laws modelled on the German *Betriebsverfassung*. After a decade of fruitless negotiations, the Commission scaled down its ambitions. The so-called Vredeling directive aimed only at companies with a complex or multinational structure and required less shop-floor participation than the German model. New drafts of the Fifth Company Law Directive and European Company Statute allowed countries to choose between four models of participation. The European Works Council directive, passed in 1994, applies only to multinational firms and grants rights to information but not consultation, let alone codetermination. The final version of the European Company Statute, passed in 2001, refrains from regulating worker participation apart from stipulating that, unless workers and management agree to a different solution, a merged company or joint venture incorporated in European law must adopt the highest level of participation existing in the countries involved. The Information and Consultation Directive gives workers the right to be informed and consulted on past and future employment trends and on possible changes in work organization and contractual relations.

The struggle over these EU directives illustrates all three difficulties outlined above for a homogenous social bloc to ensure a tight coupling of complementary regulations in settings of multilevel governance. First, employers' ability to unite at the European level within their peak employer federation varied across subspheres (Callaghan 2011, forthcoming). The positions of British and German employers are particularly instructive, because Germany and the UK represent opposite ends of the non-level playing field on both issues. Throughout the period under consideration, Germany had the highest worker participation requirements and weakest constraints on anti-takeover defences of all EU member states, while the reverse is true of the UK. These differences prevented British and German employers from uniting against efforts to enshrine British-style constraints on anti-takeover defences at the European level, but they did not prevent British and German employers from joining forces against attempts to enshrine German-style worker participation at the European level. British employers wanted their competitors bound by British-style anti-takeover defence constraints, while German employers did not want their competitors bound by German-style worker participation requirements.

Multilevel governance contributed to the variation in transnational interest group cohesion by adding a constrain-thy-neighbour dimension to actors' decision-making problem. EU takeover directives have the positive constrain-thy-neighbour effect of improving employers' competitive position in cross-border battles for corporate control. Employers may not like to watch

defenceless as their own companies are taken over, but neither do they like to encounter resistance when they themselves launch hostile bids. By having the rule imposed on managers in countries other than their own, they improve their chances of making hostile acquisitions abroad. EU worker participation directives, by contrast, have two negative constrain-thy-neighbour effects. First, they reduce employers' options to engage in regime shopping. A non-level playing field allows employers to circumvent domestic participation requirements, either by reincorporating abroad or by setting up branches in other member states. Second, imposition of worker participation requirements on employers in other member states threatens to empower labour-friendly actors at the European level, who also have an interest in further tightening worker participation requirements at home. As in the takeover case, the direct effects of the EU proposals were less disconcerting for employers from countries where similar legislation was already in place: British employers had more reason to worry about the compatibility of their production strategies and industrial relations systems with EU directives mandating worker participation than had German employers, who were already subject to worker participation requirements through German law. However, unlike in the takeover case, this asymmetry did not undermine transnational intra-class cohesion among employers because the negative constrain-thy-neighbour effects provided additional motives for opposing the directives (Callaghan 2011, forthcoming).

Second, 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. EU legislative initiatives helped British workers obtain more participation rights than they could have obtained in a purely domestic game. Britain's opt-out 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 per cent of the companies concerned ended up implementing 'voluntarily' what they and their government had bitterly opposed (Clement 1996; Loren and 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, Blair warned the European Commission not to use Labour party support for EU social provisions as an excuse for advancing laws that would add to business costs and stifle job creation. Peter Mandelson, trade and industry secretary, feared that the directive would threaten competitiveness, slow down corporate decisions and strengthen the trade unions (Taylor 1998). 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. Similarly, EU legislative initiatives 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 in the European Parliament (Callaghan and Höpner 2005). However, while multilevel governance can thus help introduce new stakeholder-friendly legislation into Britain's liberal market economy and new shareholder-friendly legislation into Germany's co-ordinated 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 directive. In both cases, national governments can choose to maintain stricter requirements than those laid down by the EU.

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 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 to 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 directive. A declared aim was 'harmonization conducive to corporate restructuring' (CEC 2002: 3). 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' (Bolkestein 2002). 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 . . . is a denial of the idea of a Community as far as employees are concerned' (CEC 1975: 7). They insist 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 European Works Council (EWC) directive, cited in Knutsen (1997: 292)) and that 'further development of the

Internal Market must be properly balanced, maintaining the essential values on which our societies are based and ensuring that all citizens benefit from economic development' (CEC 1999: 3).

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 do 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 summary, multilevel governance affects both the scope and the incentives for a homogenous social bloc to ensure that complementary regulations are tightly coupled. If, as many scholars implicitly assume, production regimes owe their coherence to some homogenous social bloc able and willing to ensure tight coupling, then multilevel governance poses a challenge to both liberal and co-ordinated models of capitalism.

Predicting how, if ever, the battle of capitalism versus capitalism will end is beyond the scope of the present article. Multilevel governance is only one of many relevant pressures associated with European integration, and beyond European integration there are further sources of strain on the complementary components of coherent production regimes. If some authors maintain that European integration accelerates the triumph of the liberal model, while others see no significant challenge to the status quo, then this is partly because the former emphasize the role of supranational actors such as the European Court of Justice and the European Commission, while the latter emphasize the role of national governments. The present article supplements these supranational and intergovernmentalist perspectives by highlighting the effect on preferences of adding a new level to the political arena in which the battle is played out.

Given this multiplicity of pressures, equal exposure to multilevel governance does not imply that liberal and co-ordinated models of capitalism will hybridize at equal speed. Scharpf and others argue persuasively that the current legal and institutional set-up at the European Union level of Europe's multi-level polity favours deregulation ('negative integration') over re-regulation ('positive integration'). The present article adds the insight that progress with positive integration is not just slow but also uneven because multilevel governance affects

preferences and alignment patterns in ways that differ across the relevant regulatory subspheres of coherent production regimes. As Scharpf himself points out, the concepts of deregulation and market liberalization do not completely overlap (Vogel 1996). The market-liberalizing EU takeover directives and the market-taming EU worker participation directives both attempted positive integration. As such, both ran into the institutional hurdles identified by Scharpf. Nevertheless, to the extent that the chances of superseding these hurdles depend on the structure of political support, progress with positive integration will be uneven in systems of multilevel governance, because different constrain-thy-neighbour considerations contribute to differences in the structure of political support.

Multiplicity of pressures also means that multilevel governance is not necessary for hybridization to occur. Streeck (2009: 13) explains the observed trend towards growing disorganization of the German political economy by pointing to the endogenous logic (*Eigenlogik*) of capitalism. Capitalist development is presented as inherently dialectical, driven by a fundamental conflict between market expansion and market containment. On this view, change does not require external destabilization and can proceed independently in each of the separate subspheres that can jointly make up a coherent model of capitalism. Boyer and others argue that complementarity was never masterminded but grew out of trial, error, and 'muddling through' (e.g. Boyer and Saillard 2002). On the one hand, this suggests that multilevel governance may not pose much of a threat: attempts to deliberately forge a coherent production regime are futile even without multilevel governance, and actors can be expected to continue muddling through within. On the other hand, it suggests that production regimes are constantly in flux, and that coherent combinations of rules are unlikely to endure in any political setting.

Is hybridization cause for concern? Whether, as Crouch (2005: 48) puts it, 'pedigree dogs are better than mongrels' is difficult to ascertain empirically because many factors besides complementarity influence macroeconomic performance and may compensate for underlying institutional mismatch. The existing evidence is mixed and not robust to time periods and country classifications (Jackson and Deeg 2006: 35). Hall and Gingerich (2009) find that economic performance positively correlates with the degree of a country's inter-institutional coherence, while Kenworthy (2006) finds no correlation. Boyer (2009) 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: 23) suggests that 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'. However, further research seems needed to distinguish between resource-enriching heterogeneity and unhelpful incompatibility (Crouch 2005: 59).

Instead of resolving these substantive questions, I advance the convergence debate by moving beyond the methodological nationalism that still pervades

the literature. Varieties of Capitalism scholars have recently turned away from functionalism to focus on the political sources of persistent divergence, but most still assume that rules governing the economy are forged at the domestic level. Work in the 'Second Image Reversed' tradition does explore how pressures, incentives and constraints generated at the international level shape the preferences of domestic actors, but it treats the international level mainly as a source of exogenous shocks, with national governments responding in their separate domestic political arenas (e.g. Frieden and Rogowski 1996; Gourevitch 1978, 1986; Hiscox 2001; Rogowski 1986). The present article breaks the mould by examining the strategic choices available to actors who simultaneously play in both the national and transnational political arena. It extends the existing literature on two-level games by noting that the addition of a transnational game board affects preferences themselves, and not just the opportunities to pursue them. By doing so, it complements recent work on policy diffusion, which explores the interaction between policy choices at home and policy choices abroad. Simmons, Dobbin and Garrett, who focus on the receiving end of policy diffusion, identify four reasons why actors may follow another country's policy choices: coercion; competition; learning; and emulation (Simmons *et al.* 2006). I look in the opposite direction and place greater emphasis on rational decision-making to explore how preferences change where actors know that their policy choices will also have effect abroad. Given the transnational scope of EU legislation, actors need to consider whether they want to act at the European level of Europe's multilevel polity to coercively impose constraints on their competitors in other countries. Moreover, while diffusion theorists seek to explain the spread of liberalism *per se*, the argument presented above maintains that actors' incentives to spread liberalism differ across the supposedly complementary regulatory subspheres of coherent production regimes.

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## ACKNOWLEDGEMENTS

I thank Umut Aydin, Adrienne Héritier, Martin Höpner, Liesbet Hooghe, Armin Schäfer and Wolfgang Streeck for helpful comments on earlier versions of this article.

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