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Insiders, Outsiders and the Politics of Corporate Governance

How Ownership Shapes Party Positions in Britain, Germany and France

Helen Callaghan

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Abstract

This paper argues that differences in the dispersion of corporate ownership can help explain why party positions on corporate governance vary across countries and over time. Expectations that left/right conflicts should pitch capital against labor overlook that "capital" is not a homogenous constituency with regard to corporate governance issues. Two segments of capital with diverging interests need to be distinguished: "insiders" with voice over company management, and "outsiders" who exercise arms-length control by threatening exit. Party positions depend on the relative size of the insider and outsider constituencies, which in turn depends on countries' prevailing structure of corporate ownership. The paper draws on evidence from British, German and French political debates over takeover regulation from the 1950s onward. It speaks to the literatures on party competition, corporate governance, Varieties of Capitalism and institutional change.

Zusammenfassung

Dieses Papier argumentiert, dass Unterschiede in der Streuung von Unternehmensbesitz miterklären, warum Parteipositionen zum Thema Corporate Governance in verschiedenen Ländern und über Zeit stark variieren. Meist wird davon ausgegangen, dass Links/Rechts-Konflikte Kapital und Arbeit gegenüberstellen. Dabei wird übersehen, dass „Kapital" in Bezug auf Unternehmenskontrolle kein homogenes Ganzes ist. Zwei Gruppen mit divergierenden Interessen müssen unterschieden werden: „Insiders", die ein direktes Mitspracherecht in der Unternehmensführung haben, und „Outsiders", die indirekt Kontrolle ausüben, indem sie mit Ausstieg drohen. Parteipositionen unterscheiden sich mit dem Größenverhältnis der Insider- und Outsider-Gruppen, die wiederum von der Struktur des Unternehmenseigentums abhängt. Das Papier stützt sich auf politische Debatten zur Übernahmeregulierung in Großbritannien, Deutschland und Frankreich seit den 1950er-Jahren. Es leistet einen Beitrag zur Forschung über Parteienwettbewerb, Corporate Governance, Spielarten des Kapitalismus und institutionellen Wandel.

Contents

1 Introduction 5

2 The argument: How ownership structure affects party positions 7

3 The evidence: Party positions and corporate ownership patterns in Britain, Germany and France 10

British, French and German party political debate over takeover regulation, 1953–2003 11

Corporate ownership structure in Britain, Germany and France 21

4 Implications 22

References 26

1 Introduction

Conventional wisdom and much of the political economy literature assumes that parties on the left favor the interests of stakeholders over shareholders. In Mark Roe's (2003) influential argument, "social democracy" – through its presumed negative effect on agency costs and shareholder protections – is the main independent variable explaining cross-national differences in ownership dispersion. Roe assumes that minority shareholders in countries where social democratic values prevail have more reason to fear that their interests will be trampled on, inducing owners to hold larger blocks of shares. The widespread assumption stems from the impression that traditional leftist ideology and commitments to working-class and low-income constituencies are incompatible with the distributional consequences of increased shareholder orientation.

Recent empirical evidence challenges the conventional wisdom. Cioffi and Höpner (2006; Höpner 2007) go so far as to talk about a "political paradox." They find that recent shareholder-friendly reforms in Germany, Italy, France and the US were promoted by left-leaning parties, against resistance from the right. To explain their findings, Cioffi and Höpner identify a number of push and pull factors thought to influence party positions. Push factors inducing center-left parties to embrace corporate governance reform include the need to enhance electoral competitiveness by appealing to middle-class voters, and the growing spread of shares among the public. Höpner (2007) adds that transparency gains from some shareholder-oriented reforms can benefit workers as well as shareholders, leading these two groups to unite against company managers. The main pull factor constraining center-right parties is a strong personal and professional connection between center-right parties and corporate elites, supposedly leading "politicians on the right to value managerial autonomy as matters of political expedience, personal economic interest, and ideological conviction" (Cioffi/Höpner 2006: 487).

My paper takes the enquiry one step further by systematically examining the conditions that give rise to the "political paradox" in one particular aspect of corporate governance. By mapping German, French and British party positions on takeover regulation from the 1950s onward, I show that the paradoxical pattern does not obtain everywhere. Reversed left/right positions are observable in Germany, where Social Democrats, Greens and Socialists all joined the Liberal Party to promote outside shareholder interests against Christian Democrat resistance. In Britain, left/right competition from the 1950s until Tony Blair's 1997 election campaign was a straightforward battle between capital and labor, with Labour attacking the outsider-friendly takeover rules supported by the Conservatives. In France, left and right are barely distinguishable, with Socialists and Gaullists sharing an ambivalent stance on takeovers.

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The documented variation contributes to growing evidence that different patterns of party competition correspond to different varieties of capitalism. Amable (2003) uses regression analysis to show that liberal market economies are more likely to be governed from the right than coordinated market economies. Callaghan and Höpner (2005) find that members of the European Parliament from countries scoring low on the La Porta Index of shareholder protection were less likely to support the EU takeover directive than delegates from countries scoring high on the index. Fioretos (2001) remarks that governments in EU negotiations act as though they were defending their country's comparative institutional advantage. The present paper shows that Britain and Germany – the closest real-world examples of a liberal and a coordinated market economy respectively – display strikingly different patterns of party competition on a policy issue that is considered to be central to generating the comparative institutional advantages of these national production regimes.

Yet any observed correlation between political preferences and economic structures, while intriguing, merely shifts the puzzle to another level. If party competition systematically differs across national production regimes, the question is: Why? The functionalist explanation implicit in some of the early Varieties of Capitalism literature is not satisfactory. It may well be that rules which enhance the economic performance of liberal market economies are bad for coordinated market economies. However, as Hall and Soskice (2001: 52) note themselves, political choices are often motivated by considerations other than efficiency.

In search of mechanisms, recent research has examined the role of macropolitical institutions. Gourevitch and Shinn (2005), Pagano and Volpin (2005), and Iversen and Soskice (2006) all claim that political preferences and alignments on political economy issues are shaped by electoral systems. Among the mechanisms identified is the varying credibility of long-term political commitments under majoritarian versus proportional representation. Majoritarian systems like Britain are more likely to produce radical policy swings than PR systems, where coalition governments are the norm. Rational voters anticipating such swings should be less willing to support policy measures with pay-offs premised on long-term continuity.

Such macropolitical accounts by themselves are not satisfactory because they fail to explain change over time. Empirically, voting systems have remained stable while party positions in many countries, including Germany, France and the UK, have shifted. Logically, the claim that the stability associated with proportional representation is necessary for coordinated market economies does not imply that the same condition is sufficient. The German political system may be more capable of offering long-term credibility of political commitments than the British, but the mere capacity to commit to the deals that sustain corporatist coalitions cannot force people to want them.

I propose an alternative explanation, which links variation in party positions to cross-national differences in the structure of corporate ownership by noting that, on corpo-

rate governance issues, "capital" is not a homogenous constituency. Two segments of capital with diverging corporate governance interests need to be distinguished: "insiders" with voice in company decision-making, and "outsiders" who exercise arms-length control by threatening exit. I argue that party platforms depend on the relative size of the insider and outsider constituencies, which in turn depends on the structure of corporate ownership. Beyond that, variation in ownership structure also contributes to explaining cross-national differences in the timing of debate. Two separate but related mechanisms are at work here. First, a pro-outsider constituency must first emerge before politicians will advance its cause. Where minority shareholders are rare, their concerns are less likely to attract widespread public attention. Second, public interest in takeover regulation tends to peak in the wake of high-profile hostile bids, and a minimal degree of ownership dispersion is a necessary precondition for such bids.

Distinguishing between insiders and outsiders has a long tradition in the corporate governance literature, but my exploration of possible implications for party strategies represents a new endeavor. It builds on recent work by Rueda (2005, 2006), who shows how the divergent interests of employed and unemployed workers affect party positions on labor market issues. I argue that a similar insider–outsider divide on the capital side affects party positions on corporate governance issues. The segmentation of capital poses dilemmas for center-right parties that can be exploited by parties on the left just as, in Rueda's analysis, conservative parties benefit from the strategic difficulties faced by social democratic parties due to the segmentation of labor.

The paper proceeds as follows: Section 2 presents my argument that party platforms are influenced by ownership patterns. Section 3 presents the empirical evidence from which the argument was derived. It maps British, French and German political debates over takeover regulation from the 1950s onward and shows that differences in the timing and party positions correlate with cross-national differences in the structure of corporate ownership. Section 4 spells out the implications of my argument for research on party politics, corporate governance, Varieties of Capitalism and institutional change. I close with some suggestions for further research.

2 The argument: How ownership structure affects party positions

My explanation for the cross-national variation documented below links party positions and corporate ownership patterns as follows: Parties want to maximize their chances of winning office without abandoning their core clientele. Parties on the right cater to "upscale socio-economic groups." Upscale groups comprise "insiders" and "outsiders," whose interests diverge on corporate governance issues. The optimal position of parties on the right varies with the relative size of the insider and outsider factions

among upscale voters. The relative size of the insider and outsider factions depends on the structure of corporate ownership. Therefore, party positions vary with the structure of corporate ownership. The following paragraphs discuss the assumptions underlying the critical steps of my argument.

My assumption that parties are both office-seeking and loyal to their core clienteles draws on two theories of party behavior that are distinct but often regarded as complementary. Vote-seeking theories assume that "[p]arties formulate policies in order to win elections, rather than win elections in order to formulate policies" (Downs 1957: 25, 28). Conversely, policy-promoting theories assume that parties have electoral ambitions because they want to implement policies favoring their core constituencies (e.g. Hibbs 1977). My argument is based on the compromise view that both motivations operate jointly, i.e. that "parties are organizations of political entrepreneurs who make strategic calculations even while implementing policies that are in the interest of their supporters" (Alt 1985: 1037; see also Frey/Schneider 1982 ; Strøm 1990).

To understand why upscale socio-economic groups are not a homogenous constituency on corporate governance issues, on needs to know that a major purpose of corporate governance is to address the principal–agent problems that arise in companies run by managers on behalf of shareholders. Which solutions are available to encourage shareholder value maximization depends on the structure of corporate ownership. Large blockholders can supervise from the inside by threatening to use their seats on the supervisory board and/or their majority of voting rights in the shareholders' assembly to replace badly performing managers. Minority shareholders have fewer means of exercising voice because, unlike large blockholders, they suffer from collective action problems. Greater ownership dispersion implies smaller incentives for each shareholder to invest resources into monitoring management. Instead, dispersed shareholders exercise arms-length control by threatening exit from badly managed companies.

Regarding takeover regulation, the interests of insiders and outsiders are almost diametrically opposed. Outside shareholders like takeover rules that help them force managers to maximize shareholder value. One such rule is the requirement that managers obtain authorization from shareholders before implementing so-called "poison pills" which may deter hostile bidders. Managers dislike such rules because the increased supervision constrains their scope for acting as they see fit. Large blockholders have little reason to care one way or the other, because they have more direct means of keeping managers in check, and because companies with concentrated ownership are rarely subject to hostile bids.

These assumptions and observations imply that party positions should vary with the relative size of the insider and outsider factions. Parties wanting to maximize votes without alienating their core clientele, faced with a situation where they cannot please all of it, should try to please whichever faction is larger. Where the insider faction dominates, the right should serve insiders. Where the outsider faction dominates, the right should

serve outsiders. (One might object that this crude model of party competition does not consider the number of political parties. If insiders and outsiders had diametrically opposed interests on most political issues, the smaller, neglected group would be better off in a separate party and could credibly threaten to defect – especially under voting systems that feature proportional representation. I ignore this possibility because corporate governance is only one of many issues in a multidimensional issue space, and the insider–outsider split among upscale groups is not relevant across all of them.)

The relative size of the insider and outsider factions should depend on the prevailing structure of corporate ownership, for at least three reasons. First, more dispersed ownership implies more outside shareholders. Second, dispersed ownership is a precondition for hostile takeovers, and where there are more hostile bids, there are more lawyers, investment bankers, stock market analysts et al. whose jobs depend on outsider-friendly takeover rules. Third, ownership structure defines the target group for anti-capitalist sentiments. Where ownership is widely dispersed, the typical owner of capital is an outside shareholder with a diversified and mobile portfolio. In countries like with concentrated capital ownership, large blockholders and banks are more likely villains for the left.

I argue that the divergent demands of insiders and outsiders and cross-national variation in the relative size of these factions help explain cross-national differences in left/right party positions. Conservative party positions differ because the relative size of the insider and outsider factions within their core constituency depends on ownership structure. The positions of parties on the left differ because ownership structure defines the target group for anti-capitalist sentiments. In countries with concentrated ownership, where the main villains for the hard left are big banks and large blockholders, social democratic parties can better afford to support outside shareholders without alienating their base.

Beyond that, variation in ownership structure also contributes to explaining cross-national differences in the timing of debate. Two separate but related mechanisms seem to be at work here. First, a pro-outsider constituency must first emerge before politicians will advance its cause. Where minority shareholders are rare, their concerns are less likely to attract widespread public attention. Second, public interest in takeover regulation tends to peak in the wake of high-profile hostile bids, and a minimal degree of ownership dispersion is a necessary precondition for such bids.

3 The evidence: Party positions and corporate ownership patterns in Britain, Germany and France

A large-N study of whether ownership has a significant influence on party positions is beyond the scope of this paper and may be impossible to conduct. In theory, my argument could be falsified by showing the lack of a significant correlation between my dependent and independent variable, or, to challenge the direction of the causal arrow, proving that debate has tended to preceed rather than follow the emergence of a pro-outsider constituency. In practice, many other variables besides ownership – including macropolitical institutions, party system, economic structure, political climate, historical legacies etc. – are likely to affect party positions on corporate governance issues. Given the limited number of advanced industrial democracies, it is impossible to control for all of them. Moreover, mapping party positions over time for a large number of countries is a time-consuming endeavor, and measurement on a numeric scale is fraught with difficulties. (Corporate governance issues, which are too technical in nature to regularly appear in party manifestos, are not covered by the large manifestos project dataset [Budge et al. 2001].)

All I can offer here is evidence for the three cases from which the argument was inductively derived. To this end, the following section first maps British, French and German party political debates on takeover regulation from the 1950s onward and then presents data on corporate ownership patterns in these countries. Comparison of party political debates reveals cross-national variation on two dimensions. First, the *timing* of debate varies considerably. In Britain, takeover regulation first entered the political agenda in the early 1950s. In Germany, it was a non-issue until the mid-1990s. In France, it received little attention until the mid-1980s, then provoked passionate reactions before vanishing from the agenda, only to resurface again ten years later. In all three countries, debate was sparked off by controversial takeover battles that could not have taken place without some degree of ownership dispersion. Second, *party positions* on takeover regulation differ across countries. In Britain, left/right competition from the 1950s until the arrival of Tony Blair was a straightforward battle between capital and labor. In Germany, left/right positions are reversed, with Social Democrats, Greens and Socialists all joining the Liberal Party to promote outside shareholder interests against Christian Democrat resistance. In France, left and right are barely distinguishable due to equal ambivalence on both sides.

The data on corporate ownership patterns show that cross-national differences in left/right party positions correspond to different degrees of ownership dispersion. In Britain, where Conservatives were most supportive of rules protecting outside shareholders, dispersed ownership is far more widespread than in Germany and France, where conservative parties defended the interests of insiders. Higher ownership concentration, more extensive corporate cross-shareholdings and powerful banks may also explain why, unlike British Labour, leftist parties in Germany and France could speak up for outside shareholders without abandoning their anti-capitalist rhetoric.

British, French and German party political debate over takeover regulation, 1953–2003

Britain: Early, frequent and heated debate along a traditional left/right cleavage

In Britain, takeover regulation first entered the political agenda in the early 1950s in response to the previously unknown phenomenon of hostile bids. Heated debate during the 1959 election campaign followed controversial bids for British Aluminium and the brewing company Watney Mann and a major City scandal involving takeover malpractice. As Roberts (1992: 137) explains, "[t]he City had long been a *bête noire* of some Labour politicians, and take-overs provided a "live issue on which to arraign the government"." The Financial Times reckoned that "the average person … is so offended by the trappings of some bids and mergers that he tends to be sickened by the whole process," making takeovers "just about the only issue on which the Socialists could win an election these days" (Financial Times, July 7, 1959; cited in Roberts 1992: 137). A second peak of political interest, during the late 1980s, occurred in the wake of high-profile controversial takeover battles for British Leyland, Pilkington and Rowntree and an insider trading scandal at Guinness.

Labour conformed to the conventional image of a leftist, anti-shareholder party for most of the period under consideration. In 1953–1954, Labour party spokesmen, including Hugh Gaitskell, Roy Jenkins and Harold Wilson, complained about the asset stripping and large tax-free profits associated with hostile bids (Johnston 1980: 10–12). During a heated Commons debate in June 1959, Labour MPs condemned takeovers as "economic gang warfare." Harold Wilson, then shadow chancellor, accused the Conservative government of serving shareholders at the expense of the national interest:

> Just as shareholders are becoming more and more avid for quick gains, so the Government regard any quick capital gains as good business, to be encouraged whatever the production realities. Of course, the capitalist international knows no national frontiers. In the presence of a quick profit the patriotism of the government melts like snow in the summer sun …
> (Commons Hansard 1959: 36–37)

Evoking the image of class struggle, Wilson calculated how long it would take a "coal miner in the most profitable mine in the country" or a "Lancashire mule spinner, after thirty years in the industry" to earn the sums associated with takeovers. He asked the government how it could

> appeal for wage restraint in the payment of a job honestly and well done, while millions of pounds can be made in this effortless manner by a section which does no work at all? … These people "toil not, neither do they spin" yet their gains are out of all proportion to any services they render to that industry. (Commons Hansard 1959: 39–42)

Thirty years later, the same rhetoric was still in use. In 1986 and 1987, Roy Hattersley, shadow chancellor, branded the Thatcher administration as a "government of the City,

for the City, and by far too large an extent by the City" that would not address the problems created by takeovers (Guardian, March 13, 1986). Labour's campaign coordinator Bryan Gould complained on TV about

> the sort of society which the present government has tried to bring about. It's a get rich, something for nothing sort of society where people can get enormous rewards not related in any way to the real contribution they make to our economy. (Newswire, February 18, 1987)

Tony Blair, at that time Labour's industry spokesman, questioned whether thirty or forty fund managers were the right people to decide the future of key industrial sectors (Financial Times, May 28, 1988). From 1991 onward, the Labour party toned down its confrontational rhetoric. Mo Mowlam, Labour's spokeswoman for the City, announced that "[u]p until now there has been a natural antagonism between the City and Labour. That has now passed." But at the same time, Mowlam declared that industry was "pig-sick" of its vulnerability to predators (Financial Times, April 26, 1991: 13).

The desire to control the takeover process was also reflected in Labour's policy initiatives. Harold Wilson's Labour government, elected in 1964, brought large mergers within the ambit of the monopolies legislation, thereby increasing the scope for government intervention in takeovers (Johnston 1980: 165). Labour's proposals while in opposition included incorporating the Takeover Code and Takeover Panel into a statutory framework of City regulation; asking companies to prove that industrial or commercial gains would come from a proposed merger; replacing the "Tebbit doctrine" – which made competition the main test for barring takeovers – with other public interest tests, including research and development; lowering the threshold triggering mandatory bids; assuring employee consultation on takeovers; and changing the tax treatment of share ownership to produce a bias in favor of long-term holdings (see Callaghan 2006).

Labour's stance on takeover regulation changed shortly before Tony Blair's 1997 election victory. In February 1997, a commission established by the left-leaning Institute of Public Policy Research pronounced that "[t]here should be no new administrative restraints on takeovers." Since its election in May 1997, the Labour government has followed this advice. In June 2000, Stephen Byers, trade and industry spokesman, told a conference organized by the Trades Union Congress that reforms intended to make companies pay more attention to stakeholders were not on the government's agenda (Financial Times, June 8, 2000: 8). In May 2001, Tony Blair promised a shake-up of business merger law to facilitate takeovers, proud to be

> right in the centre of the City of London, one of the main financial institutions, launching our business manifesto with the support of many successful business people and able, credibly, to claim after four years the mantle of economic confidence and economic stability in our country. I don't suppose there is a greater indication of the change in British politics than that and certainly there is nothing that we have done over the past four years that I am prouder of than that. (Guardian, May 30, 2001: 16)

Britain's Conservatives throughout the period provided the counter-rhetoric to Labour's traditional leftist stance, branding their opponent as anti-capitalist and depicting themselves as the saviors of free markets and private property. During a Commons debate in 1959, Derick Heathcoat Amory, Chancellor of the Exchequer, countered Harold Wilson's complaint about takeovers by arguing that

> the [Labour] Government of which he [Wilson] was a member did quite a bit of taking-over, and it seems that the Opposition are planning to thrust more down the throats of the people if they ever again get the chance. There is, however, one vital dis-qualification. The take-overs of the right hon. Gentleman and his colleagues were compulsory ones, with no choice to the owners. What the right hon. Gentleman today has been inveighing against are take-overs with the collective approval of the owners of the businesses concerned. That is a significant distinction. (Commons Hansard 1959: 63)

In the same vein, Cecil Parkinson, a former secretary for trade and industry, suggested, three decades later, that City concern with short-term interests was partly Labour's fault:

> One of the reasons why our investors shorten their thinking is because of the uncertainty that could arise if we have a change of government. Unlike other successful capitalist countries, we have an Opposition which basically doesn't believe in private enterprise and does not support the system. (Guardian, January 29, 1987)

The Conservatives defended shareholder-value orientation both for its own sake and as a means to better overall economic performance. In 1959, Heathcoat Amory insisted that "we have to accept that the control of a business is vested in its shareholders" and that, on balance, takeovers to date had been "beneficial rather than harmful from the point of view of the efficiency of industry, of the interests of the employees concerned and of the economy at large" (Commons Hansard 1959: 65–67).

Similarly, Kenneth Clarke, then minister for trade and industry, declared, in 1987, that

> [t]he Conservative party believes that the greatest national public interest lies in allowing such things [as takeovers] to take place within the market place. … It is contrary to all experience to believe that an industrial strategy, as managed by Labour Ministers, is in the interests of employees, compared with the decisions of shareholders in the free market economy that we are now operating. (Commons Hansard 1988: 333)

The argument that takeover threats could help keep managers in check was also regularly invoked, especially by Thatcher's supporters, who regarded barriers to hostile bids as incompatible with government efforts to bring in "the refreshing winds of competition." Lord Young, then secretary for trade and industry, dismissed calls for better protection against bids as "ingenious schemes to protect sitting directors" (Times, March 1, 1989). Determined to promote the best interest of business even against the express wishes of the peak employer federation, he explained that "[i]f we were to follow the sort of policy it [the CBI] advocates, the economy would soon lose its competitive edge" (Financial Times, November 9, 1998: 11).

Unlike their French and German counterparts, British Conservatives were deeply divided over takeover regulation, with a sizeable faction resenting the pro-shareholder stance of their party leaders. In 1959, the Financial Times suspected that, on a free vote, a motion condemning hostile takeovers brought by the Labour opposition would have been carried by a majority of two to one. During a Commons debate in January 1987, Edward Heath, the former Conservative Prime Minister, condemned predators moving into long-established family firms which had set aside money for long-term investment (Commons Hansard 1987: 792–795). Sir Anthony Grant, "as traditional a Tory MP as one could find," regretted that the energy spent on takeover deals was not invested into building up productive business (Times, January 18, 1987). In 1988, Crossbow, the publication of the Conservative Bow Group, called for a change of rules to ensure "that takeover activity is not undertaken at a frenetic pace at the behest of City interests" (Times, August 8, 1988). Peter Lilley, trade and industry secretary under Thatcher and Major, said in October 1990 that deal-making in London's capital market had gone "beyond the economically justifiable to become almost an end in itself" and that shareholder value pressure could not be dismissed as a factor feeding short-termism (Financial Times, October 25, 1990). Less than two weeks after Thatcher's resignation, even John Redwood, former head of the Prime Minister's policy unit, with a reputation as a free-marketeer, joined the chorus by referring to evidence that,

> except in the very short term, takeovers can all too often damage the wealth of shareholders of the bidding company rather than improve it. Only a limited number of British companies have been adept at taking over others and taking the business on to better success. (Independent, December 8, 1990)

Many Conservatives also criticized the Thatcher government's non-interference with foreign takeovers. In the context of the 1986 bid for British Leyland (BL), Tory MPs supporting the "Keep BL British" campaign pressed the government to cease talks with General Motors and concentrate on negotiating with UK organizations (Financial Times, February 17, 1986). In June 1988, more than 60 Conservative MPs signed a Commons motion brought by the Labour party against the government decision not to refer Nestlé's bid for Rowntree to the Monopolies and Mergers Commission (Toronto Star, June 2, 1988: 28). Crossbow accused Lord Young of "blatantly and shamelessly" ignoring the regional dimension in merger policy (Financial Times, August 8, 1988).

However, the pro-shareholder faction always maintained the upper hand in the Tory party. Conservative governments never yielded to calls for legislative or political intervention that were advanced not just by the Labour opposition but also from within their own ranks. In 1984, Norman Tebbit, then secretary for trade and industry, renounced the main instrument of intervention available to British governments by announcing that, henceforth, takeovers would only be referred to the Monopolies and Mergers Commission if there were reason to fear significant adverse effects on competition. During the years that followed, the government resisted pressure to prevent foreign takeovers of British "crown jewels" including British Leyland, Pilkington and Rowntree (Financial Times, May 16, 1988: 1). The change in Conservative rhetoric after Thatcher's depar-

ture was not matched by any significant change in policy. An all-party parliamentary select committee on trade and industry recommended wide-ranging changes to takeover law in 1991 and again in 1994, but these recommendations were not implemented (Financial Times, December 20, 1991; Independent, April 29, 1994). Instead, the Major government sought to address the problem of market myopia by promoting private coordination. Tax breaks to encourage long-term shareholdings were ruled out in favor of attempts to improve communication between investors and managers over business aims and investment plans (Financial Times, October 25, 1990: 8). In the same spirit, the 1995 Myners Report *Developing a Winning Partnership* "described what institutional investors should do but did nothing to ensure they would do so" (Howard 2005: 792–795).

Germany: Late debate with inverse left/right positions

In Germany, takeover regulation was a non-issue until the mid-1990s. The country lacked not just binding rules regarding the conduct of takeovers but also the political will to create them, despite periodic attempts by the European Commission from 1974 onward to promote takeover law harmonization (see Callaghan 2006). Both chambers of the German parliament unanimously rejected the 1989 draft of the EU takeover directive on the grounds that there was "no need for regulation" (Deutscher Bundestag 1990; Deutscher Bundesrat 1989). A complete absence of hostile takeovers until the 1990s provides the backdrop to this lack of political interest in takeover regulation until after unification, when more German firms started turning to the stock market to finance their investments. As in Britain and France, political passions were first aroused by large-scale hostile bids. The 1997 battle between Krupp and Thyssen brought thirty-five thousand steelworkers to the streets in protest (see Ziegler 2000: 210). Two years later, 62 percent of Germans surveyed thought that Vodaphone's takeover of Mannesmann would be bad for their country, while only 19 percent welcomed the idea of German companies being taken over by foreigners (Associated Press Worldstream, February 9, 2000).

When takeover battles in the late 1990s brought the issue to the forefront of the political agenda, all parties condemned hostile bids. In response to Krupp's hostile bid for Thyssen AG in 1997, "[p]oliticians from left to right, from state government to federal government, union leaders, the media, all protested against the Krupp move and clamored to have the tender offer withdrawn" (Hellwig 2000: 122). Vodaphone's bid for Mannesmann two years later met with similar cross-party condemnation. In the Christian Democratic Party (CDU), Chancellor Helmut Kohl, expressing "grave concern" about the job impact of a Thyssen takeover, appealed for a "common-sense solution" in the interests of employees and the German economy (Financial Times, March 20, 1997). Employment minister Norbert Blüm urged bankers to remember that "companies do not consist only of capital, but also of people" (Welt am Sonntag, March 30, 1997). Deputy chairman Wolfgang Schäuble declared that unsolicited bids "do not fit with

our company culture" (BBC Monitoring Europe, November 22, 1999). Jürgen Rüttgers, leader of the opposition in North Rhine-Westphalia, declared that "hostile takeovers in the style of Manchester capitalism are incompatible with the concept of a social market economy" (Schulten 1999). In the Social Democratic Party (SPD), Gerhard Schröder's comment on Krupp's bid was that "those who treat companies as cash cows have understood nothing" (Welt am Sonntag, March 23, 1997). After Vodafone's bid, he expressed a general dislike for hostile bids and warned that a takeover would "damage the corporate culture" of Mannesmann (Capital, January 1, 2000). Wolfgang Clement, first minister of North Rhine-Westphalia, accused Vodafone of "playing monopoly with the Mannesmann company against the interests of the employees, the works councilors, the management and the supervisory board" (Schulten 1999). Finance minister Hans Eichel spoke of a "culture clash between Anglo-American capitalism and the consensual German model" (Schulten 1999). The economics spokeswoman for the Green party saw Krupp's bid as "further proof that the power of banks had taken on proportions harmful to the economy" (Frankfurter Allgemeine Zeitung, March 20, 1997). Even the Liberal party (FDP) was reluctant to endorse active markets for corporate control. The federal economics minister Günther Rexrodt cautiously admitted to the view that Krupp's bid was "within the limits of what is socially permissible." Politicians might take an interest in and comment upon such instances, but they could not prevent them. "In the end, companies must emerge that can withstand competition in the longrun and [thereby] avoid sudden job cuts" (Associated Press Worldstream, March 20, 1997). Yet despite his laissez-faire rhetoric, Rexrodt was among those who "bounced Krupp into negotiations with Thyssen" (Independent, March 23, 1997). With regard to the Mannesmann takeover, Liberal party leader Wolfgang Gerhardt warned against "a dangerous concentration of power at the consumer's expense" (Der Spiegel, February 6, 2000).

However, outside the spotlight of public attention cast on the issue by these unpopular bids, party positions were more nuanced and, by contrast to pre-Blair UK, a conventional left/right framework does not capture the main cleavage line. During the late 1990s, the Social Democrats, Greens and Socialists (PDS) all joined the Liberals to support the dismantling of two major structural barriers to takeover bids in Germany, namely the system of proxy voting by banks and the tight network of cross-ownership, while the Christian Democrats defended these characteristic features of "Germany Inc" (see Cioffi 2002; Höpner 2003; Cioffi/Höpner 2006).

The FDP, consistent with its ideological commitment to economic liberalism, strongly supported active markets for corporate control. The Liberals were a driving force behind the 1998 Control and Transparency Act (KonTraG) which stripped German firms of important takeover defenses by placing limits on proxy voting and abolishing unequal voting rights, voting caps and the voting of cross-shareholding stakes above twenty-five percent in supervisory board elections. When the KonTraG was debated in the Bundestag in 1997, Otto Graf Lambsdorff called Germany a rent-seeking society and insisted that German companies would benefit from increased exposure to capital market pressures (Höpner 2003: 21). During a debate on the German takeover law in 2001, FDP

member Rainer Funke complained that the chancellor had caved in to trade unions and managers instead of facing international competition (Deutscher Bundestag 2001a).

More surprisingly, the center-left SPD during the late 1990s also supported the dismantling of takeover barriers, before suddenly reversing its stance in 2001. In 1997, while still in opposition, the SPD took the initiative of presenting the draft for a German takeover law, which, like the EU takeover directive, contained a neutrality rule and mandatory bid rule. The Control and Transparency Act, presented by the FDP/CDU coalition government in 1997, was criticized by the SPD as insufficiently shareholder-oriented. During a Bundestag debate on the proposal, Hans-Martin Bury (SPD) called the KonTraG a "placebo law designed to appease the public without introducing any real change, a law to protect managers and banks against shareholders." He argued that the German corporate sector was stifled by the power of banks, interlocking directorates, lack of transparency and underdeveloped markets for corporate control and demanded a ban on bank ownership of industrial shares (Deutscher Bundestag 1998: 20354). Eckehard Pieck added that the protection of shareholders and the development of the capital market were important goals for the SPD (Deutscher Bundestag 1998: 20365). Four years later, during a Bundestag debate on the German takeover law, Nina Hauer insisted that "the shareholders own the corporation and should have the final say" (Deutscher Bundestag 2001b: 19829). Upon coming to power in 1998, the Social Democrats, in coalition with the Green Party, immediately passed the KonTraG, which stripped German firms of important defenses against hostile bids. Two years later, they abolished capital gains tax on the sale of large share blocks, to unwind the web of cross-shareholdings which had traditionally made takeovers difficult (Cioffi 2002: 38).

Left of the SPD, the Green and Socialist parties during the late 1990s also supported the removal of takeover barriers. As Ziegler explains, the Greens used the issue of corporate governance "to criticize established concentrations of economic power as obstacles to desirable types of change. Much like the Social Democrats, the Greens attacked the multiple sources of influence that the large universal banks exercised over German firms. Much like the liberals, they argued ever more pointedly through the 1990s that Germany needed a modern equity market to support entrepreneurs in the small and medium-sized sector." The Socialists shared the desire to curb the power of banks and interlocking capital. During a Bundestag debate on the KonTraG, Uwe-Ernst Heuer for the PDS explained that more active markets for corporate control would democratize and revitalize the economy (Ziegler 2000: 205).

This left the Christian Democrats as the main defenders of Germany's structural barriers to hostile bids. During a Bundestag debate on SPD proposals for a German takeover law in 1997, members of the CDU rejected the draft as "too early and too wide-ranging" and maintained that, to date, the absence of a takeover law had not done any harm (Frankfurter Allgemeine Zeitung, October 4, 1997). Instead, they favored a self-regulatory system based on the voluntary takeover code introduced in 1995. During a Bundestag debate on the KonTraG in 1998, Joachim Gres (CSU) said that a change of

direction in German corporate governance was neither intended nor necessary. "Constancy," he said, "is important in economic policy … Please don't think that the job of economic policy makers is to permanently introduce new ideas." Gres also insisted that the image of a "Germany Inc." built upon quasi-cartels did not reflect reality. Hartmut Schauerte (CDU) dismissed calls for curbing the power of banks as "pure ideology" (Deutscher Bundestag 2001c). Klaus-Heiner Lehne (CDU), rapporteur for the directive in the European Parliament, played a key role in mobilizing his fellow MEPs against the neutrality rule and proudly claimed credit when the European Parliament rejected the directive in 2001.

France: Sporadic debate with ambivalent left/right positions

In France, political interest was sporadic. Hostile takeovers were unknown until the late 1960s, when three hostile bids, although unsuccessful, occasioned a brief spell of debate resulting in France's first takeover code (see von Kapff 1975: 162–165). The following decade of silence on the issue was a period of low takeover activity. "Between 1965 and 1975, less than a hundred takeovers occurred, and all were friendly. In the years 1976, 1977 and 1978 about twenty takeovers a year occurred, most of them friendly. From 1979 to 1986 takeovers steadily declined in number" (Daigre 1990: 92). However, this figure increased sharply from 1986 on, sparking off the political reactions documented below. While the actual number of takeovers remained low by Anglo-American standards,[1] the rise was sufficient to inspire headlines such as "Paris gripped by takeover fever" (Financial Times, April 2, 1986), "The [French takeover] bandwagon gathers pace" (Financial Times, November 26, 1986), "The French acquisition bug bites deeply" (Financial Times, June 15, 1987), or "Voracious [French] appetite for acquisitions" (Financial Times, May 9, 1990). The French acronym for takeover bid *(OPA)* became "a cult word to use in every context from political commentaries to illicit love-affairs" (Financial Times, April 11, 1988). As in Britain, takeover battles and scandals over controversial bidding practices heated up the political atmosphere. In March 1988, the bid for Télémécanique, an industrial automation company, by the Schneider electrical engineering group brought thousands of workers out onto the streets (Financial Times, April 11, 1988). In February 1989, insider-trading in the takeover of American can maker Triangle by the French state-owned Pechiney group, which involved a close personal friend of Mitterand, forced a senior finance ministry official to resign (Financial Times, January 21, 1989). Around the same time, insider trading involving the state savings bank, Caisse des Dépots et Consignations, was also suspected in the attempted bid for Société Générale, then France's leading privatized bank (Financial Times, January 12, 1989). Takeover law reforms in the early 1990s followed several instances of discrimina-

1 For 1988 and 1989, the SDC Platinum database, which provides data on the number of hostile takeovers from 1988 onward, counts 6 and 5 hostile takeovers in France, compared to 41 and 35 in the UK, and 86 and 47 in the US. Systematic data for earlier years has proved impossible to come by.

tion against minority shareholders in the context of partial bids (Le Monde, March 20, 1992: 19; Le Monde, November 25, 1991: 13; Le Monde, December 13, 1991: 13). The subsequent period of relative calm was one of low takeover activity. Political interest only returned in October 1996 when French employer federations AFEP and "Entreprise et Cité" launched papers demanding reforms of French takeover law to make takeovers more difficult (Le Monde, October 15, 1996). One observer explains the sudden mobilization after years of complacency by pointing to changes in corporate ownership structures:

> [Until recently], few French companies considered themselves attractive to foreign investors. … But they now find themselves in a state of weakness that is cause for concern. … French companies see themselves as potential victims of takeovers, all the more because the "hard core" *(noyau dur)* system of cross-shareholdings put in place ten years ago is dissolving.
> (Le Monde, October 15, 1996: 19)[2]

As in Germany and Britain, and in line with populist sentiment, the immediate political response to hostile bids was passionately hostile. During his presidential reelection campaign in April 1988, Mitterrand called for regulatory intervention to tame "financial anarchy and savage takeovers," deeming it "time for the triumph of an economy of short-termist speculation to come to an end" (Mitterrand 1988). A year later, during a TV interview shortly before the French municipal elections, he warned his audience "against takeover mania, against the gangsterism and the rule of the strongest" and promised to

> defend French producers, company managers, French entrepreneurs, against this wandering money, these birds of prey, who grab all this … without having taken part in the daily effort. That's too easy! So I say that the role of the state, in this area, is a major role. The state can prevent things. (Le Monde, February 14, 1989)

However, the accumulated words and actions of French politicians both on the left and right send a less clear-cut message. Edouard Balladur, Gaullist finance minister under prime minister Jacques Chirac, explained in 1988 that, regarding takeovers,

> [t]wo things need to be taken into account. First, protecting the continuity of companies and the interests of their shareholders and employees. Second, ensuring that the companies do not seal themselves off, blocking all evolution, all alliance formation, all restructuring. Where is the good measure between these contradictory aims? It clearly depends on the circumstances.
> (Le Monde, March 1, 1988)

Balladur's successor Pierre Bérégovoy, Socialist finance minister under prime minister Michel Rocard, opened a parliamentary debate in 1989 by declaring that

> [t]he government wants to neither prevent nor encourage takeovers, but the role of the legislator and of the market authorities is to guarantee the clarity and legality of the rules of the game … (Le Monde, April 21, 1989: 44)

2 All French quotations have been translated into English by the author.

Gaullist prime minister Jacques Chirac announced in 1996 that "[w]e do not want to return to protectionism, but we don't want to sell out either" (Le Monde, October 15, 1996: 19).

These ambivalent attitudes are also reflected in legislative measures. The Gaullists in 1986 embarked on the privatization of French industry, but not without creating golden shares and interlocking capital structures to protect the previously state-owned enterprises against hostile bids (see Le Monde, June 13, 1987: 4). Foreign ownership of privatized companies was initially limited to a maximum of 20 percent (Financial Times, June 15, 1987: IV). In March 1988, following takeover battles over Prouvost, Télémécanique, Rhin-Rhône and Compagnie de Midi, Balladur suggested that

> the recent takeover developments should lead us to consider whether it would not be useful, in certain cases, to increase the stabilized portion of capital of companies that are particularly threatened, and to reduce the number of candidates so that the hard core becomes less fragile. (Le Monde, March 4, 1988: 27)

Balladur also asked the French stock market authorities to reinforce companies' defense options against hostile bids. The stock market authorities turned down his request, but three less radical rules designed to reduce the number of hostile bids were adopted in April 1988 (Vie Française, May 14, 1988). In 1995, Alain Madelin, then economics minister, abolished the legal requirement for all foreign takeovers to be registered with and formally approved by the government (Financial Times, June 20, 1996). However, one year later, Jacques Chirac felt that, "by comparison to our main competitors, we are too open at times" (Le Monde, October 5, 1996: 31) and initiated three changes to the French takeover code to make hostile bids more difficult (Le Monde, October 11, 1996; Le Monde, March 21, 1997).

Socialist policies were similarly ambivalent. Between 1984 and 1986, during his first term in office under the Socialist government of Laurent Fabius, economics minister Bérégovoy launched France on its path of financial modernization by pruning credit and exchange controls and creating new markets for commercial paper and financial futures. In 1986, he gave up his ministry's right to veto all French takeovers. However, as takeover activity increased, Bérégovoy stepped on the breaks. In the spring of 1988, while still in opposition, he proposed creating a special investment fund to intervene in takeover battles on behalf of a besieged management. Back in office, he responded to a series of takeover scandals in the spring of 1989 by passing a bill on the "Safety and Transparency of the Financial Markets," which strengthened the disciplinary powers of the Commission des Opérations de Bourse (COB), the French stock market watchdog. The bill also strengthened employee information rights in the context of takeover bids, allowed target companies to augment capital in order to dilute the proportion of shares held by bidders, required the CEO to inform the *comité d'entreprise* (works council) of takeovers in progress and introduced transparency requirements regarding the crossing of thresholds and the revelation of shareholder pacts (Le Monde, April 21, 1989: 44).

The Nouvelles Régulations Économiques (NRE), passed by the Socialist government of Lionel Jospin, strengthened employee information by depriving bidders of all voting rights acquired during an offer until they would comply with the obligation of discussing their intentions with the works council. The NRE also broadened the scope for state intervention by requiring potential bidders for a bank or insurance company to inform either the economics minister or the president of the committee of banks and investment companies in advance of an offer. However, they also suspended shareholder pacts involving more than 0.5 percent of capital for the duration of the offer period, thereby facilitating hostile bids (Echos, May 14, 2001: 67).

Corporate ownership structure in Britain, Germany and France

Cross-national differences in left/right party positions correlate with different degrees of ownership dispersion. In Britain, where Conservatives were most supportive of rules protecting outside shareholders, dispersed ownership is far more widespread than in Germany and France, where conservative parties defended the interests of insiders. The stark contrast between British, French and German levels of ownership concentration is captured by several indicators. First, listed companies in the UK account for a much larger fraction of total national corporate activity than in Germany or France. In Britain, since 1986, the number of domestic companies listed on the stock exchange has hovered between approximately 1,800 and 2,400, out of a total population of around 500,000 firms. In Germany, it grew from less than 500 in 1986 to around 750 in 2004. In France, the number and growth trajectory of listings was very similar to Germany until 1997, before rising to just over a thousand at the turn of the millennium.[3] The total value of companies quoted on the stock market was also much higher in Britain, where market capitalization as a percentage of GDP exceeded 70 percent throughout the 1950s and 1960s and again from 1986 onwards, climaxing at 200 percent around the turn of the millennium. In Germany and France, market capitalization throughout the post-war period was well below half the British level (Global Financial Data[4]; see also Rajan and Zingales 2003: 15).

Second, ownership concentration of listed companies is much lower in Britain than Germany or France. In all the years for which data are available, more than 50 percent of French and German companies had a blockholder owning more than 50 percent of shares, and 70 percent of companies had at least one blockholder owning more than 25 percent of shares. In Britain, the proportion of companies with a majority blockholder never exceeded 6 percent, and the proportion of companies with at least one blockholder owning more than 25 percent of shares never exceeded 16 percent (Berglöf 1990: 126; Becht/Mayer 2001: 2; Van der Elst 2004).

3 DAI Factbook 2004, table 02-3.

4 GFD Database <www.globalfinancialdata.com>.

Third, cross-shareholdings are far less common in Britain than in Germany or France. From 1970 to the late 1990s, non-financial enterprises held around 40 percent of all German shares, compared to 5 percent in the UK. Since then, the German network of inter-company shareholdings has shown some signs of dissolution, with share-ownership by non-financial enterprises dropping below 30 percent for the first time in 1999. The number of capital ties between the 100 biggest German companies declined from 169 to 80 between 1996 and 2000 (Beyer/Höpner 2003: 184). However, despite these recent developments, corporate cross-shareholdership remains very high by international standards.

Fourth, until recently, the role of banks in corporate ownership was much more pronounced in Germany than elsewhere. Under the system of bank proxy voting rights *(Depotstimmrecht)*, private shareholders authorized the banks where their shares were deposited to vote on their behalf at companies' annual shareholder meetings. As a result, the controlling influence of banks was far greater than their direct equity holdings suggested. As dominant shareholders, mainly by proxy, banks were until recently represented on the supervisory boards of most German companies, acting as a shield against hostile bids.[5]

4 Implications

By uniting two important, but often unrelated, research areas, my article throws new light on debates both in comparative politics and political economy. First, it informs the literature on political parties by observing that capital is not a homogenous constituency on corporate governance issues and that party positions are therefore affected by national patterns of corporate ownership. Like much of the literature, I assume that party positions reflect the interests of their core constituencies, and that parties on the right cater to "upscale socio-economic groups." I depart from the traditional framework by noting that the relevant conflict line on takeover regulation is not between upscale and downscale socio-economic groups, but between insiders (including workers, managers, blockholders), and outsiders (i.e. dispersed shareholders). Since the relative size of the insider and outsider constituencies varies across countries and over time, my approach helps explain variation of left/right party positions that is not accounted for by the traditional framework.

Second, I advance the research initiated by Cioffi and Höpner (2006) by showing that and explaining why their "political paradox of finance capitalism" obtains in some

5 In 1996, the supervisory boards of 29 of the 100 largest firms were chaired by representatives of Deutsche Bank. Since then, the strategic reorientation of large German banks has resulted in a loosening of ties with industrial companies. See Beyer/Höpner (2003).

countries but not in others. While concurring with Cioffi and Höpner that ties between conservative parties and corporate elites influence the position of the center-right, I challenge their assumption that corporate elites everywhere oppose shareholder-oriented reforms. In my model, the preferences of corporate elites are more heterogeneous and affected by the structure of corporate ownership. This is partly because I use a more encompassing definition of corporate elites. Cioffi and Höpner focus on a "managerial elite distinct from finance capital." In my paper, the core clientele of center-right parties includes both managers and shareholders. However, even if the focus were only on managers, there is reason to believe that ownership affects preferences. I show elsewhere that British managers are more supportive of active markets for corporate control than their German counterparts – even though more dispersed ownership makes them more likely to fall victim to hostile bids (Callaghan 2006: 145–170). This may be because, during long years of exposure to hostile bids, British managers have developed better coping mechanisms, including more flexible managerial labor markets and production strategies that are less dependent on patient capital.

Third, my paper challenges existing work on the relationship between ownership patterns and minority shareholder protection. Most authors explain correlations between ownership dispersion and various political factors by treating ownership as the dependent variable. Roe (2003) argues that "social democracy" discourages ownership dispersion by making it more difficult for outside shareholders to claim primacy vis-à-vis other stakeholders, including workers. Gourevitch and Shinn (2005) suggest that the larger number of veto players in consensus-oriented as opposed to majoritarian political systems favors concentrated ownership by encouraging corporatist coalitions between managers, workers and blockholders against outside owners. La Porta et al. (2000) claim that the degree of dispersion depends on the quality of corporate law, including minority shareholder protection. I argue that a causal arrow runs in the opposite direction, from ownership structures to politics and corporate law. Outside shareholders must first emerge as a sizeable constituency before a political party will advance their cause. Unlike the arguments discussed above, mine is compatible with Coffee's (2001: 66) observation that, historically, political and legal efforts to protect shareholders have tended to follow, rather than precede, the appearance of securities markets.

Fourth, my paper speaks to the literatures on Varieties of Capitalism and institutional change by suggesting that political support for shareholder capitalism is greater in Britain than in Germany *not* because actors in both countries know about and seek to defend the comparative institutional advantage of their production regimes, but simply because Britain has more shareholders. The assumption prevailing in the Varieties of Capitalism literature that interest groups care mainly about preserving the comparative institutional advantage of their national production regime makes it difficult to explain moves away from equilibrium. Widespread recent growth in support for shareholder-oriented corporate governance is easier to explain once ownership structure is recognized as a determinant of preferences and party positions. My argument implies that increased ownership dispersion due to privatization, tax changes or the like may under-

mine political support for stakeholder-friendly corporate governance rules regardless of their contribution to the comparative institutional advantage of coordinated market economies.

Beyond that, my paper opens up several agendas for further research. I do not claim that insider–outsider divides single-handedly explain all variation in party positions on every corporate governance issue across countries and over time. To mention just one remaining puzzle, ownership in the US is as dispersed as in the UK, but political support for anti-takeover measures is stronger and spread more evenly across the partisan divide. Since the limited number of advanced industrialized democracies rules out large-N multivariate regression, further case studies and empirical research on the micro-foundations of alternative analytic models seem the most promising way forward.

First, more nuanced descriptions of ownership patterns and their relationship to political preferences would be desirable. My paper takes only one of many necessary steps toward disaggregating capital. While the insider–outsider distinction is reasonably informative on the issue of takeover regulation, it may not be the most relevant cleavage on all corporate governance issues. Among the insiders, one could distinguish further between managers and owners of listed and unlisted, small and large companies of different sectors, between family owners, banks, the state as blockholder in nationalized enterprises, etc.. Among the outsiders, individual shareholders differ from various types of institutional investors, including pension funds, hedge funds and mutual funds. Who wants what on any particular issue is impossible to ascertain analytically because no model is better than its assumptions, and standard assumptions such as the idea that material interests can be inferred from material positions remain highly controversial. A systematic empirical study of lobbying efforts by groups representing different segments of capital would alleviate some of these concerns.

Second, the effect of variables other than ownership structure on the politics of corporate governance merits further exploration. Macropolitical variables, while insufficient by themselves, surely play a role. Apart from the above-mentioned effect of electoral systems on coalition behavior, differences between federal and unitary systems seem likely to be relevant. So far, research into the effect of federalism on corporate governance has focused on policy outcomes. For example, Miller (1998: 70–73) argues that "the United States federal system stacks the political deck heavily in favor of restrictive takeover rules." Firms have an incentive to lobby against anti-takeover regulation outside the state where they are incorporated, but, for two reasons, their lobbying for anti-takeover regulation at home is likely to be more effective than their lobbying against anti-takeover regulation in other states. First, firms are likely to have greater political clout in the state in which they are chartered. Second, since potential bidders do not know where their future targets will be incorporated, they have to spread their lobbying efforts over 49 states, thereby diluting their resources (see also Roe 1993: 332–333; Bebchuk/Ferrell 1999: 1176–1177). It seems worth exploring how federalism affects party competition

on corporate governance. More so than the US, the European Union's multi-level polity would be a promising terrain for such studies.

Third, the consequences of the timing and sequencing of debate for the content of debate remain to be examined. My paper demonstrates that British discourse over takeover regulation preceded German discourse by almost four decades. Timing is likely to affect the content of debate not only because economic ideas *en vogue* in one period may be less fashionable decades later. The order in which countries liberalize their markets for corporate control is also likely to matter because latecomers suffer disadvantages of backwardness. For example, Britain removed barriers to hostile bids at a time when cross-border capital mobility was limited, and British firms had decades to adapt to the British Takeover Code before it was proposed as a blueprint for regulation throughout the European Union. Partly as a result, German firms found themselves in a position of asymmetric vulnerability and this seems likely to have affected the content of debate.

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