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Epilogue to 'Explaining institutional complementarity'

What have we learnt? Complementarity, coherence and institutional change

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1. Complementarity *versus* coherence

The commentators have defined complementarity in different ways. Our discussion has focused on the complex interrelations of three phenomena: institutional complementarity, coherence and change. Clear and distinct definitions that avoid preliminary assumptions about their empirical interplay are an essential precondition for discussing the links between them (see, for example, Amable's comment). Institutional complementarity means that the functional performance of an institution A is conditioned by the presence of another institution B and *vice versa*. This, I suggest, is the way we should continue to define complementarity, independently from both the sources of complementarity and the consequences for institutional change. Complementarity, then, refers to functional features of institutions.

Institutions also have structural features. Different institutions can be structured in a coherent way, or they might impose different, perhaps conflicting, governance modes and therefore lack coherence. Complementarity can exist without coherence, coherence without complementarity. By crossing complementarity and coherence, we can distinguish four cases (Table 1).

The interaction effect in field 1/1 is empirically demonstrated in Hall and Gingerich (2004). Between 1971 and 1997, growth among OECD countries was

Table 1 Coherence and complementarity as distinctive institutional features

		Complementarity (functional feature)	
		1	**0**
Coherence of governance modes (structural feature)	1	Coherent institutions, productive interplay. US and German 'models' of corporate governance and industrial relations in the Varieties of Capitalism literature.	Lack of a counterbalancing institution. No capital market in the GDR.
	0	Productive interplay of elements in an incoherent configuration. Highly portable skill qualifications of German vocational training.	Dysfunctional tensions. Intermediate cases in the Hall/Gingerich U-Curve.

significantly higher if institutions promoted strategic coordination, not only in the corporate governance sphere, but also in the industrial relations sphere. The same was true if market coordination in the corporate governance sphere was combined with market-driven industrial relations. Incoherent combinations, however, performed poorly. These cases are found in field 0/0.

In his comment, Crouch argues convincingly that institutionalism must not underestimate the importance of 0/1 complementarity by attributing productive institutional interaction only to 1/1 situations. The highly portable skills generated by German vocational training, which exist although fluctuation of workers between firms is low, are an example for this. Educators, to add a non-institutional example, tell us that good learners learn better in groups that also include bad learners. The 1/0 field points to situations in which the institutional setting is coherent from the perspective of governance modes, but where the introduction of incoherent, counterbalancing modes of governance would be likely to increase performance. For example, the introduction of functional equivalents to a Western style capital market in the German Democratic Republic (GDR), while structurally hostile to the main economic institutions in Socialist economies, may have allocated investments to more productive sectors.

2. Specification of perspective

The search for complementarity requires specification of performance criteria and perspectives (see the comment by Hall). There are often conflicts of aims between different kinds of performance (for example, growth and environmental protection). In addition, institutional complementarity might increase overall macroeconomic performance, or alternatively the welfare of particular groups. Complementarity therefore depends on perspective. If it causes redistribution, one person's complementarity is another's institutional dysfunctionality. Imagine a worker in a company unit with less than average profitability, who gets dismissed because management and works council aim to increase overall profitability and job security in the core units.

Coherence requires a definition of criteria, too. Governance modes are only one structural aspect of institutions. Another one is the distribution of power. Production regimes with organized industrial relations and organized corporate governance seem coherent in the sense that both domains facilitate strategic coordination (as distinguished from market behaviour). However, if we focus on power distribution, the coherence vanishes. Organized corporate governance gives power to blockholders and banks, but organized industrial relations redistribute power to employees—which seems to be a case for the 0/1 field rather than for 1/1.

3. Complementarity and institutional change

The relationship of complementarity and institutional change is a controversial issue (compare, for example, the comments by Hall and Streeck). The presence of one set of institutions cannot dictate the presence of other institutions, even if the two are complementary, writes Hall in his comment. Compare this, however, to the most contentious sentence in Hall and Soskice's *Introduction to Varieties of Capitalism*: '[N]ations with a particular type of coordination in one sphere of the economy should tend to develop complementary practices in other spheres as well' (p. 18). These two sentences open up an array of empirical possibilities from which we can rule out only the extreme positions: neither does complementarity totally determine institutional change, nor is institutional change entirely independent from functionality (which is, in part, conditioned by complementarity). The actual impact that complementarity has on institutional change must be determined empirically. Our discussion has helped to identify criteria for empirical research.

- Intensity of the interaction effect

The more intense the functional effect deriving from complementarity, the more likely the evolution of complementary institutions.

- Effects on distribution

How does transition to a configuration that increases the benefits from complementarity affect the distribution of power, finance, and status (see, for example, the comments by Amable and Streeck)? Such effects can speed up, slow down, neutralize, or even counterbalance the impact of complementarity on institutional change. Following Hall and Gingerich, a production regime with organized corporate governance is likely to increase economic growth if industrial relations become organized, too. However, employers are never enthusiastic when they forfeit managerial prerogatives to works councils and trade unions, and they rarely do so voluntarily. The more powerful the groups that benefit from change, the more likely change will happen.

- Political foundations

It makes a difference whether an institution is protected by law or not (see the comment by Jackson). German co-determination cannot be abolished bottom-up because works councils are mandatory.

- Experimentation

In his comment, Streeck explores further criteria that are necessary to decide whether complementarity should be expected to launch institutional change. Neither do institutions totally determine actors' behaviours, nor are actors necessarily aware of the (actual or potential) effects that derive from institutional interaction. Complementarity will lead to institutional change only if institution-builders are *ex ante* aware of the functionality of institutional relations. What Streeck calls 'economizing' is, therefore, more likely to take place 'bottom-up, by discovery, improvisation, or serendipity' (see Streeck's comment) than in the moment of initial institution building.

4. Institutional hierarchy

All discussants seem to agree on the usefulness of the concept of institutional hierarchy as developed by scholars in the tradition of the French regulation school (see especially the comments by Amable and Boyer). Relationships between institutional domains are often implicitly described as a heterarchical or symmetrical interaction. In his comment, Boyer defines institutional hierarchy as a situation in which particular institutional forms are strong enough to impose their logic on other forms of the same configuration. In the light of our discussion, the concept of institutional hierarchy is important. First, it is important in the case of performance-driven transitions from dysfunctional 1/0 situations to 1/1 complementarity. Only one internal logic remains after such institutional change, and it is an open question who imposes change on whom. Secondly, the concept is also useful with respect to the subcase of 0/1 complementarity that Crouch emphasizes. If the functionality of a configuration is based on the interaction of different governance modes, it remains to be determined where the boundaries between conflicting modes are located, i.e. who imposes constraints on whom. The regulation school hypothesizes that the financial sector is currently enhancing its hierarchical position *vis-à-vis* industrial relations. The idea of changing hierarchies among institutions opens up a dynamic perspective on the interaction of institutions and raises promising hypotheses on the dynamics behind current production regime changes.

5. Limits of the concept

Our discussion has shown that the concept of institutional complementarity is helpful for understanding the internal logic of institutional configurations. It challenges the focus on effects of single institutions, and redirects our attention to the functional effects of configurations. However, institutionalism should also be aware of the limits of the concept. Our discussion has revealed some of them. Complementarity describes only one special case of institutional interaction. In my article, I described the whole range of links between corporate governance and industrial relations discussed in the literature; many of them have nothing to do with complementarity, but are direct causal links between structural features of the two institutional domains (see also Jackson's comment). The concept does not tell us whether complementarity derives from similarity or from heterogeneity, as empirical examples exist for both 1/1 and 0/1 complementarity. Also, the concept does not provide valid predictions with respect to institutional change, apart from the vague certainty that complementarity is one of many possible sources of change. Even the compatibility of complementary institutions cannot be taken for granted. Complementarity is a highly abstract concept, describing one possible functional feature of institutional interaction. Its sources and consequences, however, have to be specified by empirical research on actual institutions in a given space and time.

Reference

Hall, P. A. and Gingerich, D. W. (2004), 'Varieties of Capitalism and Institutional Complementarities in the Macroeconomy: An Empirical Analysis', MPIfG Discussion Paper 2004–5, Cologne: Max Planck Institute for the Study of Societies.