Varieties of capitalism, quality of government, and policy conditionality in Southern Europe: Greece and Portugal in comparative perspective

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Contents

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ABSTRACT

Abstract: This paper, drawing primarily on the Varieties of Capitalism (VoC) theoretical approach to political economy and the institutional theory of Europeanisation with emphasis on the Quality of Government (QoG) approach, examines possible variation between Greece and Portugal, in terms of their responses to pressures from Europeanisation before the crisis, as well as to MoU conditionality during the crisis. The empirical evidence seems to vindicate the fundamental assumptions of the VoC approach about the impact of variation among member states of the Eurozone, in terms of models of capitalism/political economy, on the crisis in Greece and Portugal. However, QoG is identified as key explanatory variable for variation in adaptation/adjustment capacity between the two countries, especially during the crisis. Additionally, there seems to be no evidence that cultural aspects, such as the level of social trust/ capital, can account for variation in adaptation performance between the two countries during the crisis.

Keywords:
Varieties of Capitalism; Quality of Government; Social Capital/Trust; Conditionality; MoUs; Critical Junctures; Southern Europe; Greece; Portugal

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In memory of
Professor George W. Jones
My PhD adviser, mentor and friend.

1. Introduction

EU periphery in general and Southern Europe in particular came to be viewed as the main loci of the economic crisis that affected the Eurozone as a repercussion of the financial crisis and Great Recession that began in 2008-09 and is considered as the worst experienced by the developed democracies since World War II. Yet, while the international crisis itself may be considered as an outcome of the institutional architecture of the neo-liberal era of the last thirty years, manifested itself primarily in poor economic governance of globalisation, especially in the areas of regulation of financial markets (Admatti and Hellwig, 2013) and in increasing levels of inequality (Bartels, 2008; Hall, 2013; Blyth, 2013; Piketty, 2014), the crisis facing the Southern European countries is actually further exacerbated by the poor/doomed to failure construction of Economic and Monetary Union (EMU) (Hall and Franzese, 1998; McKay, 1999). Indeed, the outbreak of the international economic crisis revealed the fundamental institutional weaknesses of the EMU, namely the discrepancy between a properly institutionalized monetary policy and a rather weak economic policy component, actually a symptom of an incomplete Optimal Currency Area (OCA) (see Mundell, 1961; Eichengreen, 1990). These structural imbalances of EMU permitted the adoption by the member states of divergent economic policies, resulting in divergent economic trajectories (Pisani-Ferry, 2006; Wyplosz, 2006; De Grauwe, 2011; Featherstone, 2011; Hall, 2012, 2014). Thus, the first years of the EMU, contrary to expectations for economic convergence, resulted in large deviations in terms of implemented policies and performance among EMU countries. Moreover, the weak institutional formulas for effective and efficient coordination of economic policies, mainly in the form of the Growth and Stability Pact (SGP), proved unable to ensure the implementation of fiscal discipline (Begg, 2011; Gros, 2011; Hall, 2012, 2014). In these circumstances, the need for economic assistance in crisis-hit countries led to the creation of a hybrid scheme that brought together the IMF, the European Commission and the ECB, the so-called Troika, which assumed the responsibility of the adjustment programmes, the so called Memorandums of Understanding-MoUs, for Greece, Ireland, Portugal, Cyprus, accompanied by strict policy conditionality. Yet, despite the fact that the content of the adjustment programmes seems to have been based on the same fundamental principles, external constraints do not directly impact on institutional and policy change in the countries concerned. On the contrary, they are mediated by a wide range of domestic institutions. Indeed, national political economies vary on the basis of historically contingent foundations, which over time have forged distinct institutional traditions and legacies (Thelen, 1999). Therefore, one should not expect homogeneity, but rather variation in countries' responses to external policy conditionality.

This paper, while taking into account the intensity of external constraints/policy conditionality (Europeanisation-induced and MoU-induced), draws on the new institutionalist approaches to domestic change and concentrates on crucial aspects of the domestic institutional infrastructure that are best captured by the literature(s) of varieties of capitalism (VoC) and quality of government (QoG), as determinants of domestic policy and institutional change in Southern Europe. These approaches point to the crucial role of domestic formal and informal institutions as determinants of domestic policy change and performance. Moreover, it is worth reminding that, while the literature on external institutional constraints emphasises the possibility for achieving convergence, the institutionalist literature, and especially the varieties of capitalism and quality of government approaches, point toward divergence among national political economies (see Hall and Soskice, 2001; Hall, 2010; Iversen and Soskice, 2006, 2009; Pierson, 2000, 2001; Schmidt, 2002; Hancke et. al., 2007; Featherstone, 2008; Bohle and Greskovits, 2009, 2012; Rothstein and Teorell, 2008; Rothstein, 2012). The first section presents the theoretical framework/research puzzle of the paper, combining aspects of the varieties of capitalism and quality of government literatures. The second section briefly examines the possible variation between Greece and Portugal in response to pressures from the Europeanisation process before the onset of the crisis. The third section concentrates on identifying variation between Greece and Portugal in response to MoU conditionality. The fourth section focuses on accounting for possible variation in responses to external policy conditionality between the two countries. Finally, the penultimate section summarises the main findings with regard to variation in domestic responses to external constraints before and during the crisis in Greece and Portugal.

2. Varieties of Capitalism, Quality of Government and Crisis in Southern Europe

The concepts of 'Varieties of Capitalism' and 'Quality of Government' are widely considered as crucial aspects of domestic institutional infrastructure with broad resemblance to the areas of state-economy and state-society relations respectively. The notion of 'Varieties of Capitalism' (VoC) refers to a very influential theoretical approach to political economy and public policy/comparative capitalism developed by P. Hall and D. Soskice (2001). It involves a shift away from the dominant theories of comparative political economy/capitalism, namely the *modernisation* theory, the *neo-corporatist* theory, and the so called *social systems of production* approach (Hall and Soskice, 2001), towards a rather holistic approach strongly influenced by the literature of the economics of organisation (Williamson, 1985). In this framework, the VoC approach regards 'companies as crucial actors in capitalist economy' (Hall and Soskice, 2001:6) and hence as key agents of adjustment to technological change and national economic performance at large. Thus, given that national political economies can be compared by reference to the way in which firms (and/or firms associations) resolve their coordination problems, there have been identified two ideal types of political economies: *liberal market economies* (LMEs); and *coordinated market economies* (CMEs). While in LMEs firms' coordination takes place primarily via hierarchies and competitive market arrangements, in CMEs firms rely more heavily on non-market relationships, namely *strategic interaction,* with other actors to coordinate their activities.

Obviously, LMEs comprise primarily the Anglo-Saxon countries (i.e. UK, US, Australia, New Zealand etc.), while CMEs refer primarily to northwestern continental European countries (i.e. Germany, Netherlands, Austria, Scandinavia) and Japan (Hall and Soskice, 2001). Within this analytical framework, the role of formal, but primarily informal, institutions is crucial. In particular, as it has long been identified by the institutionalist literature, economic actors' preferences and choices are structurally embedded, and therefore institutional embeddedness is considered as a key feature of the way in which national and/or regional economies are organized and perform (see Shepsle, 1986; Hall and Taylor, 1996; Hall and Soskice, 2001). In that respect, the notion of *institutional complementarities* constitutes a crucial component of the VoC approach. This notion suggests that nations with a particular type of coordination in one sphere of political economy should be expected to develop complementary practices in other spheres as well. For instance, highly developed stock markets tend to be associated with market modes of coordination in the financial sector and low levels of employment protection, while high levels of employment protection tend to reflect higher levels of non-market coordination in the sphere of industrial relations. In this framework, the concept of *comparative institutional advantage* is crucial for understanding variation in economic performance both at the domestic and international levels. Hence the VoC approach identifies linkages between specificities of institutional frameworks and different types of innovation. In particular, the institutional framework of LMEs is considered to be more suitable for supporting *radical innovation* which entails substantial shifts in product lines and/or major changes to the production process at large, while the institutional framework of CMEs is more appropriate for *incremental innovation*, which is characterised by rather gradual, continuous, small-scale improvements to existing production processes (Hall and Soskice, 2001). Obviously, this distinction has serious implications for identifying variation in patterns of adjustment, economic performance and development across countries and/or regions, as well as in comparative public policy-making.

However, it seems that the Southern member-states of the EU do not fit with any of the ideal types of VoC. Although some of these countries may demonstrate similarities to the CMEs (Hall and Gingerich, 2009), they are characterised by 'statist' political economy, involving heavy regulation of financial, product and labour markets and more substantial state holdings in the economy than most other European countries (Schmidt, 2002; Levy, 2006). In relation to labour market, in particular, although southern European countries are considered as having relatively regulated labour markets, some parts of the labour force, the so called '*outsiders*', face a highly deregulated environment in black and *'grey'* economies (Rueda, 2007; Graziano, 2004). This relates to what may be called '*obscured dualisation*', namely a process of dual labour market which ensures that the egalitarian effects of regulation extend only to a comparatively small part of the workforce, leaving the rest exposed to deregulated labour markets, similar in many respects to the LMEs (Palier and Thelen, 2012)[3]. Moreover, the job protection offered to the more privileged

3 It needs to be stressed, though, that *dualisation*, associated with institutional *drift* taking place in continental European political economies, such as Germany, is considered as one among three main

sectors of the workforce impedes labour market adjustment (Esping-Andersen, 1996). Clearly, this *statism* has its roots in longstanding institutional arrangements and the intricate nature of legal systems, the so called *legalistic traditions* (Hopkin and Blyth, 2012), which have significant distributive consequences, shifting resources towards relatively inefficient parts of the economy with little scope for productivity growth, such as small-scale retail and legal services. Thus product market regulation and associated *rent-seeking* have anti-competitive, as well as inegalitarian consequences, depressing both efficiency and equity (Alesina and Giavazzi, 2006; Hopkin and Blyth, 2012). This combination of *hybrid statism*, inefficiency and inequality has been best captured by a new type/variety of capitalism, the so called *mixed market economies* (MMEs) (see *inter alia* Hall and Gingerich, 2009; Amable, 2003; Amable and Palombarini, 2009; Hall and Thelen, 2009; Featherstone, 2008; Hopkin and Blyth, 2012). What this hybrid variety implies is that southern European economies, despite reluctant privatisation and supply-side reforms undertaken in the 1990s, are still heavily constrained by legalistic state intervention (Alesina and Giavazzi, 2006)[4]. Hence *statism*, as the main feature of *embedded illiberalism* in the economies of southern Europe, is linked to problems of weak job growth and low overall levels of employment, patchy and selective welfare provision (Ferrera 1998; Lynch 2006), and regulatory measures that actually protect inefficient producers of goods and services from competition.

Nonetheless, most of the *pathologies* of south European capitalism or MMEs mentioned above are best captured by the concept of *quality of government* (QoG), and, indeed, southern European countries appear to demonstrate, in varying degrees, rather low performance in several QoG indicators, such as clientelism, corruption, rule of law, impartiality, effectiveness and efficiency of state bureaucracy and so on. In that respect, it is assumed that southern Europe is characterised by a particular type of state intervention

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trajectories of liberalization. Other trajectories include *deregulation*, mostly associated with institutional *displacement* within LMEs, and *embedded flexibilisation*, an Active Labour Market Policy (ALMP) identified with *conversion*, and considered as a key feature of the Scandinavian liberalization trajectory (see Thelen, 2012).

4 It should be reminded, however, that another variety of capitalism, primarily identified with the cases of Latin America, but also with some resemblance to parts of Southern Europe (i.e. Spain and Portugal), are the 'Hierarchical Market Economies' (HME) (see Schneider, 2009). HMEs demonstrate important similarities to the MMEs, but primarily draw on relations between major multinational companies, the so called 'Grupos', and the political system. A key feature of HMEs, from a socio-economic point of view, is the predominance of hierarchical relations, notably with particular reference to the role of the state and multinational companies in Latin America, and especially to the state's dependence on the latter. Additionally, a more recently emerged variety of capitalism is the 'Dependent Market Economies' (DMEs) with almost exclusive reference to ex-communist countries of East-Central Europe (ECE) (see Noelke and Vliegenthart, 2009; Bohle, 2010; Bohle and Greskovits, 2007, 2009). The main feature of DMEs is their dependence on Transnational Companies in almost all aspects of their political economies. Such dependence has resulted from influx of Foreign Direct Investment following the collapse of communism and the rapid privatization programmes put forward during the 1990s in almost all CEE countries. Although DMEs demonstrate obvious similarities to both MMEs and HMEs, they tend to share very identical and crucial common characteristics that differentiate them from the other models and relate to all spheres of political economy (corporate governance, industrial relations, vocational training, innovation transfer, and welfare regime).

that has serious *inegalitarian and inefficient* implications. Hence quality of government has emerged as an additional factor, particularly relevant to the crisis in southern Europe. The notion of *quality of government* draws on a key theoretical assumption of institutionalist theory, namely the distinction between *redistributive* and *efficient* institutions (see Rothstein, 2012; Tsebelis, 1990). While the former imply formal or informal rules (e.g. tax system, welfare state, corruption, familism, etc.) that transfer resources and power from one group of actors/agents to another, the latter refer to formal -but primarily informal- rules of the game (i.e. impartiality, rule of law, control of corruption, trust, civil service ethos) that improve the position of all actors. Although this distinction may be viewed as partly vague, given that even efficient institutions may have at least indirect redistributive effects, the academic debate on the potential trade-off between efficiency and redistribution, and hence levels of equality/inequality, is an old and very important one in the social sciences (see *inter alia* Iversen and Soskice, 2006, 2009; Hopkin and Blyth, 2012). In this theoretical framework, the term "QoG" refers broadly to features of the so called "*output side*" of politics, primarily to institutions, such as the principle of impartiality, that enhance efficiency in policy implementation and in the exercise of power at large, as one source of political legitimacy. Obviously, this contrasts the more traditional source of legitimacy, namely the "*input side*" linked to access to power, namely electoral democracy and representation. In this respect, theorised by Rothstein and others, but also long operationalised by the World Bank, the concept of "QoG" comprises variables, such as rule of law, property rights, control of corruption, voice and accountability, government effectiveness and bureaucratic efficiency, regulatory quality (see Rothstein, 2012; Rothstein and Teorell, 2008), while in a recent study for the EU Commission a composite index to measure quality of government as a single variable has been developed (CEC, 2010b).

Hence, quality of government fundamentally implies a shift from *particularistic* to *universalistic* institutions and universalism at large (Acemoglou, et. al., 2012; Acemoglou & Robinson, 2012). In that respect, it may affect the character and performance of crucial redistributive institutions, such as the welfare state, and hence it is considered as complementary to "*power resource theory-PRT*" in accounting for existing variation among types of welfare state and/or patterns of redistribution across countries and regions (Iversen, 2005; Iversen and Stephens, 2008; Iversen and Soskice, 2009; Rothstein, 2012). Yet, the crucial question in this regard is who might have an incentive to provide efficient institutions. Indeed, given that the provision of efficient institutions constitutes a second order dilemma of collective action and hence no actor has any clear incentive to provide such institutions, the notion of "QoG" relates to the so called "*social trap*" phenomenon, and subsequently to the problems of stickiness and virtuous and vicious cycles that are intrinsic to the notion of institutional change (see *inter alia* Rothstein, 2005). It is in that respect that QoG is closely associated with the *institutional theory of trust* and *social trust* at large[5] (Rothstein, 2012; Paraskevopoulos, 2010, 2012).

5 The relationship between QoG and social and institutional trust is a complicated one. In particular, while, as it has been established in the literature, institutional performance and not culture determines trust in

In this theoretical framework, the VoC approach, in order to account for the Euro crisis, points to a fundamental discrepancy between the institutional complementarities/ specificities of the so called "*export-led*" growth strategies/models, pursued by northern European member states of the Eurozone, such as Germany, Belgium, Netherlands and Finland, and those of the "*demand-led*" growth strategies, pursued by southern member states, notably Greece, Portugal, Spain, Italy and France (see Hall, 2012, 2014). The former are essentially based on the institutional infrastructure of CMEs, involving high levels of wage coordination, advanced systems of vocational training and strong emphasis on research and development facilitated by dense inter-firm collaborative networks that substantially contribute to continuous innovation. These institutional capacities facilitate export-led growth strategies in northern European countries, by restraining the rate of growth of labour costs through wage coordination and by investing in advanced vocational training schemes to encourage high value-added production and incremental innovation, thus allowing firms to compete both on quality and price. Such strategies, however, are closely associated with neutral or moderate macroeconomic stance, because expansionary policy can set off wage-price spirals and counter-cyclical policy is less effective where a workforce with high levels of industry-specific skills prefers high savings ratios (Hall, 2012, 2014; Soskice 2007; Katzenstein 1985). In that respect, the countries of Northern Europe have been rather well-placed to take advantage of the single currency by exploiting the inability of their trading partners to devalue, thus continuing their export-led growth strategies. Thus countries of northern Europe began to build up large balance of payments surpluses, based on containment of wage costs (Hall, 2012, 2014).

Conversely, the economies of southern Europe lacked the institutional infrastructure that would be conducive to wage coordination, given that both trade unions and employer associations are rather fragmented and weak with regard to negotiating wage bargains

institutions (see Mishler and Rose, 2001), social trust and social capital at large can positively influence that performance and therefore can play a crucial indirect role in enhancing institutional trust. In that respect, the institutional theory of trust attributes an important role to the perceptions of fairness and impartiality of public institutions on the part of citizens as a crucial variable affecting the creation of generalized/social trust (see Rothstein, 2005, 2012; Paraskevopoulos, 2010). Additionally, Carles Boix and Daniel Posner (1998) have identified five mechanisms on the relationship between social capital, institutional performance and good government. The first mechanism points to social trust/capital as a tool for empowering and actually transforming citizens through achieving collective action into "sophisticated consumers of politics" in an environment dominated by electoral competition. According to the second mechanism, social trust facilitates rule compliance through the reduction of transaction costs, namely by reducing the need for bureaucratic, complex, and expensive mechanisms of enforcement. The third mechanism underlines the benefits of civic virtue, namely the social capital-driven shift from particularistic to more community-oriented concerns of citizens that in turn promotes good governance. The fourth mechanism refers to social trust as a tool for achieving bureaucratic efficiency through its capacity to facilitate the resolution of collective action problems within state bureaucracies and thus to promote better coordination between principals and agents at any hierarchical levels. Finally, the fifth model identifies social trust as a crucial concept for achieving consociationalism among antagonistic elites without using formal institutions. Hence, overall, one should expect a rather strong correlation - linked to virtuous or vicious cycles- between QoG, social and institutional trust.

(Hall, 2012, 2014; Hancké 2013; Lavdas, 2005). Additionally, employer associations are rather poorly institutionalized and hence poorly equipped to promote collaborative vocational training, as well as research and development activities. Thus innovation is difficult to achieve and firms tend to build their competitive advantage on low-cost labour (Hall, 2012, 2014; Hall and Gingerich, 2009). In this context the governments of southern Europe have primarily relied on demand-led growth strategies based on the expansion of domestic demand. These strategies, however, necessitate more active, expansionary macroeconomic policies that tend to raise rates of inflation. That is why in the years before joining the EMU, many of those governments used periodic devaluations of their exchange rates to offset the effects of inflation on trade balance[6]. In this respect, for the political economies of southern European countries EMU posed more serious challenges. Although joining the EMU lowered their transaction costs and the convergence criteria in the run-up to monetary union initially contributed to wage restraint, entry into the monetary union called into question the viability of the demand-led growth strategies, because they could no longer devalue to offset the accompanying inflation, which obviously had serious implications for their competitiveness. Yet, there has been a 'compensatory' impact of EMU itself: namely, the confidence effects generated by the EMU quickly lowered the cost of capital in southern Europe; and, to invest the balance of payments surpluses building up in the north, the banks of northern Europe provided large flows of funds to southern Europe. This is the logic behind the provision of *cheap credit* that fuelled the expansion of domestic demand in southern Europe before the onset of the crisis (Hall, 2014, Paraskevopoulos 2012).

Yet, obviously, the VoC approach takes a rather systemic view of the crisis and does not pay much attention to QoG indicators. Nonetheless, aspects of QoG, such as government effectiveness, corruption, rule of law, regulatory quality and so on, may point to crucial specificities of domestic institutional infrastructure which can account for possible variation in the intensity of and response to the crisis among south European countries.

Hence, overall, the statist features of south European capitalism, along with aspects of low QoG, such as clientelism, patronage and corruption, appear to combine the *"worst of both worlds"* by acting as a drag on efficiency whilst doing little to deal with inequality. Yet, although these weaknesses of domestic institutional infrastructure may have crucially affected the adaptation and adjustment capacity and hence the response of south European countries to both Europeanisation-induced and MoU-induced external constraints (policy conditionality) during the current economic crisis, there is evidence of significant variation among south European countries with regard to capacity for institutional and policy adaptation (Blyth, 2003; Hall, 2010; Thelen, 2010; Hall and Thelen, 2009; Streeck and Thelen, 2005; Mahoney and Thelen, 2010; Featherstone, 2008, 2011; Featherstone and Kazamias, 2001; Featherstone and Papadimitriou, 2008; Paraskevopoulos, 2004, 2005, 2006). In that respect, the key research hypotheses of this

6 Italy has been a case in point: the value of the Italian lira declined by about 25 percent within six years after the establishment of the European monetary system in 1979.

paper are formulated as follows. The VoC approach can crucially contribute to our understanding of the crisis of the Eurozone, by identifying variation in models of capitalism between European countries in general and north and southern Europe in particular. The QoG approach can account for possible variation between (southern European) countries with respect to institutional and governance performance at large. Finally, the interplay between QoG, social and institutional trust can contribute to capturing the interconnectedness between formal and informal institutions at the domestic level of governance, by identifying virtuous and/or vicious cycles within specific countries, thus accounting for variation in their reform and adaptation capacity. The following sections focus on identifying such variation between Greece and Portugal.

3. Varieties of Europeanisation: Greece and Portugal before the onset of the crisis

The Europeanisation process has long been viewed as a powerful tool driving institutional and policy reform in Southern Europe in general, and Greece and Portugal in particular, since its impact is linked to the post-authoritarian transition in these countries. Hence, it is also closely associated with the modernisation process[7], while both processes are intrinsically linked to the *problematique* of governance in the EU, whereby the member states are facing the challenge to adapt their institutional and policy-making structures to a multi-layered policy-making environment (Marks 1993; Kohler-Koch 1996; Caporaso 1996; Marks et. al. 1996; Piattoni, 2010). Given, however, that the notion of Europeanisation may take several meanings and refer to a wide variety of processes, that is historical, cultural, institutional (Olsen, 2002), in the context of public policy-making Europeanisation is primarily viewed as a process of institutional and policy adaptation as a response to EU policies, but also as the process by which national policies are transferred up to the European level and become the objective of collective decision-making (Paraskevopoulos and Leonardi, 2004). This dualism in the meaning of Europeanisation reflects the functional discrepancy between policy formulation and policy implementation, both dominated by the "*principal-agent*" model, which constitutes a powerful conceptual tool in modern public policy analysis (Hix and Hoyland, 2011). The former implies delegation of power and authority about policy design to the supranational

7 This is particularly true in the case of south European countries, where the notion of modernisation has not always been clearly defined, thus taking several connotations and meaning different things to different people. In particular, the ambiguity with regard to the content of modernization in public policy is related to its interpretation –often used in public policy analysis- as an one-way process of irreversible change leading towards the predominance of a specific paradigm in policy-making through the homogeneity of preferences and hence towards achieving overall convergence of policy styles in the long run. On the contrary, however, modernization may take several meanings/interpretations, i.e., modernization through market; through hierarchy/central state bureaucracy etc., and, therefore, there is always a need to clarify its meaning/content according to specific context(s) (Hood 1998:194-221). For in the context of Greece and probably other SEU countries it should primarily be interpreted as synonymous to institution building (see Paraskevopoulos, 2005).

level of governance. That is why it may be called "*bottom-up*" Europeanisation. Conversely, the latter refers to "top-down" Europeanisation and involves the key role of supranational institutions, and most notably the Commission, primarily through oversight in policy implementation along with the member states. Obviously, what matters for Southern Europe and EU periphery at large is the "top-down" Europeanisation, whereby member states face the challenge of adjustment to the EU policy environment.

In that respect, there have been identified two broadly different mediating mechanisms/logics in the new institutionalist literature that can account for domestic institutional and policy change as a response to Europeanisation-induced conditionality: the rational choice and the historical/sociological (see *inter alia* Börzel and Risse 2000). The former, based on the *'logic of consequentialism'*, points to the role of *formal institutions* as crucial mediating factors that affect domestic actors' (*multiple veto players/points* - Tsebelis, 2002) capacity for action and hence for policy and institutional change. This process has been conceptualised as *'single-loop learning'* (Argyris and Schoen 1978), whereby actors acquire new information, alter strategies but they pursue given, fixed interests. The latter focuses on the process of *social learning* as a fundamental mechanism of domestic change and identifies *networks* (either epistemic communities, or advocacy and/or issue-specific) and *informal institutions*, namely political and organisational cultures and social norms, as 'thick' mediating mechanisms that affect actors' preferences through the '*logic of appropriateness',* leading to the re-conceptualisation of their interests and identities (Risse et. al. 2001; Checkel 2001). In other words, the process of social learning emphasises the role of experts in the policy process as policy-change entrepreneurs through their increased capacity for the diffusion of new knowledge (Haas, 1992; Hall, 1993) on the one hand, and informal conventions, namely social norms, as 'glue providers' for the re-stabilisation of the relations among actors involved in the learning process, on the other (Sabel, 1993, 1994). Obviously, this differentiation corresponds to the broader distinction [within the academic debate about how 'paradigm change' occurs in public policy] between interests, ideas and institutions as fundamental conceptual tools affecting change in public policy styles in general (Hood, 1994).

Yet, given the complexity of the multi-level governance structures within which the adaptation process takes place and the distinctive character of the policy-making structures at the EU level, the degree of 'adaptational pressures' facing domestic institutions and policy-making structures in order to comply with the European rules and regulations in public policy is especially high in unitary and centralised states[8]. Therefore, specific features of the pre-existing domestic institutional infrastructure constitute a crucial intervening variable between Europeanisation and domestic policy and

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8 Although significant variation from one policy area to another is considered as the main feature of the EU policy-making structures, it has been argued that the EU institutional structure is more federal than unitary and its policy-making processes more pluralist than statist (Schmidt 1997). In that respect, it has been assumed, that the more centralised and unitary member states, such as Greece and Portugal, are likely to face stronger adaptational pressures than the decentralised and federal ones (ibid.).

institutional change that can account for the pace of Europeanisation process; hence the obvious link with the notions of VoC and QoG (Börzel and Risse 2000; Jeffery 2000; Risse et.al, 2001; Börzel 2001; Keating et.al., 2003; Paraskevopoulos, 2001, 2004, 2005, 2008, 2012; Paraskevopoulos, et.al., 2006; Featherstone, 2008; Featherstone and Papadimitriou, 2008).

Nonetheless, from the perspective of external constraints, the intensity of policy conditionality is of crucial importance as well. Thus there is evidence to suggest that, given the fundamentally intergovernmental character of governance and policy-making structures of the EU in several policy areas, and most notably in the coordination of macroeconomic policy through the SGP, along with the introduction of rather soft approaches/mechanisms of policy coordination, such as the Open Method of Coordination (OMC), the intensity of Europeanisation-induced policy conditionality may be viewed as rather low. Additionally, given that social learning and lesson-drawing are widely considered as more effective mechanisms of compliance in comparison with the tools of rationalist models of conditionality (Schimmelfennig and Sedelmeier, 2004; Rose, 1993, 2002), the quality of pre-existing domestic institutional infrastructure matters for the pace of institutional and policy change. Therefore, arguably, Europeanisation is fundamentally associated with *incremental*, *path-dependence* dominated, rather than *radical*, *critical juncture-like* form of institutional and policy change at the domestic level of governance (see Hall, 2010; Mahoney and Thelen, 2010; Capoccia and Kelemen, 2007; Paraskevopoulos, 2012). In that respect, the notion of Europeanisation is employed here as a conceptual tool of *process tracing*, from the perspective of the '*systematic process analysis*' methodological approach (see Hall, 2003:373-404), in juxtaposition to the MoU-induced, critical juncture-like form of policy conditionality. Yet, taking into account that the period of post-authoritarian transition -by definition a period of critical juncture for both countries- coincided with the beginning of the long Europeanisation process, to examine domestic responses to Europeanisation-induced policy conditionality, the paper concentrates on three crucial policy areas: macroeconomic adjustment; structural and labour market reforms; and cohesion policy.

3.1 Macroeconomic adjustment

Following the restoration of democracy, both countries came under severe pressure to adopt expansionary fiscal policies in order to come to terms with previously repressed social needs. This led to rapidly increasing social expenditure in the late 1970s and most of the 1980s in both countries[9]. This trend was particularly intense in Greece, due to intense

9 It is indicative that social expenditure (as a percentage of GDP) rose in the period from 1980 until the eve of the crisis from 12.2 per cent of GDP in Greece and 14.7 per cent in Portugal, in 1980, to 26 per cent and 24.3 per cent respectively, in 2008. Yet, although these increases are remarkable, social spending per capita lagged behind increases in GDP per capita when compared to the corresponding EU-15 rates, indicating that the two countries underspent in social protection in terms of their wealth. This is a vindication of the

populist pressures throughout the 1980s, whereby welfare policies came to be viewed as a crucial instrument for socio-political integration within the clientelistic-particularistic institutional framework that characterised this period. Thus, Greece in the 1980s adopted expansionary fiscal policy accompanied by social policy/redistribution-related reforms, based primarily on borrowed money, which eventually led to rapid increase of public debt by the end of the decade. Yet, although policy cycles in the two countries may be seen as converging over time, there has been identified significant variation, i.e. expansionary policy during the first post-authoritarian period to be followed by Cavaco Silva's market liberalisation reforms of the 1980s in Portugal vis-à-vis Greece's continuation of the expansionary path in macroeconomic policy all over the 1980s (see Pagoulatos, 2004).

In that respect, following the rather sluggish growth rates during the 1980s and early 1990s, Greece achieved relatively high -almost spectacular- growth rates (ranging from 2-4.5% per year) from late 1990s to 2007 (see figure 1). Although it could be argued that these growth rates merely reflect the benefits of joining the single currency, such as the reduction of transaction costs, this performance might partly at least be viewed as an outcome of the intensification of the modernisation and Europeanisation processes since the mid-1990s, put forward by what may be called '*Simitis' modernisation experiment*', namely the most serious in its inception and design and systematic in its implementation programme of institutional and policy reform that the country has ever experienced in the post-authoritarianism period. These growth rates, however, were fueled by cheap credit and went hand-in-hand with huge increase in public deficit and domestic demand between 1999 and 2009, very poor export performance, rapid deterioration of the country's competitiveness and hence of the current account balance, thus vindicating the fundamental assumptions of the VoC approach about institutional and policy specificities of south European capitalism and MMEs at large[10] (see Hall, 2012, pp.360-361). Thus the 2008-09 global financial crisis merely exposed Greece's vulnerabilities. Significant overspending and a sharp fall in government revenue pushed the general government deficit to 15.6% of GDP in 2009, while government debt reached 115% of GDP at the end of 2009 (see figures 2, 3). In sum, Greece entered the crisis period with a twin deficit (public and current account) of around 15% of GDP and a mounting debt burden. Moreover, the extent of the deterioration in the fiscal position was revealed with some delay due to serious deficiencies in Greece's accounting and statistical systems. Delays in the implementation of corrective measures disconcerted financial markets, which began questioning Greece's fiscal sustainability, rating agencies downgraded the sovereign, and the yield on sovereign bonds and CDS spreads increased significantly (see CEC, 2011a,b,c). Following a further worsening of market conditions in the course of April 2010, in May

argument that welfare state expansion is not the main reason for the deterioration of public finances (see Petmesidou and Glatzer, 2015).

10 It is indicative that Greece's deficit of current account reached its pick (-14,2% of GDP in 2009) (see figure 4), while simultaneously, the country has been the real "champion" in increase of domestic demand from 1999 to 2009 (around 37%), followed by Spain and Ireland (with approx. 30% increase), countries that have also achieved high growth rates along with Greece in the decade before the onset of the crisis (see Hall, 2012, pp.360-361).

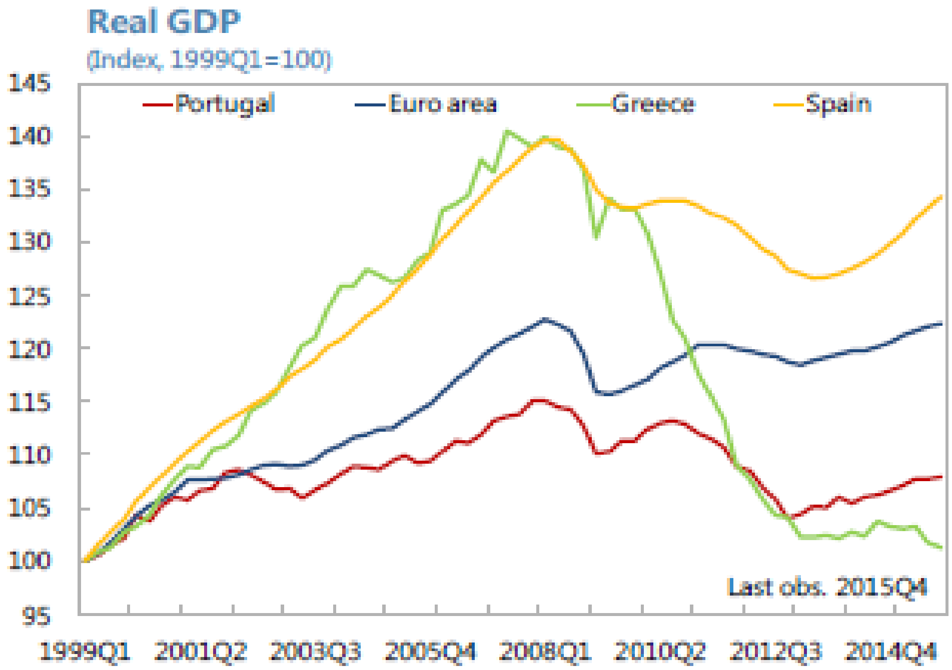
2010, the Eurogroup agreed to provide bilateral loans pooled by the European Commission for a total amount of €80 billion, to be disbursed over the period May 2010-June 2013. The financial assistance provided by euro-area member states was part of a joint package, with the IMF financing an additional €30 billion under a Stand-By Arrangement.

Conversely, Portugal demonstrates significant differences in macroeconomic adjustment in the pre-crisis period. Actually, as it has been argued, Portugal has been living in a sort of "official austerity" ever since the Eurozone came into existence in 1999, associated with relatively low growth rates, which went hand-in-hand with low increase in domestic demand in the decade before the crisis (1999-2009) (see Hall, 2012; Blanchard, 2007; De Sousa et.al., 2014). Thus, although consecutive governments have been struggling to fulfill the SGP/convergence criteria, especially the public deficit and debt ones, budgetary discipline has been rather elusive, and hence excessive deficit procedures were initiated by the European Commission in this period (2002, 2005 and 2009) (see De Sousa et.al., 2014). Actually, by 2009, the budget deficit had reached 9.4% of GDP (see figure 2), one of the highest in the Eurozone, the debt-to-GDP ratio was as high as 80% of GDP (see figure 3), and the deficit of current account reached its pick (10,9% of GDP) in 2010 (see figure 4), thus putting at risk the longer term sustainability of Portuguese public finances. Hence the Portuguese economy continued to stagnate and unemployment rose throughout that year.

In addition to the fiscal problems, however, there was a banking debt dimension to the crisis as well. Indeed, the liberalisation of financial markets and the supervision failures of the Portuguese banking system by the Central Bank (Banco de Portugal) had enabled two Portuguese private banks, the Banco Português de Negócios (BPN) and Banco Privado Português (BPP), to accumulate losses for more than a decade. In the face of possible insolvency of the BPN and the BPP, and to avoid an alleged contamination of the whole banking sector, the government decided to nationalize the first and rescue the second through a state loan (see De Sousa et.al., 2014). Thus, by late 2009, Portugal suffered the first of a series of downgradings from the top three rating agencies. In December 2009, Standard and Poor's lowered its long-term credit assessment of Portugal from stable to negative, voicing pessimism on the country's capacity to reduce debt by controlling its public finances, addressing structural weaknesses, or improving the competitiveness of its economy. In the summer of 2010, Moody's cut Portugal's sovereign debt rating down from an Aa2 to A1. The inaction of the Portuguese government and the lack of clear political response at the European level led to a further downgrading of the sovereign bonds to the level of "junk" with severe implications for the country's reputation in international financial markets. This also limited the access of Portuguese private banks to foreign credit, which meant that there was no capital available for companies and private investors. Thus the unemployment rate rose from 4% in 2000 to more than 12% in 2010, with the bulk of unemployed being highly educated (with a university degree) first time job seekers and young adults (see De Sousa et. al., 2014). Obviously, this problem may have highlighted some structural deficiencies of the Portuguese system of higher education, such as the lack of employability of graduates of certain university courses, as well. Thus, the socialist Prime Minister Sócrates was forced to resign on March 23, 2011, following a no confidence vote by all five opposition parties in parliament and the rejection of a new plan for spending cuts and tax increases. On April 6, 2011, with interest rates on the sovereign bonds reaching new highs and with the country on the verge of bankruptcy, the resigning prime minister announced the government's intention to ask the IMF and the European Financial Stability Facility (EFSF) for a financial bailout of 80 billion euros, corresponding to about 40% to 50% of GDP (see De Sousa et.al., 2014).

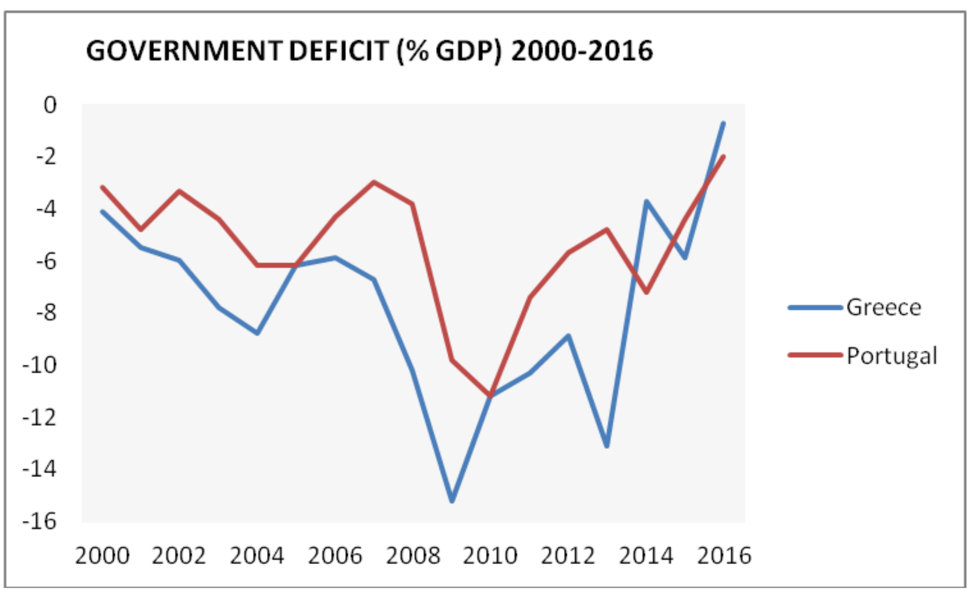
Overall, unlike Greece, Portugal did not experience a 'boom and bust' trajectory in the 2000s, given that excessive deficit procedures stemming from anemic growth led Portugal, on several occasions, to engage in cost containment and fiscal retrenchment well before the crisis. Hence the turn towards bailout austerity measures in Portugal was not as abrupt as in Greece. In that respect, macroeconomic adjustment in both countries was marked by varied growth rates, closely associated with the strength of domestic demand, but simultaneously accompanied by gradual loss of competitiveness especially during the 2000s, thus vindicating the fundamental assumptions of the VoC approach. However, there has been significant variation in respect to the pace of adjustment: more abrupt in Greece, more gradual in Portugal, which entered the crisis in a much better shape in terms of fiscal adjustment. This is substantiated by the gap in public deficit and public debt between the two countries, especially in the period 2005-09. Yet, although this variation may be attributed to domestic factors, the character of Europeanisation, as a process fundamentally associated with incremental rather than radical change might be of crucial importance as well. In particular, taking into account the role of coordination of economic policies of the member states in achieving macroeconomic adjustment, relevant areas of concern may be the problematic functioning of SGP, primarily identified with the often soft-handed approach to policy implementation on the part of the Commission, on the one hand, and the intergovernmental character of the ECOFIN/Eurogroup, on the other (see *inter alia* McKay, 1999; Hall, 2013; Blavoukos and Pagoulatos, 2008).

Figure 1



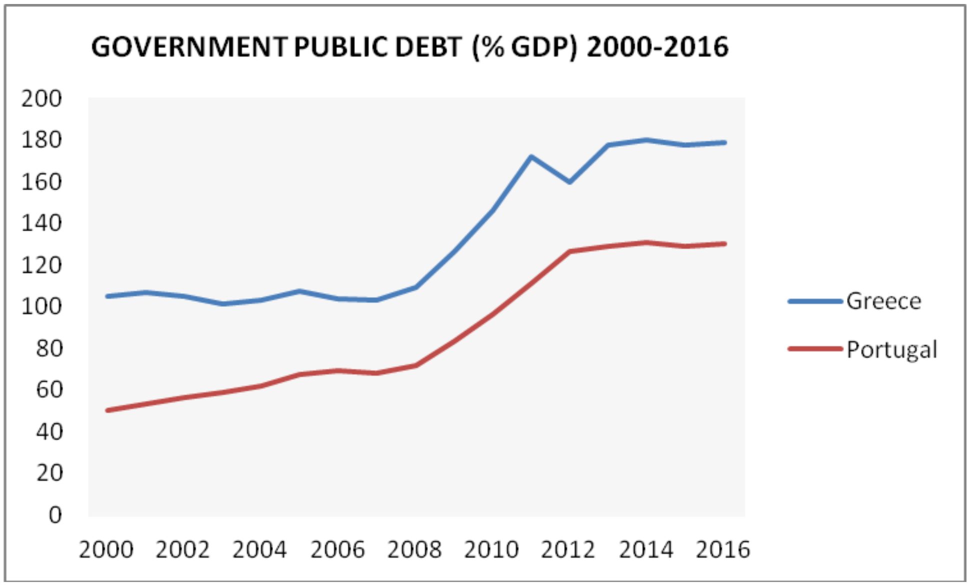
Source: *IMF Country Report No 16/97 (Portugal: Third Post-Program Monitoring Report)*, p.20, March, 2016.

Figure 2



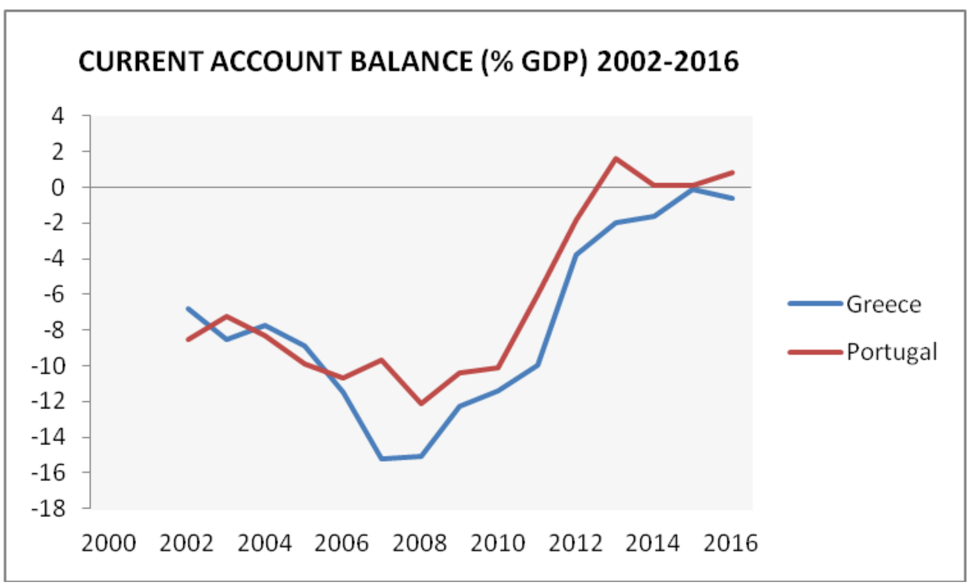
Source: Eurostat

Figure 3



Source: Eurostat

Figure 4



Source: Eurostat

3.2 Structural / labour market reforms

The area of structural and labour market reforms -closely associated with the Single Market (SEM) and competition policy at large- has been one of the most crucial policy areas for the incremental adjustment of both countries to EU policy environment over the last twenty years or so. This is because reforms undertaken in this area are considered as complementary and hence crucial for other policies, such as macroeconomic adjustment, as well as, simultaneously, as touching upon sensitive issues for citizens, interest groups and the society as a whole. Thus, given the discretion enjoying member states within the framework of *'variable geometry',* a key feature of EU governance, especially in Single Market-related issues (see Moravcsik, 1991, 1998), there is considerable variation in adaptation capacity across Eurozone countries.

In this framework, although there is some truth in the claim that the GIIPS (Greece, Ireland, Italy, Portugal, Spain) countries wasted their first decade in the single currency in terms of implementing growth-oriented structural reforms, there is evidence based on the OECD index for Product Market Regulation (PMR), a good indicator of structural reform, that the improvement in the south was roughly equivalent to that in the north (see Hall, 2012, 2014; Table 1). With respect to Greece and Portugal, in particular, both countries demonstrate substantial improvement in the period 1998-2008, albeit at a different pace/rhythm. Thus Greece, departing from a rather laggard position, improved its performance from 2.75 in 1998 to 2.21 in 2008, whereas Portugal's performance has been spectacularly improved from 2.59 in 1998 to 1.69 in 2008 (Table 1). Hence, obviously, there is substantial variation/gap in structural adjustment performance between Greece and Portugal before the onset of the crisis. Moreover, it has to be stressed that the much better performance of Portugal in structural adjustment is reflected not only in key PMR indicators, such as barriers to entrepreneurship and barriers to trade and investment, but also in crucial Doing Business (DB) indicators, such as trading across borders, starting a business, resolving insolvency, protecting investors, and enforcing contracts (CEC, European Economy, 2014:19-20). Conversely, the problematic regulatory environment in pre-crisis Greece is reflected in key PMR indicators, such as state control, barriers to trade and investment, and barriers to entrepreneurship, but also in the areas of clearance rate, trading across borders, starting a business, getting credit and enforcing contracts (CEC, 2014:19-20). Additionally, this discrepancy in structural adjustment between the two countries is further exacerbated by the 'traditional' weakness of Greece in crucial policy areas, the so called 'remnants of protectionism', such as transport (i.e. *cabotage*), competition/education (i.e. recognition of professional rights to non-state college graduates), and closed professions, such as pharmacists.

The varied performance in structural adjustment goes hand-in-hand with variation between the two countries in the allocation of resources between low-productivity, non-tradable activities, and high-productivity, tradable ones. In particular, while Portugal before the crisis was characterised by rather low rate, mostly jobless growth and low shift of resources towards non-tradables, Greece -along with Spain- were characterized by expanding economies, and large shift of resources towards non-tradables. Thus in the years leading up to the crisis (between 2000 and 2007) the amount of labour resources absorbed by non-tradable activities increased by over 5 percentage points in Greece and Spain: from 38% to 44% in Greece, and from 47% to 52% in Spain (CEC, 2014:2). This shift reflects the declining competitiveness in both countries, in comparison with Portugal, but also the role of construction industry during the boom years, especially in Spain.

With regard to labour market, both countries proceeded to the liberalisation of employment services and, if not successful in practice, at least in principle, embraced the idea of promoting a mix of passive and active policies. In particular, given the crucial role of labour market and social security/protection regimes within the reorientation of the main development goals and objectives of the economies, as formulated by the National Strategic Reference Frameworks (NSRF) 2007-2013, toward greater competitiveness through innovation, these issues go beyond the boundaries of social policy and touch upon the main development challenges facing the countries and most importantly in achieving real competitiveness at the global level. Thus, reforms in this area signal an attempt to broaden the concept of social protection rights by weakening the link with regular employment. This is reflected in the expansion of social assistance and of integrated measures for social inclusion and work-life balance, particularly through EU funding (e.g. in the home help programme in Greece, which, since the late 1990s, has aimed to improve work-life balance and support female employment) (see Petmesidou and Glatzer, 2015). In that respect, the introduction of the minimum income scheme for social inclusion (*Rendimento Social de Inserção*-RMI) in Portugal, in 1996, should be considered as an important innovation in the realm of an integrated policy, as a well as a key difference with Greece, where the introduction of minimum income is still under preparation[11] (Greek Parliament Budget Office-GPBO, October 2014, pp: 62-87; Petmesidou and Glatzer, 2015). Nevertheless, expenditure on active labour market policies remained low in both countries: it stood at a tiny 0.22 per cent of GDP in Greece and 0.59 per cent in Portugal in 2010/2011 (Petmesidou and Glatzer, 2015). Thus stringent rules on dismissals, high reservation wages, strict work demarcation, and varieties of dualism (e.g. through a large informal economy in the case of Greece and segmentation between a 'fringe' of weakly protected temporary contract workers and a "core" of protected permanent workers in Portugal), have persistently been major predicaments during the pre-crisis period in both countries[12]. Moreover, labour market reform has been

11 It should be reminded that, while initial steps for the introduction of a minimum income scheme in the form of regional pilot projects had already been undertaken by the previous ND-PASOK coalition government in 2014, after two years of Syriza governments in power its introduction is still under preparation. Actually the introduction of such a scheme, re-named as Social Solidarity Allowance (SSA) and based on means testing criteria, is planned for 2017.

12 It has to be stressed though that in Greece, labour market reform was an integral part of Simitis governments' reform agenda in the 1990s and the first decade of 2000s. Thus, along with PASOK's priority and commitment to reduce unemployment by creating new jobs, the reform would focus on: increasing flexibility of working time; reducing employers' national insurance contributions for newly recruited staff; restricting overtime; and relaxing limits on mass redundancies Yet, the reform eventually failed to

fundamentally influenced by deeply rooted institutional complementarities in both countries. For instance, the weaknesses of the welfare state, in terms of social insurance provisions, might make actors much more sensitive with regard to job security and therefore rather reluctant to accept reforms focusing on flexibility of the labour market (see Iversen and Stephens, 2008; Featherstone, 2008).

In sum, although both countries substantially improved their performance with regard to structural reforms before the onset of the crisis, these reforms proved inadequate to help avoid the effects of the crisis. This is also consistent with the fundamental assumptions of the VoC approach. However, the variation between the two countries in the pace/rhythm of structural adjustment may point to the discrepancy in respect to specificities of domestic institutional and policy structures. Additionally, with regard to labour market reforms, despite the important similarities between the two countries (i.e. tendencies towards liberalisation/dualisation and dualism in policy implementation, generally poor performance in active labour market policy initiatives etc.), the prompt/timely introduction of the minimum income scheme (RMI) in Portugal may again point to crucial variation between the two countries in aspects of domestic institutional infrastructure at large.

Table 1

PRODUCT MARKET REGULATION (PMR) INDICATORS 1998 -2013

(Index scale 0 to 6 from least to more restrictive)

Country	1998	2003	2008	2013
France	2.38	1.77	1.52	1.47
Germany	2.23	1.80	1.41	1.29
Netherlands	1.82	1.49	0.96	0.92
Italy	2.36	1.80	1.49	1.26
Ireland	1.86	1.58	1.35	1.45
Greece	2.75	2.51	2.21	1.74
Portugal	2.59	2.12	1.69	1.29
Spain	2.39	1.79	1.59	1.44

Source: Koske, I. *et al.* (2015) “The 2013 update of the OECD's database on product market regulation: Policy insights for OECD and non-OECD countries”, *OECD Economics Department Working Papers*, No. 1200, Paris: OECD.

materialize, following strong reactionary attitudes/resistance to change by the two main trade unions, the General Confederation of Workers (GSEE) and the Confederation of Public Sector Workers (ADEDY) (see Papadimitriou, 2005).

3.3 Cohesion policy

In cohesion policy, and especially in the cases of Greece and Portugal, Europeanisation has long been linked to the crucial role of the policy as an indirect form of redistribution – actually a substitute for the direct fiscal transfers which constitute common feature in federal states for tackling asymmetric shocks (see McKay, 1999; Krugman, 2011). Moreover, this function of cohesion policy is free of the risk of the so called "*moral hazard effect"* that characterises typical fiscal transfers (see Paraskevopoulos, 2001, 2005, 2008, 2012). In doing so, however, cohesion policy affects and challenges well-established structures within the domestic systems of governance and plays an important role in administrative restructuring and devolution processes within the member states by enhancing institutional capacity at the sub national level. In particular, its impact on the regional and local policy-making arenas is supposed to be twofold: a direct one, by providing increased resources through redistribution and a new set of rules and procedures for the formulation and implementation of development policies; and an indirect one, by shaping intra-regional interactions and thus promoting local institutional capacity through the creation of intra, inter and trans-regional networks that support local development initiatives (Paraskevopoulos, 2001, 2005, 2008). In that respect, both countries have been experimenting with reluctant decentralisation and new modes of governance in Cohesion policy (Paraskevopoulos 2004; Paraskevopoulos et. al., 2006; Nanetti et. al., 2004).

Yet, the key issues surrounding the implementation of cohesion policy over time in terms of adaptation and adjustment are the effective and efficient use of EU funds, the actual policy outcomes in achieving competitiveness and socio-economic cohesion, and policy innovation in the way in which policy is implemented. In that respect, with regard to the former, there seems to be a differentiation between Greece and Portugal in relation to the effect of EU structural policy interventions. In particular, structural policy interventions in the post-1994 period are much more physical infrastructure-oriented in Greece than primarily in Portugal and Ireland, where more emphasis is placed on the development of human capital (see Paraskevopoulos, 2005). Indeed, since the mid-1990s, the development of infrastructure came to be viewed as the first step of the Europeanisation of Greece and, simultaneously, as a prerequisite for the success of the modernisation process in other sectors of public policy. Thus, unlike other policy areas, where the outcomes of the Europeanisation and modernisation processes may be seen as ambiguous[13], the development of physical infrastructure as a priority of the overall development policy since the mid-1990s came to be regarded as a success story for Greece. This trend, however, was underpinned by arguments about the generally bad condition of almost any sector of the country's physical infrastructure, as well as by reference to what other comparable countries, notably Portugal and Ireland, had already

13 Such areas may include primarily regulation in public policy in general and especially in financial services and/or mass media, environmental policy, education, or areas of social policy. See in particular Featherstone and Kazamias (2001); Paraskevopoulos (2005).

done or were doing. In fact, there was a widespread feeling that the funds of the IMPs and the first CSF, having been dispersed on several small-scale, regional projects across the country, had much less impact than they would have had if they concentrated on large-scale infrastructure projects (see Paraskevopoulos, 2005). However, this has had serious implications for policy outcomes in terms of improving competitiveness and achieving socio-economic cohesion. In particular, Portugal has substantially improved its competitiveness rate and therefore before the onset of the crisis it was in a much better position than Greece in the relevant index, primarily through increased human capital and research and development (R&D) spending (CEC, 2010a:69). Additionally, there is evidence to suggest that Portugal has been much more effective and efficient than Greece in social policy (e.g. it had a much better performance than Greece in population at risk of poverty after social transfers (CEC, 2010a:106).

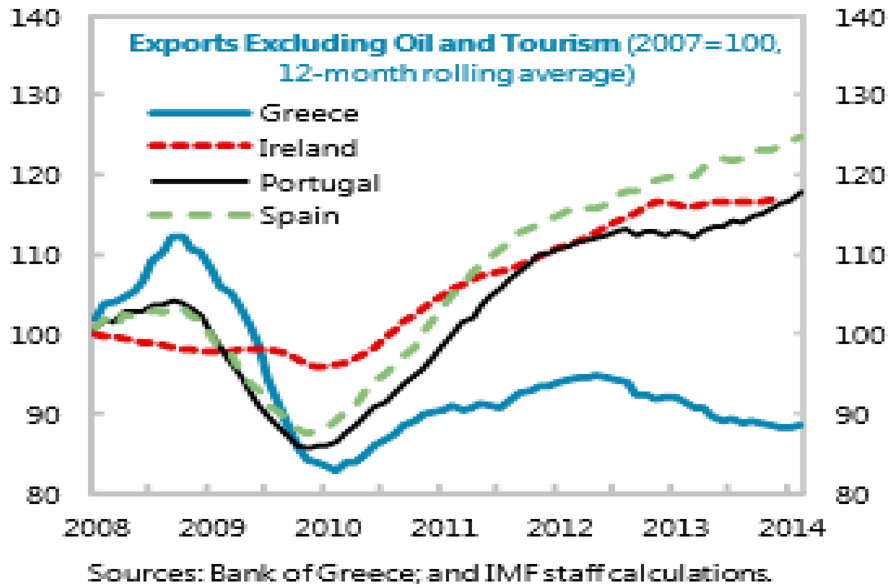
In sum, although the VoC approach would predict similarities between Greece and Portugal, as both countries belong to MMEs, there is evidence of significant variation in performance in all policy areas examined, which points to variation in the pace of Europeanisation process between the two countries. In particular, in macroeconomic adjustment, Portugal avoided the 'boom and bust' trajectory of Greece, which was marked by excessive deficit and mounting debt burden that led the country to default in 2010. Conversely, Portugal, while suffering from anemic growth ever since joining the EMU, managed to get fiscal policy under control, thus entering the crisis in a much better fiscal shape in comparison with Greece. With regards to structural/labour market reforms, both countries achieved substantial improvement in the decade before the onset of the crisis. However, Portugal's pace of improvement can be characterised as spectacular. A case in point is the prompt introduction of minimum income scheme (RMI) in Portugal in late 1990s, while in Greece it is still under preparation. Finally, in cohesion policy Portugal's performance both in terms of use of physical infrastructure-oriented EU funds, as well as in terms of timely reorientation of policy towards human capital and R&D development has become obvious. Hence, there is evidence of substantial variation between the countries in the pace of adjustment and Europeanisation processes well before the onset of the crisis in late 2000s (see Figure 1 above).

4. Variation in responses to MoU conditionality: Greece and Portugal in crisis

As it is well known now, the eruption/breaking out of the crisis, initially in Greece and then across southern Europe in 2010-11, brought about new institutional mechanisms for provision of financial support at the supranational level of EU governance, such as the European Financial Stability Facility (EFSF) and later the European Stability Mechanism (ESM), accompanied by a new institutional framework for *policy conditionality*, the *Memorandums of Understanding (MoUs)*, to be monitored by the so called 'troika', comprising the EU Commission, the ECB and the IMF (see Featherstone, 2011). This marked a fundamental shift in the intensity of external constraints/conditionality from *incrementalism*, the dominant logic of Europeanisation-induced conditionality, to a rather *critical juncture*-like and *radical change*-oriented logic of MoU-induced external policy conditionality, and its emphasis on the role of *agency* vis-à-vis *preexisting institutional structures* in the reform and adaptation processes (see Capoccia and Kelemen, 2007). This is widely viewed primarily as an outcome of the IMF involvement in the oversight of the MoUs. In particular, although the IMF had embraced a so called "*philosophy of parsimonious conditionality*" over the last decade or so, following a strong criticism of the way it dealt with the Asian crisis (see Dreher, 2009; Boughton, 2003), the rescue deals for Greece and Portugal were characterized by extensive conditionality, dominated by the principles of *moral hazard* and *ownership* of the programmes. This extensive conditionality, however, goes hand-in-hand with the new economic governance of the Eurozone, based on the European Semester and introduced through the reformed SGP and Excessive Deficit Procedure (EDP) mechanisms of Six Pack, Two Pack and the Treaty on Stability, Coordination and Governance (Fiscal Pact), and focusing on fiscal discipline through better fiscal policy coordination (see GPBO, 2014). As for policy substance, the dominant logic of MoUs has been that of the so called *ordoliberalism*[14], an economic policy school of thought stressing the importance of stability and compliance to policy norms, namely for this case to the SGP, thus emphasising structural reforms as a way to achieve sustainability of public finances of the crisis-hit countries. It is indicative that a report commissioned by the European Parliament on identifying the main themes of Commission documents monitoring the structural adjustment plans in both countries shows that 'fiscal consolidation', 'structural reform' and 'privatisation' are the themes occurring with the highest frequency in the programme documents (mentioned, on average, 2.06 times per page in the case of Greece and 1.79 times in the case of Portugal), whereas the frequency with which 'unemployment', 'poverty', 'inequality' and 'fairness' are mentioned is negligible (See Figures 5 and 6, see also Sapir, *et al.* 2014).

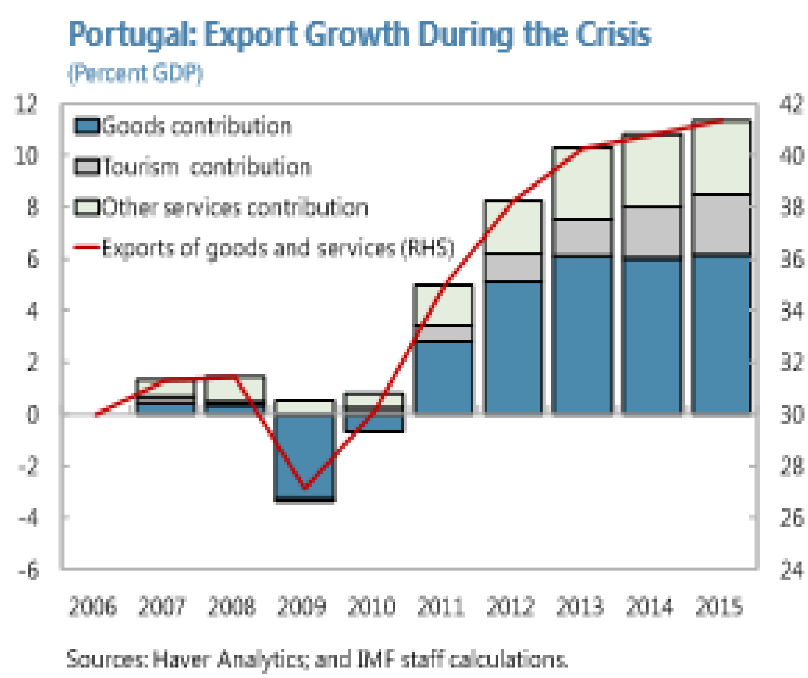
14 The term draws on the so called "Freiburg school of economics" and it is widely used with reference to the German economic policy during the crisis of the Eurozone (see *inter alia* Featherstone, 2011; Bulmer, 2014).

Figure 5



Source: *IMF Country Report No 14/151 (Greece: fifth review under the extended arrangement/fund facility)*, p.5, June, 2014.

Figure 6



Source: *IMF Country Report No 16/97 (Portugal: Third Post-Program Monitoring Report)*, p.4, March, 2016

4.1 Macroeconomic adjustment

The fundamental shift in the intensity of policy conditionality between the Europeanisation-induced and that introduced by the MoUs has had a clear impact on the intensity of macroeconomic adjustment in both countries, albeit at a very high price in terms of social costs. Thus, indeed, both countries experienced a radical/rapid adjustment over the period 2010-2016 primarily related to the reduction of the public and current account deficits, a key factor that had actually led them to default six-seven years ago. Yet, this adjustment was achieved mainly through MoU-induced austerity measures and therefore went hand-in-hand with continuous recession, especially in Greece, over the last six-seven years, with serious implications for the level of unemployment and public debt in both countries. However, the pace of adjustment was particularly intense/ tough in Greece and the social costs, in terms of the level of unemployment, poverty, inequality, material deprivation and so on, much higher than in Portugal. Moreover, the latter has successfully completed the programme in 2015 and it is not under the tutelage of the MoU conditionality and the "troika" anymore.

In Greece, the first financial assistance programme (MoU) –signed in May 2010 and designed cover the government's financing needs until 2012 and progressively less thereafter- was implemented by the PASOK government that had been elected in the autumn of 2009. This programme was focused on rapid improvement of the fiscal position of the country, and therefore it was fundamentally based on extensive, horizontal cutbacks in public sector expenditure, primarily salaries and pensions (see Petmesidou and Glatzer, 2015). This policy paid dividends and, indeed, led to sharp reduction of public and current account deficits in relatively short period of time from 15.4% of GDP in 2009 to 10.3% in 2011 and from 15.1% in 2008 to 10% in 2011 respectively, at the expense of course -because of the recession- of the public debt which increased from 146% of GDP in 2010 to 172% in 2011 (figures 1, 2, 3, 4).

What needs to be stressed, though, is that partisanship, extreme polarisation and fierce resistance[15] to change have been the dominant features of the political climate over that period in Greece, with the legislation surrounding the MoU and all relevant structural reforms package actually supported and passed through parliament exclusively by the majority of the governing party (PASOK) and without any political consensus with opposition parties. This political climate led to the resignation of PASOK government in autumn of 2011 and a new –actually the first- coalition government took over, supported by the two main political parties PASOK and New Democracy, and headed by a technocrat, professor L. Papademos, ex-governor of Bank of Greece, the Greek central bank. This rather short-lived 'technocratic' government –it lasted until June 2012- emphasised both

15 It needs to be stressed that extreme polarisation and resistance gave impetus to a massive mobilization at the societal level that gradually led to the creation of a mass movement, similar up to a point to Spanish "indignandos" (indignant-"aganktismenoi" in Greek), and a supposedly new (anti-MoU) cleavage in Greek society, which was heavily supported by a then marginal party of radical left, SYRIZA (see Aslanidis, 2015).

fiscal and structural adjustment, signed the second MoU programme of the magnitude of around Euro 175 billion in March 2012 to cover the post-2012 period and paved the way for the major haircut of public debt in human history through the cut of Private Sector Involvement (PSI) bonds that took place in November 2012 under Minister of Finance E. Venizelos. Following the election of June 2012 a new coalition government took over supported again by the two main political parties and headed by Prime Minister Samaras of New Democracy. This government substantially contributed to the relative stabilisation of the country by managing to reduce the public and current account deficits from 8.9% of GDP in 2012 to 5.9% in 2015[16] and from 3.8% in 2012 to 0.1% in 2015 respectively, and by completing the massive haircut of public debt through the PSI in November 2012.

Nonetheless, because of the recession, public debt rose to 177.4% of GDP in 2015 (see Figures 2, 3, 4), while unemployment rose from 12.7% in 2010 to 27.5% in 2013, but reduced to 24.9% in 2015 (see Eurostat data). Following a snap election in January 2015, caused by the refusal of SYRIZA and other minor populist opposition parties to agree on a consensual election of President of the Republic by the parliament, a new coalition government consisting of SYRIZA and a small right wing populist -with some resemblance to UKIP- party, the 'Independent Greeks–ANEL', came to power. After the disastrous first six months of 2015 that led to the imposition of capital controls, a new –third- MoU programme was agreed in summer 2015 at the magnitude of around Euro 85 billion, associated, however, with continuation of austerity, very high increase of direct and indirect taxation and recession, thus leading the country to a stagnation with serious long-term implications for the economy and the society as a whole. Main features of this situation are the piling of debt at 179% of GDP and the elimination of both public and current account deficits in 2016, although the latter is primarily due to the decline of imports, rather than the dynamism of exports, given the very low performance of Greece in exports, especially after excluding oil and tourism (see Figures 2, 3, 4, 5).

Notwithstanding the macroeconomic adjustment and regardless of the levels of effectiveness and efficiency in the implementation of MoU programmes, there have been introduced crucial for Greece institutional innovations as well. These include the creation of independent –from political control- authorities dealing with/having the oversight of sustainability of public finances at the domestic level of governance, such the National Statistical Service (ELSTAT), the Fiscal Council and the independent Public Revenue Authority/Service. Finally, an independent Greek Parliament Budget Office (GPBO) has been created in 2013.

Portugal followed a fundamentally different path in response to MoU conditionality in comparison with Greece. Following a series of negotiations between the EU Commission, the ECB and the IMF, that is the "troika", on the one hand, and the government, the two opposition parties, but also various civil society organisations, on the other, a programme

16 It has to be reminded, however, that since 2014 the country had started to have primary budget surpluses and to enjoy small, though not negligible, growth rates (see Figure 1).

document was produced with the agreed measures to be implemented between 2011 and 2013. The programme was concentrated on three main areas: fiscal consolidation, the solidity of the Portuguese banking system, and a set of structural reforms focusing on the improvement of Portugal's potential to return to economic growth. The latter was aimed at enabling the country to overcome the lack of competitiveness of the previous decade (see De Sousa et.al., 2014). Indeed, the first decade of the 21st century, the so called 'lost decade', was revealing in relation to the lack of competitiveness of the Portuguese economy. Thus real GDP growth was very low (close to 1%) from 2000 to 2012 (see figure 1), the unemployment rate rose from 5% to 17%, the central government deficit was 3.2% of GDP in 2000 and reached 11.2% in 2010, and government debt rose inexorably from 50% in 2000 to 96% of GDP in 2010 (see Figures 2,3). Additionally, Portugal had lost its appeal to foreign investors: in the Global Competitiveness Index, the country dropped, between 2000 and 2011, from 28th place worldwide to 46th, two positions above Italy and one position below Slovenia (see De Sousa et.al., 2014). Finally, while in the early 1990s the current account deficit was 2% to 3% of GDP, in 2009 it had reached 10% of GDP (see figure 4). Yet, the outcome of the adjustment process culminated in the reduction of unemployment to 11.2% in 2016, and also to the elimination of government deficit and a slightly positive (surplus) of the current account in 2016, demonstrating the exports dynamism of Portugal after the crisis (see Figures 2, 4, 6).

Nonetheless, in a similar vein to Greece, but at lower scale of intensity, the poor scoring in the economy, in terms of record-level unemployment (in particular of highly qualified young job seekers), rising taxation and economic recession, led to growing discontent and anti-MoU demonstrations from disheartened citizens. Indeed, the social costs of economic adjustment of this magnitude have been profound. Among the most emblematic measures in this context were the reduction of nominal civil servant wages between 3.5 and 10% for salaries above EUR 1.500 per month, with projected savings of 5% in the overall wage bill and a freezing of all public pensions and wages under EUR 1.500. These measures represented a large real income loss for active civil servants (between 4.9 and 11.4%) and a small loss for retirees (Graça João Carlos, et.al., 2011; see also Petmesidou and Glatzer, 2015). Other measures included the unprecedented cut in public investment and re-evaluation of all major PPP projects, the most emblematic being the high speed train connection between Lisboa and Madrid (see Graça João Carlos, et.al., 2011).

Finally, it needs to be stressed that in contrast with Greece, and despite the reactionary attitudes, the Portuguese voters conceded 78% of their votes to the parties that signed the agreement. Additionally, the Memorandum of Economic and Financial Policies and the corresponding Technical Memorandum of Understanding signed by the representatives of the *troika* and the center-left government of the socialist party (Partido Socialista) with the support of the main opposition parties (Partido Social Democrata and Centro Democrático Social) on the right of political spectrum, that a few days later would come to win the general elections and in fact implement the programme in coalition.

Overall, indeed, the shift from incrementalism, the logic of Europeanisation-induced conditionality, to the MoU-radical change-oriented logic of policy conditionality led to a rather rapid macroeconomic adjustment in both countries at a high price in terms of social costs. Yet, there is again substantial variation in the pace and costs of this adjustment between Greece and Portugal. In particular, given that Portugal entered the crisis in comparatively better shape than Greece and its more consensual policy environment, but also because probably of the better quality of its domestic institutional infrastructure, it completed the programme promptly in 2015. Conversely, Greece, characterised by a more confrontational policy environment, has been in recession since 2009 and is currently in stagnation under the third MoU programme in a row. This performance gap however becomes more evident -and probably closely associated with the quality of domestic institutional infrastructure- in the social costs of adjustment. In that respect, in terms of risk-of-poverty, Greece has the highest proportion of population (35.7% in 2015) at risk of social exclusion among the EU 28 member states, compared to 27.7% in 2010. Additionally, the proportion of absolute poverty (that is the percentage of population with income at the level of deprivation) has risen from 18.9% in 2009 to 48% in 2014 (see GPBO, 2017). Conversely, Portugal's proportion of population at risk of poverty has risen from 25.3% in 2010 to 26.6% in 2015, but dropped to 25.1% in 2016 (see Eurostat; EU-SILC). With regard to income inequality measured on the basis of GINI coefficient, in Greece it has been risen from 32.9 in 2010 to 34.2 in 2015, whereas in Portugal it has been dropped from 34.2 in 2012 to 33.9 in 2015. Finally, with regard to material deprivation, in Greece it has almost doubled in the period 2010-2015 from 11.6% to 22.2% respectively, whereas in Portugal it has been reduced from 25.5% in 2013, to 21.6% in 2015, and 19.5% in 2016 (see EU-SILC).

4.2 Structural / labour market reforms

Although indicators measuring the overall regulatory environment show that Greece and Portugal led the reform effort according to the OECD PMR indicator between 2008 and 2013, the performance in structural reforms, as a response to MoU conditionality, constitutes a crucial area better reflecting and demonstrating the discrepancy/variation between the two countries in terms of adaptation capacity. In that respect, both countries demonstrate substantial improvement in the period 2008-2013, albeit at a different pace/rhythm. Thus Greece, departing from its laggard position before the onset of the crisis, improved its performance from 2.21 in 2008 to 1.74 in 2013, whereas Portugal spectacularly improved its performance from 1.69 in 2008 to 1.29 in 2013 (see Table 1). Yet, even after this substantial improvement, Greece still belongs to the laggards in structural reforms among the EU member states, whereas Portugal is among the best performers. Obviously, undoubtedly, this variation/gap in structural adjustment between the two countries reflects the situation before the onset of the crisis. In that respect, the much better performance of Portugal in structural adjustment in the period 2008-13 is reflected not only in key PMR indicators, but also in almost all crucial Doing Business (DB) indicators, such as trading across borders, starting a business, resolving insolvency, protecting investors, enforcing contracts, dealing with construction permits and business regulation. Conversely, the problematic regulatory environment and adaptation capacity of Greece is reflected in the fact that the only Doing Business (DB) indicators in which the country has demonstrated substantial improvement are dealing with construction permits and starting a business (CEC, 2014:19-20).

Additionally, while the introduction of an electronic registry to simplify the creation of new businesses and the introduction of a new form of limited liability corporation that has no capital requirement may have helped Greece rise 110 places to 36th out of 189 in the World Bank's Doing Business Report, the biggest improvement of any country between July 2012 and June 2013 (CEC, 2014), in 2017 the country has been dropped to the 61st place; conversely, Portugal is at 25th place in 2017 and improving (see World Bank, 2017). As far as the EU Services Directive is concerned, reforms implemented by mid-2013 are estimated to boost labour productivity in the sectors affected by the Directive by around 4.3% in Portugal and almost 9% in Greece. Given that the directive covers an average of 40% of GDP in the four south European countries, the full economy-wide effects are expected to be considerable (CEC, 2014).

In accordance with the pre-crisis period, variation between the two countries is evident in the allocation of resources between non-tradable activities, and high-productivity, tradable ones as well. In the 2010-13 period there has been observed a changing tendency in Spain, Portugal and Greece, as the reallocation towards non-tradables stopped and started to reverse. Yet, while in Spain and Portugal this change has been driven by a big contraction of value added in the non-tradable sector and the continuation of the expansion of the tradable sector, in the case of Greece, both sectors are contracting during the adjustment period. Thus in Greece there is no clear pattern in terms of reallocation of resources as both tradable and non-tradable sectors are declining (see CEC, 2014).

As for the labour market reforms, successive legislation under the MoUs significantly changed the rules governing industrial relations in Greece. Public sector reforms led to wage reductions, a recruitment freeze and dismissals, while in the private sector, legislation facilitated flexible and precarious employment, redundancies and reformed the collective bargaining system. Thus, in February 2012, the General Collective Agreement among social partners was abolished by law, a reduction of the minimum wage (to 580 euros, gross) was imposed and the unemployment benefit was reduced to 360 Euros. These reforms actually favored and facilitated labour contracts at the enterprise level and the individualisation of employment conditions accompanied by reduced remuneration, thus leading indirectly to an increase of uninsured labour (see Petmesidou and Glatzer, 2015). With regard to minimum wage, legislation provided that it will be set by law, thus undermining the role of autonomous collective negotiations. However, a requirement of prior consultation by the Employment Ministry with the social partners before legislating on minimum wage was introduced, which cannot recompense for the trade unions' right to free collective bargaining. Regulations also imposed a pay freeze, suspended the application of industry-wide and occupational agreements for all employees in a sector or occupation, and restricted the ability of employees to seek arbitration. By facilitating the drawing up of employment agreements at the business level, even in very small enterprises and by informal associations of workers, legislation under the MoU effectively dismantled the collective regulation of working conditions. In response to the trade unions' appeal filed in 2012, the Council of State recently issued a ruling that found the restrictions in arbitration unconstitutional, but rejected the appeal against the entire spectrum of reforms seriously limiting labour rights. Finally, an extra benefit of 200 Euros for the long-term unemployed was introduced (for up to 12 months), although due to the highly restrictive eligibility criteria, only 1.5 per cent of the registered long-term unemployed currently receive it (see Petmesidou and Glatzer, 2015).

In Portugal, labour market reform under the MoU purportedly aimed to address labour market dualism. However there is evidence to suggest that it has been expanding. Labour costs have been significantly reduced and dismissals have been made easier by reducing severance payments and widening the criteria for fair dismissal. The regulation of fixed-term contracts was redesigned to allow for longer terms and a greater number of extensions to a maximum of 18 months. Overtime pay was reduced, four public holidays were abolished, paid holiday entitlements were reduced, and the minimum wage was frozen at 485 euros monthly (from January 2011). Collective bargaining agreements were altered to significantly reduce their application to non-unionized workers. Given Portugal's low union membership (20 per cent), this has had a significant impact. According to the Portuguese Ministry of Employment, from 2008 to 2012, the number of private sector workers covered by collective agreements dropped sharply from about 1.9 million to 327,600 (Petmesidou and Glatzer, 2015). In order to increase unemployment benefit coverage in Portugal from a very low level, the necessary contribution period to access benefits was lowered from 15 to 12 months. However the maximum duration of benefits was cut by almost half, from 30 to 18 months, but unemployment benefits were extended to some categories of self-employed workers in both Greece and Portugal (Petmesidou and Glatzer, 2015).

Thus overall, labour market reforms in both countries have been dealing with the MoUs tendency towards tackling dualism by enhancing deregulation of labour market through institutional displacement. In that respect, there are important similarities between the two countries, in terms of increasing phenomena of black/informal labour market thus actually intensifying dualism. In structural reforms there seems to be a clear variation/gap in adaptation performance between Greece and Portugal. This has become evident in the PMR and DB indicators, with Greece still being a clear laggard and Portugal belonging to the group of best performing countries of the EU.

4.3 Cohesion policy

With regard to policy innovation in the implementation phase of Cohesion policy, although Greece has arguably been experimenting with crucial reforms in terms of decentralisation and devolution, such as the so called 'Kapodistrias' and 'Kallikratis' plans, both countries are facing almost the same issues with regard to policy formulation and implementation during the programming periods 2007-2013 and 2014-2020, even though the success stories for Greece are almost exclusively identified with improvement in physical infrastructure. Thus, according to the responses of institutional actors at the national and regional levels, entrepreneurship and competitiveness through innovation and sustainability, as well as fostering social inclusion through employment and non-discrimination are the main issues dominating cohesion policy in the current programming periods, that is in formulating the NSRFs[17]. Yet, in the Greek case, the emphasis on sustainability and competitiveness, not least as part of the Gothenburg Strategy, following the Community Strategic Guidelines on Cohesion and taking into account Greece's weakness in relation to specific indicators of the Lisbon agenda, such as those of the 'knowledge economy'[18], the main features of the NSRF for Greece are reflected primarily on the reorientation of policy priorities in the Sectoral Operational Programmes (SOPs). Conversely, at the regional level, the top-down structure of cohesion policy interventions in the current programming period, along with creeping centralisation in policy implementation are identified as the main issues dominating policy. Additionally, given the delays in the implementation of policy, especially in Greece (programmes' absorption rates vary between 15-20% maximum), it has been difficult to identify clear-cut successes/success stories and/or failures. However, the shift in focus from infrastructure to ERDF actions in favour of entrepreneurship and competitiveness is identified as a success in Greece. In that respect, institutional respondents have emphasized policy/programme implementation rather than policy design/formulation as possible explanatory variable for success or failure. Thus they underlined the importance of improved levels of coordination among actors participating in the implementation of policy/programmes. In the same vein, they have emphasized important institutional weaknesses at the level of central administration, particularly in Greece, vis-a-vis increased EU programme requirements with regard to institutional, that is administrative capacity at the domestic level of governance.

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17 These are findings of interviews which were part of fieldwork research conducted in the framework for a DG-Regio research project.

18 It should be reminded that Greece lags far behind in relation to most of Lisbon agenda targets, such as job creation and employment rate, particularly for women and older workers, risk-of-poverty rate after social transfers, long-term unemployment rate, greenhouse gas emissions and energy intensity of the economy. Yet, the most striking discrepancy, closely linked to the main goal of achieving a "knowledge economy" is the case of gross domestic expenditure on R&D, whose current level is 0.57% of GDP in 2006 with the EU27 rate at 1.84% and the EU target for 2010 at 3%. It is just indicative for Greece's position that the R&D expenditure target of 1.5% of GDP has been postponed from 2010 to 2015 (see Paraskevopoulos, 2008).

With regard to the impact of and response to the economic crisis, there have been efforts, particularly in Greece, towards acceleration of pace in policy/NSRF implementation at both the national and regional levels. This has resulted in increased emphasis on the management of the funds with subsequent pressures with regard to the level of absorption in almost all policy areas/programmes.

Overall, in Greece there seems to be a positive view about cohesion policy interventions related to infrastructure improvement measures and the improvement of the quality of ICT networks. Conversely, there is a negative assessment of efficiency of policy interventions focusing on family support and connecting R&D activities of the research community and private firms. Additionally, there seems to be a negative view about the efficiency of cohesion policy interventions in crucial areas of social policy, such as job placement of women and young people, job placement of displaced workers and the elderly and handicapped, and the improvement of female entrepreneurship, in Greece.

In sum, variation in cohesion policy implementation between Greece and Portugal involves primarily the existing gap in effectiveness and efficiency in the use of EU funds with Portugal having achieved considerable gains in manufacturing productivity, and hence competitiveness, through a strong increase in its capital stocks of infrastructure, human resources and particularly R&D, while Greece still emphasising investment in physical infrastructure (see CEC, 2010a). Additionally, Portugal seems to be much more efficient in the use of ESF funds in crucial areas of social policy, such as tackling risk of poverty.

5. Accounting for variation: VoC, QoG or Trust?

There is a burgeoning literature on post-authoritarian transition in Greece and Portugal, and southern Europe at large, which deals with the democratisation and Europeanisation processes in these countries. Given that by definition the transition period from authoritarian regimes constitutes a period of *critical juncture* characterized by more or less extensive institution building that marks the initiation of a longer period of *incremental* institutional and policy change dominated by the logic of *path dependence*, this literature concentrates on identifying similarities and differences in the democratisation and Europeanisation processes among south European countries, by focusing on the quality of formal and informal institutional infrastructure. For obvious reasons, the emphasis is on the so called third wave –of democratisation- countries, notably Greece, Portugal and Spain. In that respect, this literature, drawing primarily, if not exclusively, on new institutionalist approaches to institutional change, emphasizes initially the historical characteristics, such as the typology of dictatorial regimes and the specificities of the transition or regime change period itself. Accordingly, it tries to identify crucial variables that can account for similarities or variations in the evolution of democratisation and/or Europeanisation processes in these countries. Thus particular emphasis is placed on crucial aspects of the political and/or party systems (Morlino 1998), on specificities of the organisation of the socio-economic interests (Schmitter 1995), on important cultural aspects (Diamandouros, 1994; Diamandouros and Gunther, 2001), and/or on crucial structural variables, such as the type of bureaucracy and state-society relations, namely different forms of clientelism and corruption (Lyrintzis, 1984; Morlino, 1995; Sotiropoulos, 2004).

With regard to the comparative analysis of the cases of Greece and Portugal, existing literature has identified important similarities but also crucial differences (variation) between the two countries in respect to the adaptation and Europeanisation processes. This variation became more emphatic during the post-2010 crisis period. Thus, although the kicking off of the democratisation and Europeanisation processes in mid-1970s demonstrates important similarities between the two countries, there have been identified crucial differences as well. In particular, while the first post-authoritarianism period (1974-80) in Greece -under New Democracy/Constantine Karamanlis governments- has been characterized by a rather smooth and successful, in terms of institution-building, transition to democracy, democratisation in Portugal has been marked by political instability due to what has been called "*revolutionary mobilisation*" (Petmesidou and Glatzer, 2015:160; see also Gunther, Diamandouros and Puhle, 1995). Yet, although the emergence and coming to power of the first PASOK government in 1981, which coincided with Greece's accession to the EC/EU, brought about significant reforms in terms of the democratisation of the state and the institutionalisation of basic human rights, the main features of its first period in office (1981-89) in terms of institution building, have been rather poor (see Paraskevopoulos, 2012; Pappas, 2014). More specifically, the institutionalisation of political clientelism and the emergence and expansion of bureaucratic clientelism and populism (Lyrintzis, 1984, 2005; Sotiropoulos, 1996, 2004; Pappas, 2014) went hand-in-hand with the predominance of political parties in almost any aspect of social and economic life, the so called 'partitocracy' (Mouzelis, 2005). These pathologies gave impetus to a confrontational policy environment, marked by clientelistic-particularistic exchanges by rent-seeking interest groups, thus undermining expertise (think tanks, policy communities) and civil society actors' involvement in policy-making and hence social dialogue that would facilitate the process of negotiated policy reform (Paraskevopoulos, 2004, 2005, 2012; Featherstone and Papadimitriou, 2008; Pelagidis and Mitsopoulos, 2011; Monastiriotis and Antoniades, 2009). Therefore almost all crucial policy areas, including fiscal consolidation, industrial relations, pension and competition policies, remained highly politicized, fragmented and conflictual. Obviously, this policy environment in conjunction with the poor quality of public administration, in terms of impartiality, professionalism and efficiency (Spanou, 1996), and especially the weaknesses at the level of core executive (Featherstone and Papadimitriou, 2015), has constituted an impediment to the capacity for policy reform and adaptation[19]. This comes in sharp

19 It needs to be stressed that these weaknesses of the domestic institutional infrastructure remained almost intact and "survived" the modernization experiments undertaken during the 1990s, initially, and reluctantly, by the New Democracy government under C. Mitsotakis (1990-93) and then by the PASOK governments of C. Simitis (1996-2004), even though the latter stands out as a paradigmatic case of rather

contrast to Portugal, where the prospect of accession to the EU and later the challenge of joining the EMU brought about a shift in policy-making towards a more 'consensual' policy environment that underpinned interconnected reforms in labour market, social security and welfare policies through negotiated social pacts (Petmesidou and Glatzer, 2015). Additionally, the ways in which political parties related to their social base differed substantially between the two countries. In Greece, electoral support was maintained primarily through clientelistic and patronage networks that extended to trade unions, while in Portugal, a comparatively stronger tradition of compromise and more effective and efficient institutional structures governing the political and electoral cycle have contributed to rather resilient political structures (Petmesidou and Glatzer, 2015). In that respect, it is indicative that, as mentioned above, in Portugal the outgoing Socialist Party (PS) signed the bail-out deal with the support of the incoming centre-right Social Democratic Party (PSD) which undertook its implementation without strong opposition, whereas in Greece, PASOK bore initially the blame for dragging the country to the MoU and to the supervision by the troika that led the party to disrepute and out of power in 2011, as well as to its nadir of political support in the January 2015 elections amidst extensive populist mobilisation along the lines of anti-austerity and anti-MoU cleavages (see Petmesidou and Glatzer, 2015). Hence, overall, despite important similarities between the two countries, there are crucial differences dominating their post-authoritarian period across several policy areas that can be justified by the presence of variation in institutional and policy-making structures.

This paper, suggests that the notions of VoC, QoG and social and institutional trust can actually complement the existing literature by capturing the interplay between formal and crucial informal institutional structures, such as government effectiveness and efficiency, regulatory quality, political stability and populism, voice and accountability, rule of law and control of corruption. Thus, they can account for similarities and/or variation in the reform and adaptation processes between the two countries. Yet, given that both countries belong to the so called MMEs, but also demonstrate important similarities in almost all the relevant institutional structures, such as the system of industrial relations, corporate governance, vocational training, pensions system, labour market and so on, with a possible exception of the exports sector where Portugal has been performing spectacularly well over the last three to four years following the completion of the MoU, the concept of VoC is considered as a constant and hence it cannot be employed as an explanatory variable for the variation between the two countries. Hence, to account for the existing variation in the reform and adaptation capacity between the two countries we turn to the QoG and trust variables. These variables may play a crucial role in facilitating or inhibiting the adaptation and adjustment processes of the domestic institutional and policy-making structures by shaping interactions among actors within institutional and/or policy networks, such as advocacy coalitions and/or issue networks (see *inter alia* Sabatier & Jenkins-Smith, 1993; Ladi, 2005; Paraskevopoulos, 2001, 2004, 2005).

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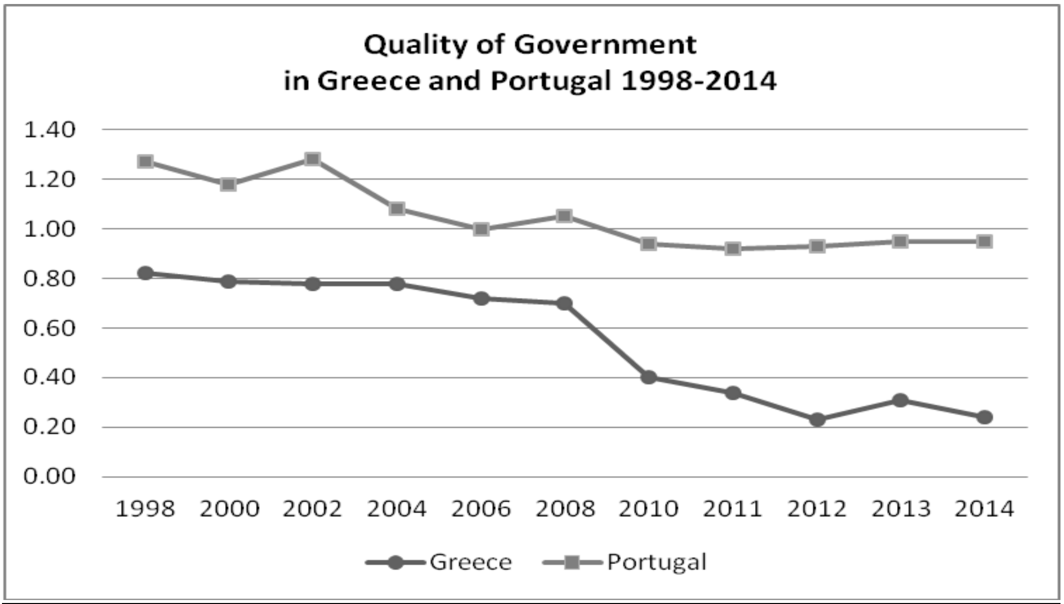
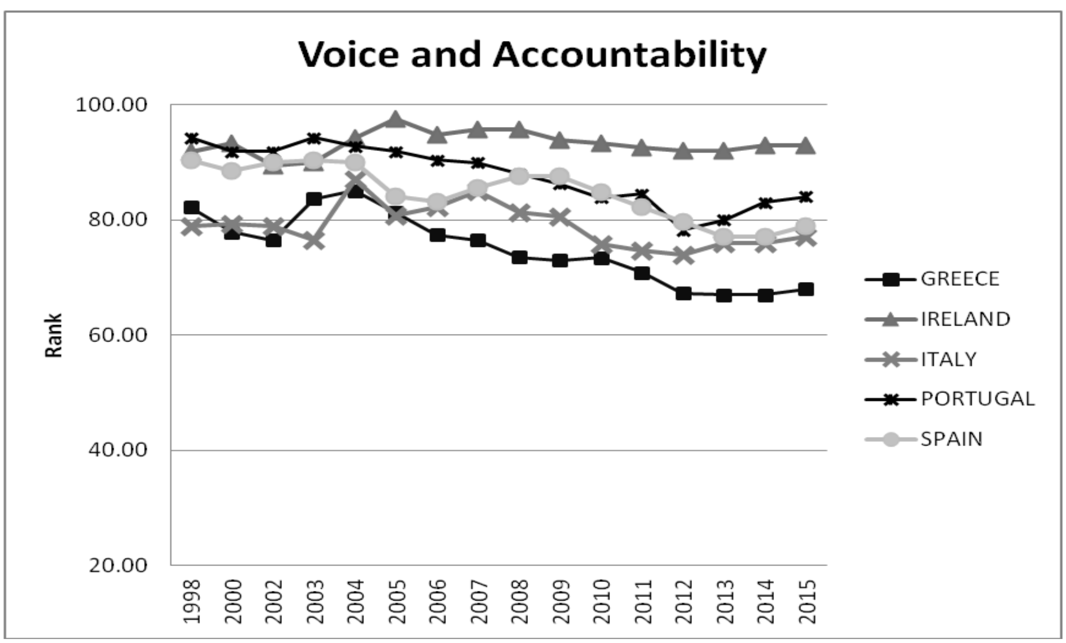
successful modernization reforms, especially at the level of core executive and public administration at large (see Featherstone and Papadimitriou, 2015).

Figure 7



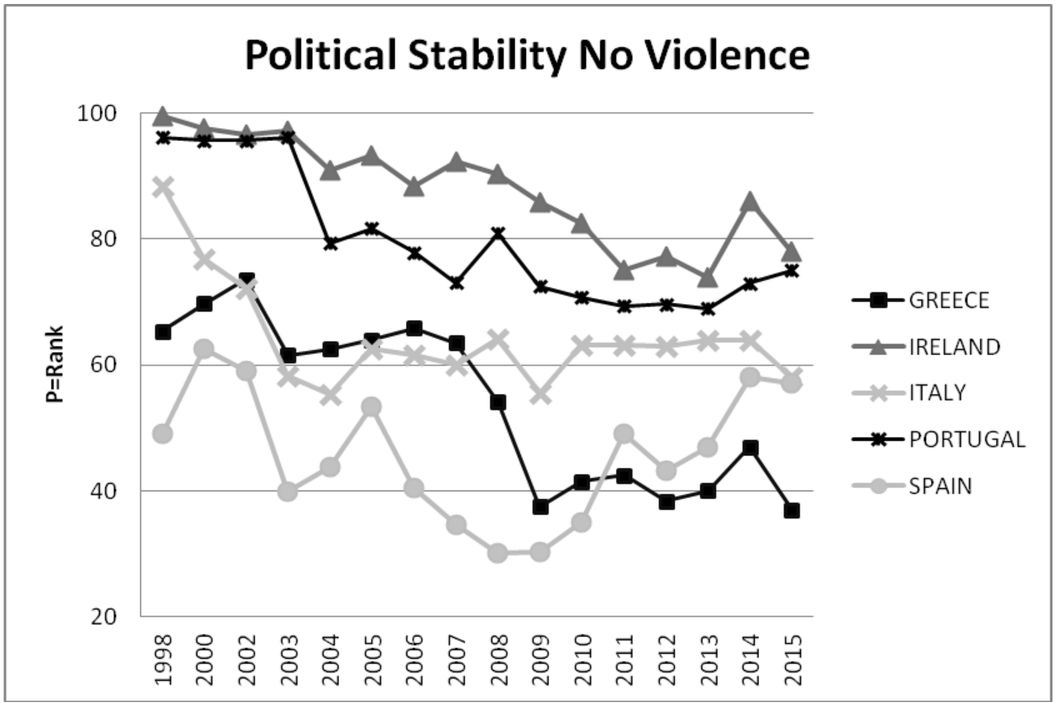
Source: World Bank Governance Indicators

Figure 8



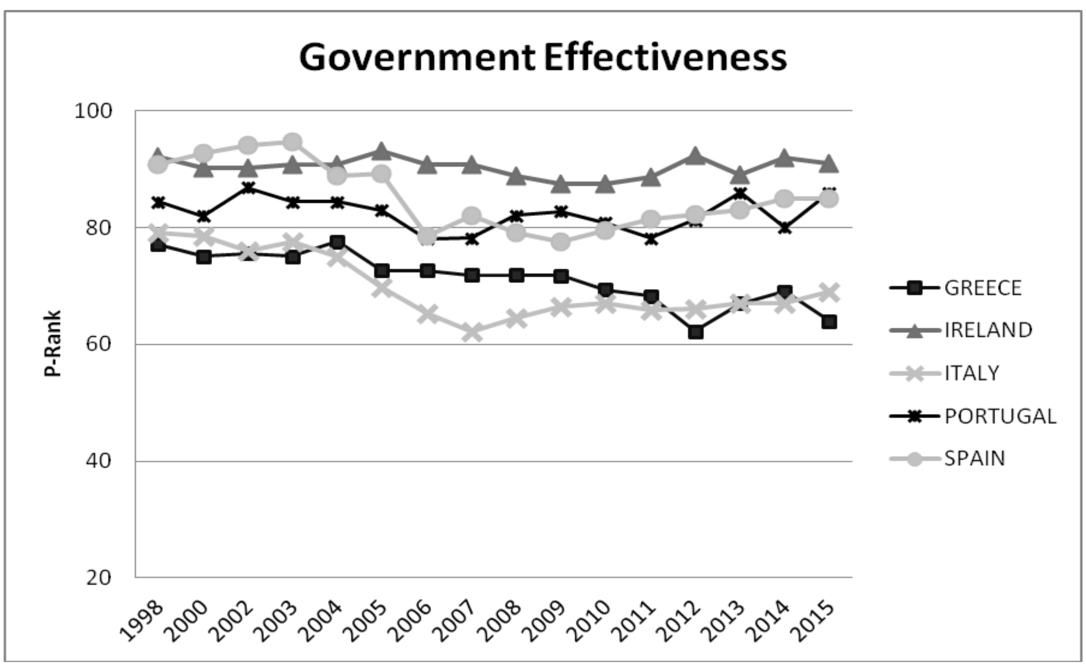
Source: World Bank Governance Indicators.

Figure 9



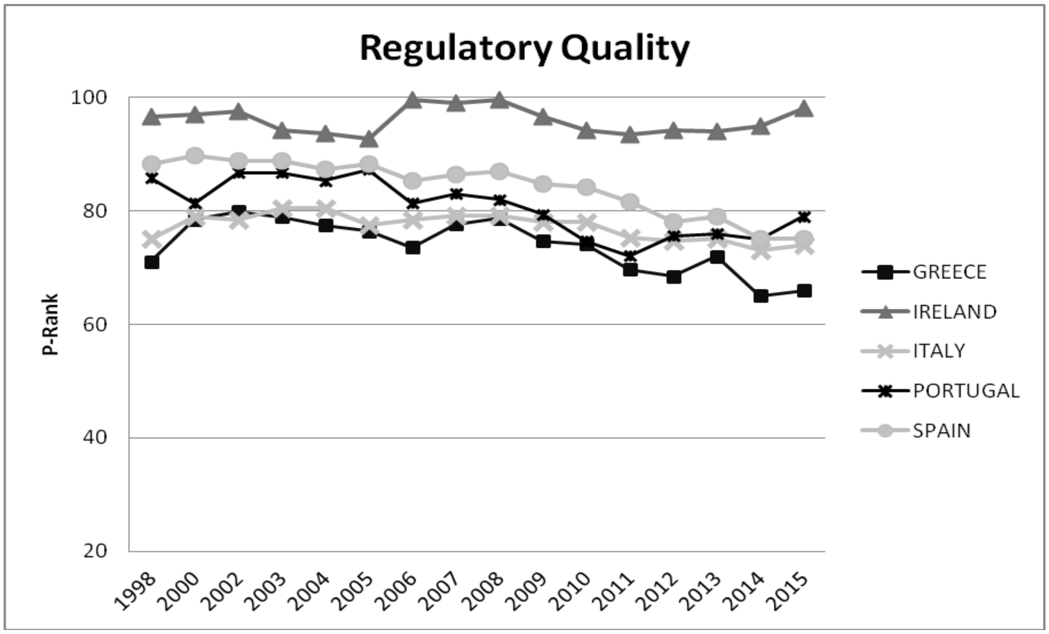
Source: World Bank Governance Indicators.

Figure 10



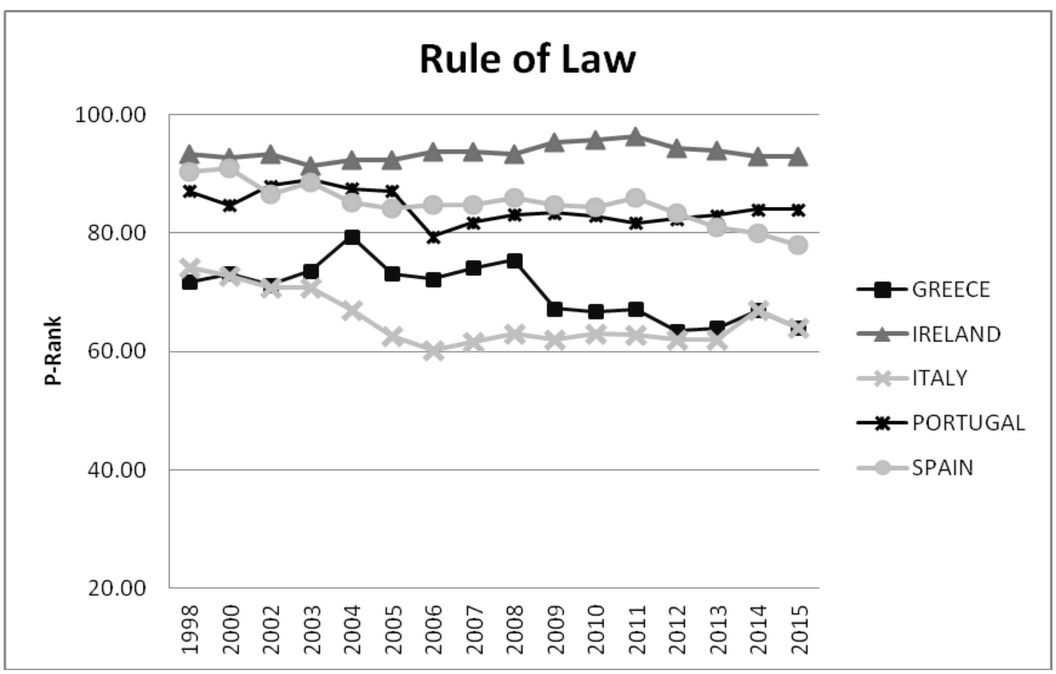
Source: World Bank Governance Indicators.

Figure 11



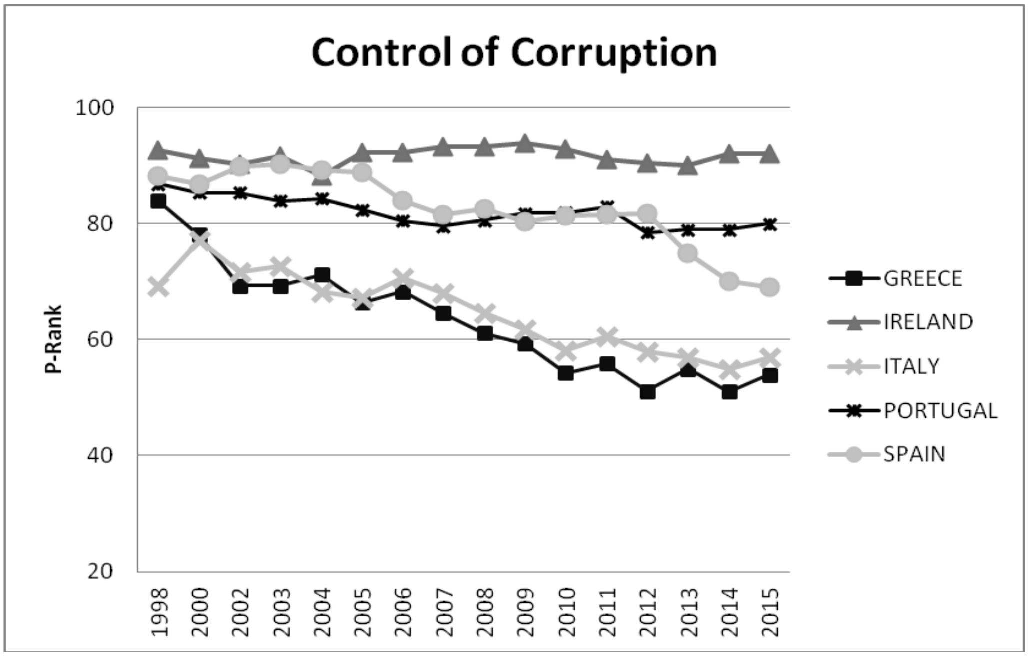
Source: World Bank Governance Indicators.

Figure 12



Source: World Bank Governance Indicators.

Figure 13



Source: World Bank Governance Indicators.

5.1 Greece, the typical laggard: low quality of government and low trust

Greece may be characterized as a typical laggard in terms of institutional, administrative and reform capacity at large, demonstrating very low level of QoG, accompanied by low level of social and institutional trust. In particular, in all measures/indicators of QoG, namely government effectiveness, regulatory quality, political stability, voice and accountability, rule of law and control of corruption, the country appears to be at a clear laggard position among southern European countries and EU periphery at large, while it seems that its overall performance has been seriously deteriorated during the crisis years (see figures 7-13). Additionally, its performance in the crucial for reform and adaptation capacity indicators, namely government effectiveness, regulatory quality, rule of law and political stability, has been further deteriorated since 2015[20], and is well below EU average in the QoG index. Hence, from macro-analytical perspective, according to a QoG study for the EU Commission, Greece's position vis-à-vis the other EU member states is depicted within a group/cluster of primarily Balkan and Eastern European countries with a few

20 It is worth stressing that this finding is also vindicated by the latest (2016) Sustainable Governance Indicators (SGI) of the Bertelsmann Stiftung, whereby Greece's position as a laggard country of the EU in terms of quality of government, has been further deteriorated since 2014 (after the coming to power of the SYRIZA-Independent Greeks-ANEL populist government) (see Bertelsmann Foundation, 2016).

exceptions of Southern Europe, and particularly Italy[21]. In that respect, Greece belongs to the so called group three of low performing countries, along with Italy, Czech Republic, Lithuania, Hungary, Slovakia, Poland, Latvia, Bulgaria and Romania (see CEC, 2010c). With regard to social and institutional trust, Greece demonstrates very low level of trust on both fronts: namely social or generalized trust and trust in both political and law and order institutions (such as the national parliament, political parties, legal system, police, and so on), and with institutional trust seriously declining during the period of crisis (see figures 14,15,16). This has serious implications for the low level of cooperative culture which seems to be a dominant feature of Greece's institutional infrastructure at large, closely associated with statism, namely the combination of centralized and simultaneously weak administrative structure.

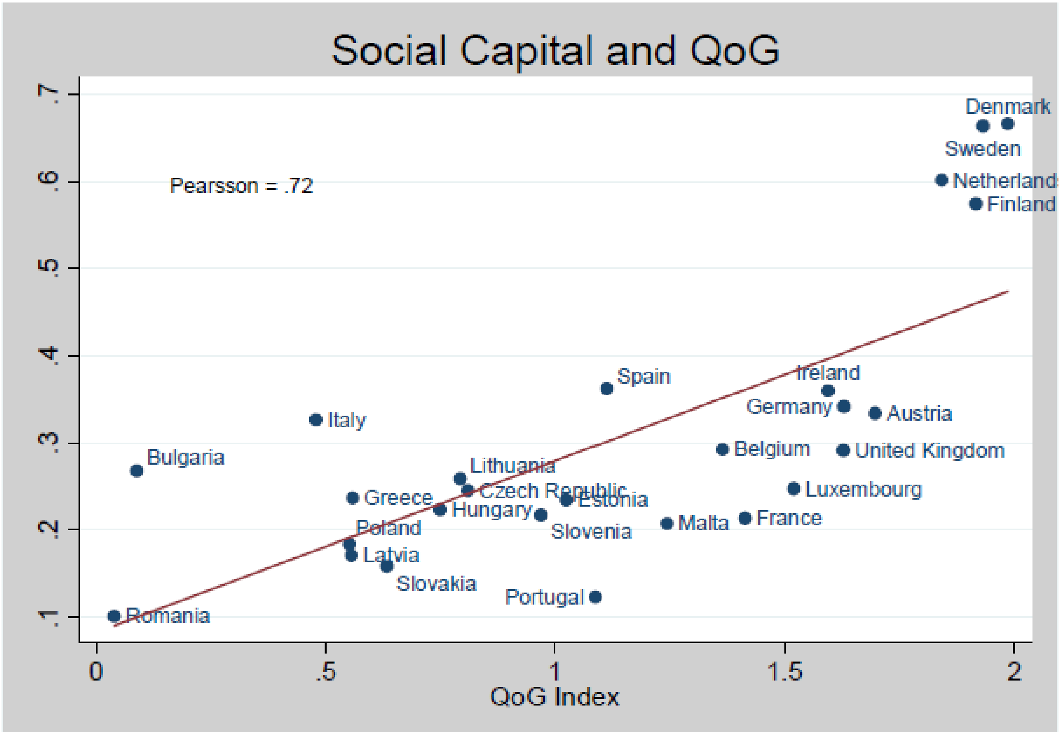
Overall, institutional weakness associated with low level of QoG, social and institutional trust, and closely linked with normative and instrumental beliefs on the part of the citizens and/or interest groups about the real outcomes of the reforms, has had serious implications for the reform process in such crucial and complicated policy areas as the sustainability of public finances and/or structural and labour market reforms. More specifically, low level of QoG and social and institutional trust has contributed to weak capacity for coalition building around/supporting the reforms on the basis of increased ambiguity about the possible redistributive effects of the reforms in the future. On the other hand, the weakness in relation to expertise involvement, in the form of independent think tanks, in the reform process in these complicated policy areas and the Lisbon agenda at large[22] contributed to rather poor sources for the formation of people's instrumental beliefs about the possible outcome and/or inevitability of these reforms (see Paraskevopoulos, 2012). Thus low levels of QoG and trust are identified as key variables negatively affecting domestic reform capacity and hence the prompt implementation of MoU-induced reforms, but also undermining the *ownership* of the programme and thus strengthening the *moral hazard* argumentation and *distrust* in domestic governance structures in Greece on the part of the "troika" and especially the IMF.

Finally, the case of Greece seems to vindicate the so called institutionalist theory of trust, which emphasizes the role of formal state institutions and QoG at large, as a crucial variable indirectly affecting the level of social trust through citizens' inferences and perceptions about the quality of formal and informal institutional infrastructure at large and their stickiness (see Rothstein, 2005; 2012; Uslaner, 2008; Paraskevopoulos, 2012).

21 This is another vindication of the so called East-West divide in southern Europe, between Greece and Italy on the one hand and Portugal and Spain on the other, in terms of quality of government and reform and adaptation capacity at large (see *inter alia* Paraskevopoulos, 2004, 2005, 2006).

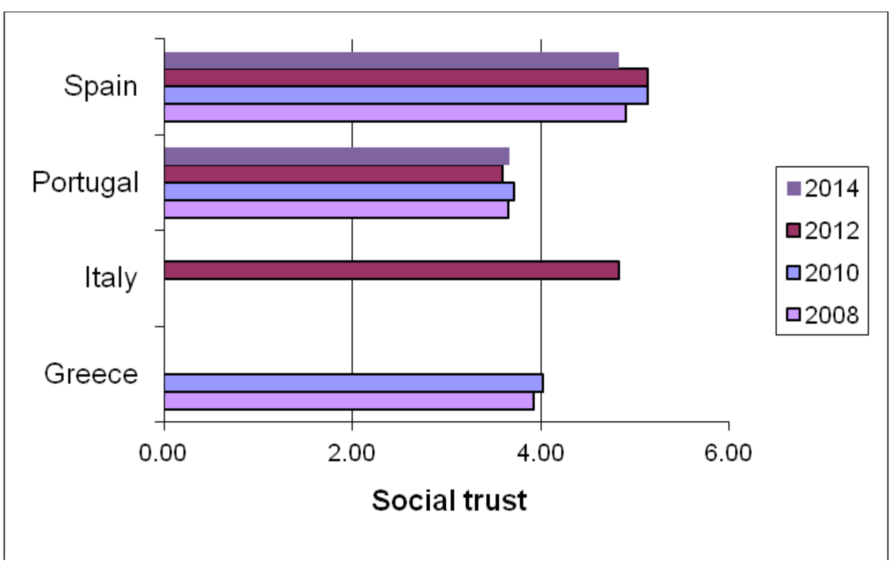
22 It has to be reminded that think tanks operating in the policy areas affected by the Single Market include the Institute for Economic and Industrial Research (IOBE), a supposed to be semi-independent think tank reflecting views of and partly financed by the Confederation of Greek Industry (SEV) and the Institute of Labour of the General Confederation of Workers (GSEE), the main umbrella organisation of private sector workers in Greece.

Figure 14



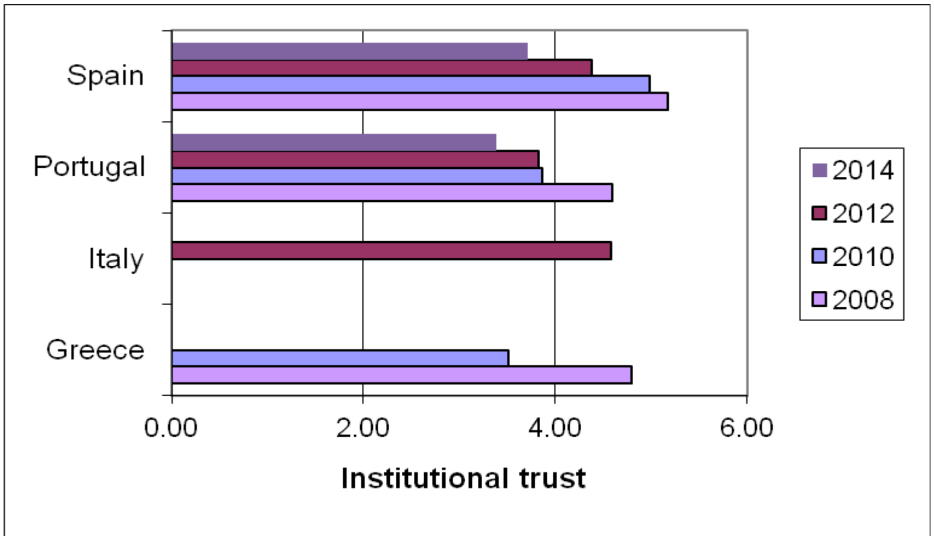
Source: CEC (2010b) *Measuring the Quality of Government and Subnational Variation*, Report for the European Commission Directorate-General Regional Policy.

Figure 15
Social trust in southern Europe during the crisis



Source: European Social Survey (ESS), various years (based on countries' participation in ESS rounds).

Figure 16
Institutional trust in southern Europe during the crisis[23]



Source: European Social Survey (ESS), various years (based on countries' participation in ESS rounds).

5.2 Portugal, the outsider: high quality of government and low trust

Portugal, on the other hand, constitutes an outsider/deviator, demonstrating medium to high level of QoG, but also very low levels of social and institutional trust. In particular, in all measures of QoG, namely government effectiveness, regulatory quality, political stability, voice and accountability, rule of law and control of corruption, Portugal appears to be at a medium to high position among southern European countries and EU periphery at large, while it seems that its overall performance has been almost stable/unaffected by/during the crisis years (see figures 7-13). Additionally, what needs to be stressed is its good performance -very close to EU average- in crucial for the reform and adaptation capacity indicators, such as government effectiveness, regulatory quality, rule of law, control of corruption and political stability. Hence, from macro-analytical perspective, Portugal's position vis-à-vis the other EU member states is depicted within a group of medium-performing West European countries with a few exceptions of Eastern Europe. This is also vindicated by the cluster analysis of the QoG study for the EU Commission, which puts Portugal in the group two of medium-performing countries, such as France, Spain, Belgium, Malta, Cyprus, Estonia and Slovenia (see CEC, 2010c). However, as for social and institutional trust, Portugal demonstrates very low level on both fronts, and with institutional trust significantly declining during the crisis (see Figures 14, 15, 16). Nonetheless, these features of Portugal's institutional infrastructure, and especially the comparatively higher level of QoG, can account for the comparatively better administrative capacity and for generally better policy outcomes in comparison with

23 Institutions included here are: national parliament, legal system, police, political parties and politicians.

Greece. Thus Portugal's better reform and adaptation capacity, underpinned by higher levels of QoG, can account for the country's better performance in response to both the Europeanisation-induced and the MoU-induced –stricter- policy conditionality during the crisis[24]. It is in that respect that Portugal entered the period of crisis in a much better shape than Greece and managed to complete the programme promptly and is outside MoU and "troika" monitoring since 2014-15. Yet, the country's institutional profile points to a rather top-down process of adjustment, namely a process successfully handled/driven by the state without societal/civil society participation. Finally, the case of Portugal can be viewed as an outsider that puts a serious challenge to fundamental assumptions of the so called institutionalist theory of trust about the link between the quality of formal institutional infrastructure and quality of government at large on the one hand and social trust on the other.

6. Conclusions

This paper discusses the relevance primarily of the concepts of Varieties of Capitalism and Quality of Government and secondarily of social and institutional trust to accounting for the variation in adaptation capacity and performance between Greece and Portugal both to Europeanisation-induced and MoUs-induced policy conditionality. The main emphasis has been on the policy areas of macroeconomic adjustment, structural and labour market reforms and cohesion policy. While the empirical evidence seems to vindicate the fundamental assumptions of the Varieties of Capitalism approach with regard to the impact of variation among member states of the Eurozone in terms of models of capitalism/political economy on the crisis in southern Europe in general, and Greece and Portugal in particular, Quality of Government is identified as a key explanatory variable for variation in adaptation/adjustment capacity between the two countries, especially during the period of crisis. Additionally, there seems to be no evidence that social capital/social trust, can account for variation in the adaptation performance between the two countries during the crisis.

Thus Greece is characterized as a typical laggard in terms of reform and adaptation capacity demonstrating low level of quality of government in all relevant measures and indicators but also very low level so social and institutional trust. Conversely, Portugal constitutes an interesting outsider, demonstrating medium to high levels of quality of government, but simultaneously low levels of social and institutional trust. In that respect, while Greece is viewed as a typical case vindicating the so called institutional theory of trust, which emphasizes the role of formal state institutions and institutional performance at large in the creation of social trust, the case of Portugal does not vindicate and actually poses a serious challenge to that theory.

24 It has to be reminded that despite its delayed, in comparison with Greece, admission to the EC/EU – Portugal joined the EU only in 1986- the country successfully managed both the process of catching up to the challenges of Europeanization and the adaptation and adjustment during the crisis period.

Finally, the empirical evidence points to scepticism with regard to the increased role of agency in accelerating the reform process during periods of critical juncture, assumed by the theory of institutional change. In particular, taking into account that the MoUs-induced policy conditionality is supposed to be dominated by critical juncture-like logic of external policy conditionality and therefore emphasizes the role of agency vis-à-vis preexisting institutional structures in the reform and adaptation processes, the empirical evidence seems to challenge, partly at least, this assumption, given that both countries, but primarily Greece, seem to demonstrate symptoms of persistence of preexisting institutional structures in the reform and adaptation processes in several policy areas during the crisis.

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Appendix

Abbreviations

ALMP	Active Labour Market Policy
CEC	Commission of the European Communities
CEE	Central Eastern Europe
CMEs	Coordinated Market Economies
CSF	Community Support Framework
DB	Doing Business
DG	Directorate General
DMEs	Dependent Market Economies
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EFSF	European Financial Stability Facility
EMU	Economic and Monetary Union
ERDF	European Regional Development Fund
ESF	European Social Fund
ESM	European Stability Mechanism
EU	European Union
GDP	Gross Domestic Product
GIIPS	Greece Italy Ireland Portugal Spain
GPBO	Greek Parliament Budget Office
HMEs	Hierarchical Market Economies
IMF	International Monetary Fund
IMP	Integrated Mediterranean Programme
LMEs	Liberal Market Economies
MMEs	Mixed Market Economies
MoU	Memorandum of Understanding
NSRF	National Strategic Reference Framework
OCA	Optimal Currency Area
OECD	Organisation for Economic Cooperation and Development
OMC	Open Method of Coordination
PMR	Product Market Regulation
PPP	Public Private Partnership
PRT	Power Resource Theory
PSI	Private Sector Involvement
QoG	Quality of Government
R&D	Research and Development
SEM	Single European Market
SGP	Stability and Growth Pact
SOP	Sectoral Operational Programme
UKIP	UK Independence Party
VoC	Varieties of Capitalism

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