Dual Convergence or Hybridisation? Institutional change in Italy and Greece in comparative perspective*

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Abstract

One of the observable implications of the influential VoC theory is the dual convergence hypothesis. Globalisation is not only expected to accentuate the differences between LMEs and CMEs, but also to force ‘ambiguous’ cases to follow a trajectory of change in one of these two directions. Southern European countries are considered as ‘hard cases’ for claims of institutional change: in the face of pressures from globalisation (and liberalisation) their ‘hybrid’ character should be weakening by ‘moving’ closer to one of the two ideal-types. The empirical part of this paper focuses on changes within two central institutional spheres for VoC theory: the industrial relations system and the system of finance and corporate governance. Italy and Greece are examined in comparative perspective vis-à-vis Germany and Britain, as proxies for the CME and LME ideal-types. The review of developments in the last two decades reveals that while industrial relations in both countries moved closer to the coordinated type, the finance and corporate governance system has acquired liberal market characteristics. Thereby, this analysis casts doubt to the dual convergence thesis showing that over the 1990s the ‘hybrid’ character of these countries was exacerbated. It is argued that the nation state is deeply problematic as a level of analysis, especially when trying to delineate an overall direction of institutional change. The paper concludes by suggesting that deconstructing ‘capitalist models’ into component institutions, and moving the level of analysis to lower levels (regional or sectoral) is not only a prudent strategy from a theoretical point of view, but also yields valuable methodological advantages.

Keywords: Varieties of capitalism; corporate governance; industrial relations; Greece; Italy.

Word Count: 8,094.
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1. Introduction

The last two decades witnessed an explosion in the literature on varieties of capitalism (VoC). Among other things, the literature re-launched with refreshing vigour the age-old debate between convergence and divergence (Goldthorpe, 1984; Kerr, Dunlop, Frederick, & Myers, 1960). The essence of the convergence thesis was that countries will eventually get into a common trajectory following a single ‘logic of industrialism’. The same thesis appeared in the early 1990s in the guise of the ‘globalisation debate’ foreseeing convergence to the Anglo-Saxon model of capitalism. Scholars within the VoC literature provided a counterweight to easy arguments about globalisation (Crouch, 2005a) and effectively refuted the idea of an imminent convergence to a single model (Streeck & Thelen, 2005). Instead, they argued that there are more than one ways to achieve high performance in the global economy. The subsequent academic debate was largely structured around the two ‘successful’ models of capitalism dubbed as Coordinated Market Economies and Liberal Market Economies (Hall & Soskice, 2001a).

While the general argument echoed strongly older works in the literature (Albert, 1993) the landmark publication by Hall and Soskice elaborated on specific ‘complementarities’ that countries derive from the tight coupling of a set of institutions. These complementarities have been repetitively described in various publications and will not be repeated here as well (but see Hall & Soskice, 2001a: 17-33). What is important to emphasise is that complementarities denote a functional interdependence between different institutional domains including: the industrial relations system, the system of finance and corporate governance, the education and training system, as well as inter-firm and intra-firm relations. The argument goes that when these institutions ‘cluster together’ in specific combinations, then they produce increasing returns and contribute to high economic performance.

As a result of the above conceptualisation VoC effectively replaced the (single) convergence thesis with a ‘dual convergence’ thesis (Hay, 2004:235-238; Schelkle, 2008:4, fn4). The idea of ‘dual convergence’ follows the determinism of the single convergence
thesis, albeit allowing for two options rather than the ‘no alternative’ type of argument. Since there are only two ways to obtain high performance in the new global context, the common pressures from globalisation are expected to accentuate the differences between Liberal and Coordinated Market Economies (see Figure 1). The interesting question that this raises is what will happen to cases (countries) that lie in an ‘ambiguous’ position?

The countries which are left in ‘ambiguous position’ included, according to Hall and Soskice, Southern European cases such as Italy, Greece, Spain and Portugal (2001a:21). A later work in this strand dubbed the term ‘Mixed Market Economies’ and emphasised the misfit between institutions and absence of institutional complementarities (Molina & Rhodes, 2007:225-226). The same countries have also been examples of what Amable (2003) called ‘South European model of capitalism’. Having identified the ambiguous cases, the question then becomes: what are the implications of the ‘dual convergence’ for the direction of change of those countries?

*Figure 1: The Dual Convergence Hypothesis*

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**Dual convergence thesis.**

Globalisation produces a variety of common pressures to which competing models of capitalism are differentially exposed; this exposure tends to promote a dual process of convergence accentuating the difference between liberal market economies and coordinated market economies – in short, globalization generates common pressures; these are reflected institutionally to produce a dual convergence.

If the dual convergence hypothesis is theoretically plausible, then we should expect to see ambiguous cases changing towards the one (LME) or the other (CME) direction. These cases are supposed to lack a coherent institutional arrangement and are construed as ‘hybrids’. Crucially, when these countries are subject to pressures from globalisation (and liberalisation) their ‘hybrid’ character should be weakening by ‘moving’ closer to one of the two ideal-types. In principle, nothing precludes the possibility of becoming CMEs. However, there is an implicit assumption in the literature that it is harder for a country to become a CME, because of the ‘sunk costs’ associated with building trust-based and long-term relationships.

To sum it up, one of the observable implications of the VoC theory is the dual convergence hypothesis. Globalisation is not only expected to accentuate the differences between LMEs and CMEs but also to force ‘ambiguous’ cases to follow a trajectory of institutional change in one of these two directions. Southern European countries are considered to be ‘hard cases’ for claims of institutional change (Hall & Thelen, 2009:26). Therefore, they are most appropriate for a ‘plausibility probe’ to the dual convergence hypothesis.

The paper shows that institutional change in Italy and Greece is not taking place along the expectations of the dual convergence hypothesis. Despite the fact that both countries are subject to common pressures from globalisation (and liberalisation) they are not moving along a single trajectory of institutional change. Instead, different institutions are changing towards opposite directions. The empirical part of this paper tracks changes within two important institutional spheres: the industrial relations system and the system of finance and corporate governance. Italy and Greece are examined in comparative perspective vis-à-vis Germany and Britain, whereby the latter pair provides imperfect proxies of the CME and LME ideal-types.

The review of developments in the last two decades reveals that while industrial relations in both countries moved closer to the coordinated type, the finance and corporate governance system has acquired increasingly liberal market characteristics. Thereby, this analysis casts doubt to the dual convergence thesis showing that over the 1990s the ‘hybrid’ character of these countries was exacerbated. The paper concludes by
considering the implications from this analysis. It argues that the nation-state is deeply problematic as a level of analysis, especially when gauging the direction of institutional change. Therefore, deconstructing ‘capitalist models’ into component institutions and moving the level of analysis to lower levels (regional or sectoral), is a prudent strategy from a theoretical point of view. Even more, it yields valuable methodological advantages.

The rest of the paper is structured as follows. The second section elaborates on the concept of institutional change and discusses some of the problems with approaches in existing literature. The third section examines developments in the industrial relations realm. It is shown that industrial relations in Italy and Greece became less adversarial and the state role has been reduced during the last two decades, while coordination increased moving towards the CME type. The fourth section explores changes in the system of finance and corporate governance. The liberalisation processes and the increased importance of equity-markets in Italy and Greece indicate a move towards the LME type. The fifth section considers the methodological implications of this analysis for further research and argues that delineating the direction of institutional change would benefit from deconstructing the ‘capitalist models’ and moving the level of analysis at a lower level. The final section concludes.

2. Institutional Change and Advanced Capitalist Economies

Institutional change is certainly an elusive concept. The statement holds for both sides of the phrase. For instance, what one could call as an ‘institution’ in everyday parlance may be quite different from what one would define as an institution in the context of scholarly work. North suggests that ‘institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction’ (1990:3). While still a very broad definition, it helps distinguish, as North does, between two basic types of institutions: on the one hand, there are formal institutions such as statute law, common law and contracts, and on the other, there are informal institutions such as conventions, codes of conduct and norms of behaviour (1990:6). In this paper we will look in two institutional spheres and try to track change both in formal rules and actual behaviour.
Turning to the concept of ‘change’ this might be equally a source of confusion, and result in diametrically opposed interpretations. As Streeck and Thelen (2005:26) argue, this has been especially the case with ‘path dependence’: scholars understand it either as very minor and more or less continuous change or very major but then abrupt and discontinuous change. Even more, institutional change within advanced capitalist economies has been an object of vigorous debate. One source of tension comes from the very essential idea of what ‘counts’ as change. Hence, Yamamura and Streeck (2004) note perceptively: ‘If the only change recognized as fundamental is of a sort that is practically impossible, social systems are stable almost by definition’ (cited in Culpepper, 2005a:174). This explains why the VoC typology has been criticised for ‘blind spots’ tending to see all feedback as sustaining and reproducing the system (Thelen & Van Wijnbergen, 2003). As remedy to this weakness, scholars have subsequently sought to integrate dynamic analysis to track and explain institutional change.

A first problem that one encounters when examining institutional change is how to operationalise it. For example, it is much easier to identify a change as such when institutions are ‘measured’ like binary variables, that is they are either present or absent. An example of such institutional change would be complete abandonment of industry-wide bargaining or what is called ‘disorganised decentralisation’. In this case, the industry-wide bargaining is either present or absent. It is more difficult to capture the extent of change when the institution is ‘measured’ like an ordinal variable (i.e. differences in degree) and this is the case with most institutions. To stay to the example of collective bargaining, a shift in relative importance (scope) of industry-wide bargaining vis-à-vis firm-level bargaining is certainly an instance of institutional change (called ‘organised decentralisation’). However, it is more difficult (but not impossible) to capture. To this end, several indicators have been devised, some of which will be used in the next section.

Another setback in understanding institutional change relates to the nation-state as a unit of analysis and the construction of ideal-types from paradigm cases. The function of a Weberian ideal-type is to provide a ‘yardstick’ against which empirical cases are contrasted. The problem begins when the ideal-type is not built deductively, but is built by ‘reading back empirical detail from paradigm cases’ as Colin Crouch (2005a:445-446) charged VoC with. In this event, institutional changes within the paradigm cases may
shake the validity of the ideal-types themselves. For example, the establishment of a successful tripartite Low Pay Commission in Britain, which sets minimum wages in a ‘spirit of social partnership’ (Metcalf, 1999:175), is an institutional change that shakes the conception of Britain as an LME. This example appears puzzling for the dual convergence thesis, as it would expect Britain to become more of an LME over time.

With regard to typologies, Hyman (2001a:206) insists that it is necessary to recognise the ‘capacity for change which permits national instances, so to speak, to ‘switch boxes’”. The problem manifests itself when the ‘paradigm’ cases (which are imperfect proxies for ideal-types) are changing in parallel with the ‘ambiguous’ cases. In this event, investigating the direction of institutional change (or whether ambiguous cases ‘switched boxes’) becomes extremely problematic. The (changing) ambiguous case is compared with the (changing) paradigm case and the comparison looks like ‘chasing a moving target’.

An important caveat should be entered here. While in this paper I also present Italy and Greece in this ‘comparative perspective’ vis-à-vis VoC paradigm cases, the aim is not to highlight the merits of this approach, but to illustrate its problems. To be clear there are two ways in which one can understand the function of Germany and Britain in this comparison. The first way is as imperfect proxies of CMEs and LMEs respectively. This –I argue– is problematic, because the proxies are not immovable reference points but ‘moving targets’. In this sense, the paper is an exercise that seeks to illustrate the problems of this approach. The second way is to perceive Germany and Britain as two interesting cases for their own sake. In this sense, the paper is a just another study looking at a few cases ‘in comparative perspective’ in line with a long tradition in comparative politics and comparative industrial relations.

Not surprisingly, the problems of adopting the nation-state as the unit of analysis do not end here. Pepper Culpepper (2005b:3) explains that the nation-state is the main unit of analysis in VoC, because ‘many of the institutions emphasised in that literature depend on national level regulations’. Still, this justification does not preclude the possibility that this level of analysis conceals much within case variation. That is why Culpepper recommends shifting the level of analysis to the sub-national level (ibid). This suggestion
echoes similar views in the literature. Colin Crouch (2005a:440) doubts the centrality of nation-state as the main unit of analysis and argues that:

Empirical cases should be studied, not to determine to which (singular) of a number of theoretical types they should each be allocated, but to determine which (plural) of these forms are to be found within them, in roughly what proportions, and with what change over time.

Exploring variation within cases would mean that the focus could shift to specific institutions, sectors or regions. Along these lines, Schelkle (2008) strongly argues that the ideal-types in comparative political economy and social policy have exhausted their usefulness, and that the analysis should take policy areas, instead of the nation-state, as the unit of analysis.

The problem of having the nation-state as the unit of analysis is previewed from the studies that look at Spain from a VoC perspective. For instance, Molina and Rhodes (2007:248) claim that ‘In Spain…waves of liberalization and state retrenchment have tended to reinforce sub-system complementarities in an LME direction’. In sharp contrast, Royo (2007:49) argues that the ‘trajectory of change [in Spain] parallels developments in CMEs more closely than those in LMEs’. These diametrically opposed conclusions beg the question: why scholars engaged with the same countries and investigating them for roughly the same period cannot reach the same conclusions? The immediate answer is that there must be something very wrong in the approach to, and interpretation of, institutional change. In sum, the rest of the paper has a twofold aim. First, it aims to provide a ‘plausibility probe’ for the dual convergence thesis. Second, it aims to illustrate the problems stemming from keeping the national level as the level of analysis. The next section begins with reviewing developments in the industrial relations system.

3. Industrial Relations System in Italy and Greece

Within established typologies of industrial relations systems and trade unionism, Italy and Greece would fall close to a model of ‘Latin confrontation’ (Visser, 2002:186) and trade unions could be conceptualised as ‘radical/oppositional unions [focusing] on class’ (Hyman, 2001b:4). Industrial conflict has been an endemic characteristic in both countries. The Figures below (2 and 3) chart two indicators of industrial conflict for the last two decades: working days lost and workers involved. Until 1998 (when data is
available for both countries) the level of industrial conflict in Italy and Greece stood at similarly high levels, much higher than Germany or Britain. Still, if one compares these levels with the respective data from the 1970s-80s (in Kritsantonis, 1998:525 for GR; in Regalia & Regini, 1998:485 for IT), one can see that there is a trend towards decline in industrial conflict and stabilisation at historically lower levels (with the exception of the spike in Italy around 2002).

**Figure 2: Working Days 1993-2007 in selected countries.**

![Graph of Working Days 1993-2007 in selected countries.](source)

**Figure 3: Workers involved in Strikes 1993-2007.**

![Graph of Workers involved per 1000 workers 1993-2007 in selected countries.](source)
In the recent literature of neo-corporatist revival, Italy has been portrayed as an exemplary case. Throughout the 1990s a series of Social Pacts set the pace of reform in the pension system, labour market and collective bargaining (Negrelli, 2000; Regalia & Regini, 2004). At first sight, Greece contrasts sharply with its poor record of only one social pact in 1997 (Ioannou, 2000) and several failed attempts in social dialogue unable to reach consensus with respect to labour market or pension reform (Featherstone, 2004:238-239; Matsaganis, 2007).

However, the poor record of Greece should be seen within a broader context. As Karamessini (2008:49) argues the national biennial collective bargaining agreements 'have operated as functional equivalents to social concertation'. This point can be justified on several grounds. First, the Italian collective bargaining system provides for two levels of bargaining: the national industry-level and the firm or territorial level of bargaining (Bordogna, 2003:286). Social Pacts could be construed as a third level where the three major confederations engage in agreements with the government and/or the employers. In Greece the collective bargaining system provides for three levels of bargaining: the national general level, the national industry-level and the firm-level. The main function of the national general level is to set the minimum wages for blue-collar and white-collar workers. But at the same time, several non-wage issues have been negotiated in this level including equal opportunities policies, training schemes for unemployed, healthcare for unemployed, and health and safety at work. While health and safety issues were negotiated through Social Pacts in Portugal, the same issue was the object of national-level bargaining in Greece and was eventually delegated to the corporatist venue of the Greek Institute for Health and Safety at Work (ELINYAE). In other words, for issues where a social pact was necessary in some countries, in Greece a social pact was plainly unnecessary.

Second, there were indeed failed attempts for ad hoc social dialogue with respect to labour market and pension system reform in Greece, while similar attempts were successful in Italy. But the consensual reform of the Italian pension system should not strike as a surprising accomplishment. Trade unions hold the majority in the board of directors INPS (the institute that manages pensions) (Regini & Regalia, 1997:215) and their consent would be absolutely necessary for any change. Moreover, it is known that

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1 To be precise, some social pacts were not signed by the ex-communist/socialist CGIL.
pensioners (who have a direct stake at the system) comprise a large part of Italian unions’ membership (See figures in Baccaro, Carrieri, & Damiano, 2003:45; Schmitter, 1995:311). One could further argue that failed attempts for ad hoc social dialogue are not unlikely, even in more ‘corporatist’ countries. Prominent examples here are the German failure for Bündnis für Arbeit and Swedish failure for Allians för Tillväxt (Hassel, 2003:709).

Thirdly, some policy-areas which were reformed through social pacts in other countries (e.g. tax system in several Irish social pacts) have also been the object of successful reform in Greece outside social pacts or national-level bargaining. According to the Greek Economic and Social Committee (OKE, 2002) the reform of the tax-system (through participation of unions’ and employers’ representatives in committees within the Ministry of Finance) has been the best example of non-institutionalized social dialogue in Greece.

The general point made here is that elements of concertation -broadly understood- can be found in Greece as well. Indicatively, trade unions’ representatives participate in 140 Committees and Councils, while employers’ associations’ representatives are involved in more than 60 permanent national level structures (Aranitou & Yannakourou, 2004:357). By no means, does the above discussion imply that social dialogue has been solidly embedded in Greek industrial relations. However, it does qualify the picture of total absence of social pacts (Natali & Pochet, 2008) and ‘stalled social dialogue’ (Lavdas, 2005:307-311) advanced up till now in the literature, and presents elements of change alongside those of continuity. This analysis updates the characterization of the system of intermediation in Greece as ‘state corporatist’ (Mavrogordatos, 1988) and agrees with scholars observing a ‘transmutation’ of state corporatism into an increasingly neocorporatist mode of interest representation (Pagoulatos, 2003:185, emphasis added).

Another enduring feature of industrial relations in both Italy and Greece is the deep politicisation of the system. Although the structure of trade unionism is slightly different between the two countries, the ideological divisions are common. In Italy trade unions’ federations are ideologically divided: CGIL linked to ex Communists and Socialists; CISL linked to Christian Democrats; UIL linked to small lay parties (Regalia & Regini, 2004). Despite ideologically divisions, the thee major confederations managed to speak with a ‘single voice’ throughout the 1990s, while the prospect of uniting under the
banner of a single confederation came very close to be realised in the late 1990s (Baccaro et al., 2003:56; Hyman, 2001b:163).

In contrast, the trade union confederations in Greece are unitary with a differentiation between the private sector (GSEE) and civil service (ADEDY). Still, competing intra-union factions are similarly ideologically divided: PASKE is linked with the Socialists (PASOK), DAKE with the Conservatives (ND), and PAME with the Communist party (KKE). In other words, intra-union competition in Greece is potentially disturbing labour movement unity just as inter-union competition in Italy. Employers’ associations have been less fragmented organisationally with Confindustria in Italy and SEV in Greece being the major representatives (Lanza & Lavdas, 2000).

The links between political parties and organised interests were (and still are) characterised by clientelistic relationships, reflecting features of the Italian and Greek political systems at large (Graziano, 1973; Mouzelis, 1985). The term partitocrazia in Italian (and the equivalent kommatikokratia in Greek) signify the monumental influence of political parties on several dimensions of political and economic sphere, including organised labour and business. Trade unions were largely a ‘transmission belt’ of political parties and this created complex web of interconnections between the interest associations and political parties alternating in government.

Historically, the role of the state was very important in the industrial relations of the two countries (Kritsantonis, 1998:509; Regalia & Regini, 1998:480). The state was involved in all possible ways: as an employer in the extensive public sector, as a public mediator during industrial disputes and as a legislator setting the institutional framework. Still, if one tries to look at the development of government intervention in wage bargaining over time the best available indicator is Anke Hassels’ index below (Figure 3-4).
Figure 1 Government Intervention in Wage Bargaining 1985-2007 in selected countries

The average levels in government intervention for the period 1985-2007 rank Greece (3.3) close to Italy (2.7) and document the statist tradition in the industrial relations of the two countries. This contrasts sharply with much lower average levels of intervention in either Germany or Britain (2.0 and 1.0 respectively). In Greece 1990 marks a turning point: compulsory arbitration was abolished and dispute resolution was delegated to an independent Mediation and Arbitration Organisation (OMED). A rationalisation and reorganisation of collective bargaining framework took place in both countries in the early 1990s under coalition governments. In Italy it was the tripartite agreement of July 1993 under the ‘technocratic’ government of Ciampi, whereas in Greece it was Law No.1876 of 1990 under the ‘ecumenical’ government of Zolotas.

A recurring theme in the related scholarship is the so-called ‘representation problem’ of employees’ and employers’ associations. Most recently, Matsaganis (2007) argued that Greek trade unions have acted as ‘narrow interests’ opposing reform of the inequalitarian pension system and contrasted them to their Italian counterparts’ involvement in pension reform. One may read in this argument an underlying Olsonian logic of the role of ‘narrow interests’ (as opposed to ‘encompassing interests’) in undermining public
interest (Olson, 1982). But as argued above, the mere fact that Italian unions were involved in pension reforms should not strike as a surprising accomplishment. There are other actions which strongly show that Italian unions have tried to embrace a more ‘encompassing’ type of behaviour (Baccaro et al., 2003), which are also observed in the case of Greek trade unions.

Conventionally, the representation problem is understood through membership rates. For example, Scandinavian unions with union density reaching nearly 100 percent are considered paradigm cases of ‘encompassing’ trade unions. A corrective to this view is brought by Schmitter (1995:303), who insightfully argued that trade unions in Southern Europe are more representative than their membership rates would indicate, because of the legal extension of collective agreements. Indeed, trade union density in Greece and Italy ranged from 20 to 40 percent during the 1990s and 2000s (Figure 3-5). Greek union density was very close to the German levels and Italian was slightly higher than the British. But if one looks at collective bargaining coverage, Italian and Greek rates are much higher than either British or German (Table 3-1). In sum, trade unions in Italy and Greece effectively represent 70-80 percent of the salaried wage earners.

### Table 1 Collective Bargaining Coverage Rates 2000 and 2006 in selected countries

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2006</th>
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<tbody>
<tr>
<td>DE</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>GR</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>IT</td>
<td>82</td>
<td>82</td>
</tr>
<tr>
<td>UK</td>
<td>36.3</td>
<td>35.3</td>
</tr>
</tbody>
</table>


2 Similarly, Molina and Rhodes (2007:227) argue that interest associations in ‘Mixed Market Economies’ are fragmented and unable to deliver collective goods. This argument is probably half of the story, in the sense that, indeed, interests associations in Greece and Italy do not engage in joint supervision of vocational training as in Germany or unemployment insurance as in Scandinavia. The other half of the story is told by the high coverage rates, which –at a minimum– doubt the idea of ‘narrow interests’.

3 In short, I refer to agreements, which do not cater the immediate interests of their membership, such as: training for unemployed, equal opportunities for women, increased protection/security for precariously employed, price stabilization through wage restraint, etc.
Another dimension of the ‘representation problem’ stems from the legal requirements for union organising and the structure of the productive system in Italy and Greece. Both countries have a plethora of micro-firms, whose employees cannot be represented by unions, due to legal prerequisites\(^4\). It should be added, though, that most of these are very small family firms, and it may well be the case that union organizing is meaningless within such a workplace. The problem is also exacerbated by the high levels of self-employment in Southern Europe much higher than the norm in either Britain or Germany (Table 3-2). This feature is even more intense in the case of Greece, where as Tsoukalas (1995:206) insists, over two-thirds of the urban working population in Greece are either self-employed or work in the public sector, thus reducing the total number of private sector salaried wage earners.

\(^4\) For example, the Law requires that for a trade union to be established in Greece, it should have a minimum of 21 members (Kouzis, 1998) p.118. As a result, employees in micro-firms with less than 21 persons are automatically excluded from the prospect of union representation. The equivalent minimum number of employees to organise a trade union in Italy is 16 (Baccaro et al., 2003) p.45.
### Table 2 Share of self-employed in total employment between 1995-2005 in selected countries

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>2000</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>DE</td>
<td>10.0</td>
<td>10.0</td>
<td>11.2</td>
</tr>
<tr>
<td>GR</td>
<td>45.8</td>
<td>43.3</td>
<td>40.8</td>
</tr>
<tr>
<td>IT</td>
<td>26.9</td>
<td>26.4</td>
<td>24.5</td>
</tr>
<tr>
<td>UK</td>
<td>13.8</td>
<td>11.9</td>
<td>12.7</td>
</tr>
</tbody>
</table>


One should not underestimate the extent of the related problem of informal work in the black economy. Possibly most applicable to migrants working in sectors with high rates of seasonal employment (like tourism, agriculture and construction) the estimates for the extent of informal work are very high in both Southern European countries as opposed to Britain or Germany (Table 3). A potential explanation for this high percentage of undeclared work could follow Regini (1997:109) analysis for the case of Italy: firms’ response to the rigid institutional framework is to circumvent it and resort to informal and illegal flexibility. This strategy is likely to pay off (more for small firms) because of the lack of labour law enforcement mechanisms and low sanctions associated with it. As Zambarloukou (2006:220) puts it, the large unofficial economy in Greece offered ‘exit mechanisms’ for the firms not willing to abide with the institutional framework.

### Table 3 Estimated size of undeclared work as % of GDP

<table>
<thead>
<tr>
<th>Estimated size of undeclared work in GDP %</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>DE</td>
<td></td>
<td></td>
<td></td>
<td>6%</td>
</tr>
<tr>
<td>GR</td>
<td></td>
<td></td>
<td>&gt;20%</td>
<td></td>
</tr>
<tr>
<td>IT</td>
<td></td>
<td></td>
<td></td>
<td>16-17%</td>
</tr>
<tr>
<td>UK</td>
<td></td>
<td></td>
<td></td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: EIRO (2005:7), Data reported to the Commission.

Last but not least, the following Figure and Table present indicators of wage bargaining coordination and centralization respectively. In Italy wage coordination has clearly increased, with the tripartite agreement of 1993 marking a turning point and matching the German levels of wage coordination (Figure 3). Greece is also depicted as having CME-like levels of wage coordination, although the type of coordination is likely to be qualitatively different from the German one. Finally, indicators of bargaining
centralization show a gradual increase throughout the 1990s (Table 3-4) with both Italy and Greece moving towards the German levels of centralisation.

**Figure 3 Coordination of Wage Bargaining**

![Figure 3 Coordination of Wage Bargaining](image)

Source: ICTWSS Database.

**Table 4 Collective Bargaining Centralisation**

<table>
<thead>
<tr>
<th>Collectively Bargaining Centralisation Index</th>
<th>1990</th>
<th>1995</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>DE</td>
<td>0.48</td>
<td>0.47</td>
<td>0.47</td>
</tr>
<tr>
<td>GR</td>
<td>na</td>
<td>0.33</td>
<td>0.39</td>
</tr>
<tr>
<td>IT</td>
<td>0.25</td>
<td>0.35</td>
<td>0.34</td>
</tr>
<tr>
<td>UK</td>
<td>0.12</td>
<td>0.13</td>
<td>0.13</td>
</tr>
</tbody>
</table>


To sum up, this section considered briefly changes in the industrial relations system in Italy and Greece. Industrial relations in the 2000s are characterised by reduced government intervention and lower levels of industrial conflict, especially when compared to the 1980s. The 1990s witnessed a burgeoning activity of Social Pacts in Italy. In Greece the biennial collective bargaining and other institutional channels are construed as functional equivalent of concertation. These changes are reflected in the Italian and Greek coordination scores which match the German ones, as well as the increased centralisation scores, which approach the German ones. The review of the evidence provides support to the argument that the direction of institutional change in
the industrial relations realm is towards the more coordinated type. In the next section we turn to the system of finance and corporate governance.

3.4. Finance and Corporate Governance in Italy and Greece

The conventional typologies for finance and corporate governance follow dual classifications: ‘equity-based vs. bank-based financing’ (Gospel & Pendleton, 2005b:7) or ‘shareholder vs. stakeholder value’ (Vitols, 2001:341). In the stylised picture of LMEs, firms follow shareholder-value corporate governance, relying heavily on stock market funding and therefore ‘impatient’ capital. This is reflected by dispersed ownerships and few cross-shareholdings. In the stylised picture of CMEs, firms follow stakeholder-oriented corporate governance, relying heavily on bank-based funding and therefore ‘patient’ capital. This arrangement is reflected on concentrated ownerships and increased cross-shareholdings.

Regarding the above typologies, Gospel and Pendleton (2005:7) point out that South European countries ‘where the state has traditionally played and important role, directly or indirectly, in corporate ownership and governance’ do not fit comfortably with these dichotomies. Indeed, is ‘state funding’ patient capital? Are state-owned firms or even family-owned firms ‘stakeholder-oriented’? One could easily argue that the above dichotomies have a very clear large-firm bias. In other words, how relevant is the option of ‘equity-based funding’ for a small firm? This bias complicates analysis when looking at cases like those in Southern Europe. Italy and Greece are known to have a plethora of micro and small firms, for which bank-based funding or state subsidies might be the only options. Moreover, in these cases it is perhaps impossible to disentangle the ‘family’ component from firm ownership and governance. Karamessini (2009) argues that corporate governance in Greece could be regarded as ‘familial’, while Melis (2006) underlines the central role of family ownership even in the large shareholdings in Italy (cited by Culpepper, 2007:787).
Table 5: Ownership and Control of Large Firms in selected countries.

<table>
<thead>
<tr>
<th>Control of Large &amp; Medium Publicly Traded Firms</th>
<th>DE</th>
<th>GR</th>
<th>IT</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Widely Held Control of Large Firms</td>
<td>0.50</td>
<td>0.10</td>
<td>0.20</td>
<td>1.00</td>
</tr>
<tr>
<td>Family Control of Large Firms</td>
<td>0.10</td>
<td>0.50</td>
<td>0.15</td>
<td>0.00</td>
</tr>
<tr>
<td>State Control of Large Firms</td>
<td>0.25</td>
<td>0.30</td>
<td>0.40</td>
<td>0.00</td>
</tr>
<tr>
<td>Widely Held Control of Medium-sized Firms</td>
<td>0.10</td>
<td>0.00</td>
<td>0.00</td>
<td>0.60</td>
</tr>
<tr>
<td>Family Control of Medium-sized Firms</td>
<td>0.40</td>
<td>1.00</td>
<td>0.60</td>
<td>0.40</td>
</tr>
<tr>
<td>State Control of Medium-sized Firms</td>
<td>0.20</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>


The above correctives seem to fit well with relevant evidence from La Porta et al. (1999) presented in Table 4. The crucial message from the above Table is that family in Southern Europe is not only important when thinking about micro and small firms (as one would expect), but is also important for the ownership of large firms. For example, it is clearly shown that the large publicly traded firms in Greece and Italy are much more under the control of family or the state than Germany or Britain. The idea of ‘dispersed ownership’ is a good descriptor for Britain, but is less relevant for the other cases. Moreover, the extent of family control of ‘medium sized’ firms (but still large enough to be traded publicly) is skyrocketing in Italy and Greece, showing much higher levels than the other two countries. The more general point of the above discussion is that dual or dichotomous understandings (such as the established typologies of corporate governance) may be good for a start, but become problematic as the universe of cases expands. The complexity encountered doubts their relevance and unveils an Anglo-Saxon (or at least Western European) bias.

While the above data highlighted some of the problems with theoretical conceptions based on dual classifications, they cannot tell us anything about the direction of institutional change, because they are based on a specific snapshot between 1995-7. Perhaps, an update of this data will show much different levels of state ownership given the privatisation programmes in both countries during the 1990s. Notably, Italy has gone through ‘the largest privatisation programme in the world’ (Deeg, 2005:531).

To begin with the Italian system, a major turning point in the last two decades is the passage of the Draghi Law in 1998. Among other things, the Law increased the regulatory protection afforded to minority shareholders, changed the auditing system and also changed the takeover bidding rules (Culpepper, 2007:790). This institutional change
is attributed to a coalitional web between a ‘transparency coalition’ (investors and workers), a reformist-minded bureaucratic elite and a left-party government (Deeg, 2005). To our interest here is that this ‘dramatic legal change moved Italy from the lowest score on the…index of minority shareholder protection to the same score as the United States and the United Kingdom’ (Pagano and Volpin, 2005 cited in Culpepper, 2007:790).

In Greece, the traditional source of funding for economic activity has been credit from the state-owned banks, since equity markets were underdeveloped. The financing of economic development was geared towards specific sectors of the economy ‘via a system of obligatory investment ratios’ with the state being by far the largest borrower, followed by industry and SMEs (Soumelis, 1995:40). Still, in the recent years there have been changes in the financial system realm in both Greece and Italy. Their financial systems have been liberalised and state owned banks largely privatised in the 1990s. At the same time stock markets experienced an unprecedented expansion and their importance in the national economy has undoubtedly increased (cf. Della Sala, 2004:1048). The data on stock market capitalisation as a percentage of GDP (Figure 7) document this change. While data before 1995 are not available in this figure, we do know from other sources (Culpepper, 2005a:186, fn45) that:

‘in the two decades prior to 1990 stock market capitalization in … [Italy, Germany, UK and France] was almost stagnant: moving from…16 percent in 1970 in Germany to 21 percent in 1990; and 5 percent in 1975 in Italy to 13 percent in 1990’. 


Figure 7: Stock Market’s Importance in the economy 1995-2006 in selected countries.

Admittedly, market capitalisation figures may be influenced by the stock markets bubble bursting out in the late 1990s (hence the huge spike in 1999 in Greece approaching very close to the British/LME levels). However, even with these data one may observe that after the deflation of the bubble, the levels of market capitalisation settled at a higher plateau than the one from which they started. Perhaps, a complementary statistic is the number of listed firms, showing a very high increase especially for Greece (Table 5). The two exhibits warrant the conclusion that the importance of equity-based funding has increased in both Southern European countries (more so for Greece than Italy). Moreover they show that equity markets’ importance increased also for the proxy/paradigm cases of Germany and Britain, changing in parallel with the ‘ambiguous’ cases.

Table 6: Listed Firms Numbers 1990-2007 in selected countries.

<table>
<thead>
<tr>
<th>Listed Firms Number 1990-2007</th>
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<tbody>
<tr>
<td>---</td>
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<tr>
<td>DE</td>
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<td>IT</td>
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<tr>
<td>UK</td>
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</tbody>
</table>

The discussion so far provided evidence indicating that finance and corporate governance systems in Italy and Greece are taking more liberal market characteristics. On the one hand, legal changes in Italy have increased the protection of minority shareholders and transparency in corporate governance, which are typical characteristics of LMEs. On the other hand, equity-based funding has increased in importance throughout the last two decades for both Southern European countries. Increased reliance on stock markets and their ‘impatient’ capital is also a typical characteristic of LMEs. But to what extent these changes have also brought about other LMEs elements (such as dispersed ownership and short-termism) remains to be answered.

Still, there is some scattered evidence pertinent to this question. According to Makridakis et al. (1997:394) ‘short-termism’ seems to be a characteristic of Greek management. This claim is corroborated by Tsipouri and Xanthakis (2004:25) who find weak compliance of Greek companies with stakeholder corporate governance values. For Italy, Culpepper (2007) argues that while change in formal (legal) institutions was indeed geared towards the liberal market model, actual practice remained attached to concentrated ownership. This difference between legal changes and changes in actual practice surely complicates the conclusion of this exercise. Perhaps, it also illustrates even more the argument that delineating an overall trend (e.g. saying that Italy or Greece is becoming more CME or LME) is an arduous task. How can one assess the relative weigh of change in formal vs. informal institutions? Even more, how can one assess the relative weigh of changes in one realm against changes in another realm? These questions will be discussed in the next section.

3.5. Conceptual and Methodological Implications

The previous two sections have reviewed changes in two institutional spheres in Italy and Greece from the early 1990s to the late 2000s. On the one hand, the review illustrated that the adversarial character in industrial relations loosened and government intervention relaxed compared to the 1980s, while wage bargaining became more centralised and coordinated. On the other hand, the system of finance and corporate governance acquired more liberal market characteristics and the importance of equity markets increased in both countries. The diverging changes in the two institutional spheres examined here, cast doubt to the credence of the dual convergence hypothesis and
possibly provide support to an alternative hypothesis, that of "hybridisation." This section will deal with the conceptual and methodological implications stemming from this analysis.

A first implication relates to the very central concept of ‘complementarities’. In particular, industrial relations and corporate governance are essential institutional spheres for producing ‘institutional complementarities’ (Höpner, 2005). A classic example is the dual management board in German firms (Aufsichtsrat und Vorstand) as complementary institution with employees’ codetermination right (Mitbestimmung). For their relationship, Robert Boyer (2006:19) has pointed out:

The proponents of a strong variant of VoC would regard these institutions as complementary – having observed the good ‘performance’ of the German economy until the early 1990s – whereas the observation only says that they are compatible.

While it is not within the scope of this paper to explore the validity of complementarities, the previous sections warrant a few comments for this concept. Given that institutional spheres in Italy and Greece are moving in opposite directions, then this translates into intensifying the misfit between institutions and leading possibly to greater hybridisation. The ‘performance’ of the two Southern European countries appears as a puzzle for a theoretical construct that links Mixed Market Economies with the absence of complementarities. How one explains the steadily high growth rate in a ‘mid-spectrum’ case such as Greece throughout the 1990s (only second to the Irish ‘LME’ in EU)? Alternatively, (and more faithfully to the ‘exposed’ sector argument), how one explains the good export performance of Italian industries, despite the country being classified as a ‘Mixed Market Economy’?

Leaving these questions aside for future research, there are also methodological implications stemming from the review made here. The first relates to the appropriate level and unit of analysis when asking questions of institutional change. The contradictory conclusions in the literature over institutional change in Spain [more LME (Molina & Rhodes, 2007) versus more CME (Royo, 2007)] warrant a call for disaggregation of capitalist models into component institutions. Since it is empirically possible for different institutional spheres (within single countries) to be changing towards opposite directions, abandoning the nation-state is a piece of advice (Crouch, 2005a; Culpepper, 2005b; Schelkle, 2008) that makes a lot of sense. At a minimum this
will save one from the arduous task of delineating an overall trend across the ‘political economy’.

Admittedly, the practice of focusing on specific institutions or institutional spheres is already taking place in the literature. Still, the consciousness of what is the relevant ‘universe of cases’ and how ‘generalisable’ can the results be is not as clear and leads to spurious forms of selection bias. For example, if one examines institutional change only in Italian welfare and production regimes or only in Italian corporate governance, then one should be restrained from ‘generalising’ that Italian ‘capitalism’ as a whole is moving towards the one or the other direction. The concept of selection bias needs to be treated cautiously here and indeed begs for some elaboration, since it lies at the heart of the so-called quantitative-qualitative divide.

While research methodology in comparative political economy is characterised by pluralism, the dominant research design is undoubtedly comparative small- and single-case studies. In this design, random selection is ruled out as inappropriate (King, Keohane, & Verba, 1994:128). Case selection is bound to be based on some prior knowledge, which allows stronger research designs and contingent generalisations (George & Bennett, 2005:24-32). Contingent generalisation means that scholars problematise what constitutes the relevant ‘universe of cases’ for theoretical propositions (causal mechanism or otherwise), which in turn might be more generally applicable. Notably, even single case studies ‘have generalisable implications since Tocqueville published Democracy in America’ (Culpepper, 2005b:4). The way contingent generalisations work is that each case study contributes to the cumulative refinement of theoretical propositions following a ‘building block’ approach and being part of a broader research programme (George & Bennett, 2005:112; King et al., 1994:211). For example, an explanation of institutional change in Italian corporate governance which is based on coalitions may be able to explain institutional change in Spanish corporate governance and thus be construed as more generally applicable. In other words, it is the causal mechanism that is generalisable and not the trend of change across the case.

As it was mentioned previously, when it comes to exploring institutional change a crucial problem is how to identify it and agree on what ‘counts’ as change. The difference between formal and informal institutions complicates things even further. In his study on
Italian corporate governance, Culpepper (2007) makes a very interesting argument highlighting this complexity: while one finds institutional change in formal (legal) institutions, informal norms (actual behaviours) are characterised by institutional stability. Obviously, there is no magic recipe to deal with this possibility. It is widely accepted that formal changes are easier to capture than changes in norms, customs or codes of conduct, which change in a much slower pace. The implication for research is that it is crucial to make clear from the outset, what one is looking at: formal or informal institutions?

Identifying change first is certainly a pre-requisite for explaining it, just as description precedes analysis and explanation. Highlighting different approaches to explanation, Mahoney and Goertz (2006:230-232) make an excellent contribution to the debate over the quantitative-qualitative divide. The authors note that qualitative researchers start with particular cases and their puzzling outcomes and then move backwards to find causes adopting a ‘causes-of-effects’ approach. In contrast, quantitative researchers follow the ‘effects-of-causes’ approach seeking to estimate the average causal effect of one or more independent variables on a dependent variable.

Having said that, a good piece of advice to avoid extreme selection bias is given by King et al. (1994:129) who suggest that ‘selection should allow for at least some variation on the dependent variable’ (emphasis removed). One should perhaps add that ‘dependent variable’ is used loosely here denoting an *explanandum* (that which needs to be explained). The practical implication is that when one is trying to explain institutional change in a comparative case study design, then case selection should involve not only cases which are likely to display change, but also cases which have not changed. This will give some ‘leverage’ to draw more robust explanations and avoid selection bias. It should be noted that this is essentially the idea, behind the ‘most similar systems’ design, where similar cases display different outcomes, and the aim is to explain the difference.

The reference to the ‘most similar systems’ design hints to the notion of (quasi) experimental control. Most similar systems studies are based on the belief that ‘systems as similar as possible with respect to as many features as possible constitute the optimal samples for comparative inquiry’ (Przeworski & Teune, 1970:32). While arguing that two countries are ‘most similar’ with respect to certain features is not impossible, lowering
the level of analysis below the nation-state gives a methodological edge. For example, selecting different regions or different sectors within the same country may be a very fruitful strategy for ‘holding constant’ a range of characteristics. Features such as different legal frameworks or structures of trade unionism may have a causal impact on the outcome one tries to explain. Therefore, comparing sub-national units approximates the ‘experimental control’. This methodological advantage is known to apply more generally, but it can be very handy when trying to explain institutional change.

Admittedly, one could argue that the most interesting institutions are national-level institutions and thus this strategy is not applicable. In contrast, there are many institutions of interest to comparative political economy, which vary sub-nationally (e.g. regional collective bargaining in Spain or Italy; sectoral vocational training in Germany; sectorally organised Ghent system in Scandinavia, etc.).

A final methodological advantage of abandoning the nation-state and lowering the level of analysis is that it weakens the notorious ‘too many variables, too few cases’ problem. Focusing on specific institutions and increasing the number of ‘cases’ at the sub-national level ‘kills two birds with one stone’. First, the ‘variables’ are reduced because of the ‘experimental control’ mentioned above and because the focus is on change in specific institutions. Second, the ‘cases’ are increased by adding sub-national units, most commonly sectors, regions or even firms (depending on the research question). Crucially in the quantitative-qualitative divide, one should not conflate a ‘case’ with an ‘observation’. A single ‘case study’ is by no means equivalent to a single observation in the cells of a worksheet; instead each case is a source of multiple observations. Still, ‘making many observations from few’ (King et al., 1994:217-228) as one moves from the national to sub-national levels, is a strategy that yields valuable advantages.

3.6. Conclusion

The VoC strand in the broader comparative political economy literature generated interesting insights but also attracted reasonable criticism. In terms of insights, this strand of literature challenged proponents of an imminent convergence to a single best practice model of capitalism and provided counterarguments to a simplistic understanding of globalisation. In the process, it displaced the convergence thesis with
its own ‘dual convergence’ thesis. In terms of criticism, VoC was charged *inter alia* with building ideal-types reading backwards empirical cases, being based on comparative statics which -by design- downplay institutional change and over-emphasising the nation-state as the main unit of analysis.

This paper sought to accomplish a twofold aim. First, to assess the plausibility of the dual convergence thesis against two ‘hard cases’ for claims on institutional change: Italy and Greece. The focus was on two central institutions for VoC theory, industrial relations and corporate governance. The second aim was to illustrate the problems stemming from adopting the nation-state as the unit of analysis when gauging the direction of institutional change.

The brief review of changes in the two institutional spheres generated interesting findings. On the one hand, industrial relations in the two countries seem to becoming less statist and adversarial, but more coordinated. On the other hand, the system of finance and corporate governance is acquiring more liberal market characteristics and especially equity markets have increased in importance for both countries. The diverging changes in the two institutional spheres examined here, cast doubt to the credence of the dual convergence hypothesis and possibly provide support to an alternative hypothesis, that of hybridisation.

The above analysis highlighted the possibility that institutional spheres within the same country may be changing towards different directions. If this is the case, then claims over institutional change for a whole country are very tenuous and delineating an overall trend becomes an arduous task. The finding by itself has important implications for the further research on institutional change. Notably, it might be necessary to look at the concept of institutional complementarity under a new light. In the event that institutional changes in an ‘ambiguous case’ are changing in opposite directions, but the case is still able to obtain some sort of good economic performance (in exports or growth) then the validity of the concept is questioned.

Moreover, the possibility that countries’ institutions are changing towards different directions is begging for a disaggregation of ‘capitalist models’ into their component institutions. Similarly, it seems be a prudent strategy to distinguish between formal and
informal institutions when carrying out in-depth studies. Admittedly, this insight has been inconsistently followed so far by several works, since it is very difficult to look simultaneously at multiple institutional spheres. Still, in certain instances ‘claiming too much’ was not avoided, and what was seen as institutional change in specific spheres or sectors, was ‘generalised’ as the direction of institutional change across the whole ‘political economy’ (country).

Finally, the paper concluded by arguing that lowering the level of analysis below the nation-state is not only a prudent strategy from a theoretical point of view, but also yields valuable methodological advantages. The advantages include increasing the number of observations, varying the outcome to be explained to avoid selection bias, and achieving quasi-experimental control. These methodological insights are especially valuable for those engaged with comparative-historical research using small-\(n\) or single-case studies.
References


Data Sources for Figures and Tables (Access date: 5/3/2009)


