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'Varieties of Capitalism' and the Greek case: explaining the constraints on domestic reform?

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ABSTRACT

Comparisons of national economic performance or of welfare provision often seek to explain these by reference to the crucial distinguishing structural conditions of each domestic system, grouping countries into relevant typologies. In this context, Greece often stands as something of an exception to the dominant typologies or is simply left out. This paper seeks to partially fill this gap, trying to identify a Greek model/regime by looking into the literatures on neo-corporatism, varieties of capitalism and welfare regimes. To do so, it seeks to evaluate and explain the fate of domestic reform initiatives. Despite the fact that successive governments have expressed a will to enact domestic reforms, Greece's performance in adopting reforms consistent, for example, with the Lisbon Agenda has been notably poor. Through this discussion, the paper derives a general hypothesis concerning Greece's problems of 'reform capacity', in relation to the Lisbon Agenda.

Keywords: Lisbon Agenda, structural reform, Greek exceptionalism, varieties of capitalism, reform capacity

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1. Introduction

Comparisons of national economic performance or of welfare provision often seek to explain these by reference to the crucial distinguishing structural conditions of each domestic system, grouping countries into relevant typologies. Models of interest mediation; of economic system; and, of welfare regime have an important place in the study of comparative political economy and of social policy, in particular. In this context, southern Europe and Greece, in particular, often stands as something of an exception to the dominant typologies or is simply left out (e.g. Esping Andersen, 1990; Hall and Soskice, 2001). Schmitter's comment of some years ago to the effect that the southern European systems have been left as the 'stepchildren' of such comparative typologies still seems appropriate (1986: 3).

The purpose of this paper is to focus on Greece and to consider the identification of its economy and welfare regime, in order to incorporate the case in the wider comparative literature. A more specific purpose is to evaluate the relevance of such modelling to an explanation of the fate of domestic reform initiatives. To what extent do the models highlight the key conditions affecting reform attempts, determining the impediments to change in sensitive areas such as labour market regulation; pension provision; and privatisation of state enterprises? The latter are important in the context of the European Union's 'Lisbon Programme', launched in 2000 and updated in 2005, seeking to achieve open, flexible markets in Europe by 2010. Indeed, Greece's relative performance in adopting reforms consistent with the Lisbon Agenda has been poor. It has been one of the most notable laggards. Yet, successive governments have expressed a will to enact domestic reforms consistent with this strategy. Whilst such rhetoric need not be taken at face value – given the competing interests and preferences within a governing party - the relative failure to implement more substantial reform would seem to be affected, in part, by a government's capability to act: the 'reform capacity' of Greece.

The notion of an economic or social 'model' is not easily applied to Greece. The term is rarely used in discussions of the contemporary economy or society – few, if any, would claim paternity of the system. Observers do not easily equate conditions with an integrated whole, a cohesive set of policy norms. Moreover, the system can appear both exceptional and complex: including relevant conditions in a coherent model with a predictive intent and international relevance is therefore daunting. The purpose of modelling is to be selective in highlighting key conditions and gleaning the latter from the Greek case presents both conceptual and empirical challenges.

The paper searches for the Greek model within the literatures on neo-corporatism; varieties of capitalism; and, welfare regimes. It constitutes little more than a brief literature overview, offering some preliminary thoughts on their relevance. It does, however, derive a general hypothesis to try to explain the problems of 'reform capacity' in Greece in relation to the Lisbon Programme. As such, a pathway for future research in this area is tentatively sketched. The paper draws heavily on a forthcoming book, co-authored with Dimitris Papadimitriou, which discusses these and other analytical frames.

2. Neo-corporatism: explaining the Greek shortfall

The complex relation between government, unions and employers in Greece lends itself to explanation on the basis of a 'neo-corporatist' approach. This refers, at a minimal level, to the ability of a government to negotiate sustainable bargains (e.g. on wages, employment and/or social policy) with union and employer organisations (Schmitter and Lehmbruch, 1979; Berger, 1981; Goldthorpe, 1984; Alvarez et al, 1991)[1]. The model posits a small number of organisations possessing a representational monopoly within their own area of interest that are then incorporated into policy-making as co-responsible partners (Schmitter, 1977: 9; Sargent, 1985: 232; Cawson, 1986). The 'political exchange' also depends on incentives from government and the discipline of unions to establish reciprocal agreements (Scharpf, 1987, 1991).

[1] I am indebted to the review offered in Hall and Soskice (2001).

The approach was particularly popular in the 1970s, helping to explain the various forms of concertation that were then evident across west European states. In more recent years, however, it has encountered a paradox: the existence of neo-corporatist type agreements in systems apparently lacking the organisational preconditions for successful concertation. The emergence of various kinds of social pacts appeared related to the external discipline of EMU (Hancke and Rhodes, 2005). In any event, there is the more immediate problem of identifying the extent to which Greece fits the neo-corporatist model.

There has been a healthy debate on the nature of the Greek system in this respect. In the post-war period it has usually been seen as constituting a 'state corporatist' model of some type, emphasising the reach of the state. Mavrogordatos (1988) outlined the history of state corporatism in Greece. State interference in the trade union movement began under the premiership of Venizelos, with a package of legislation in 1910 and subsequent political interventions; was greatly extended by the authoritarian Metaxas regime (1936-41); and reinforced by the Colonels' junta (1967-74) (Featherstone, 1987; Leon, 1976). It sustained a very fragmented, highly regulated structure of trade unionism that can easily appear opaque to the outsider. Collective bargaining has been subject to extensive state regulation, with various forms of bilateral ('collective') agreements being signed between unions and the employers on an annual and, more recently, biennial basis. Trade union density (that is, the size of union membership) is relatively low. Estimates of trade union density place Greece alongside the UK, Germany and The Netherlands in the 20-29% range. Large numbers of small enterprises are largely unaffected by the collective agreements of the corporatist structures.

However, Pagoulatos (2003) argues that the notion of 'state corporatism' belongs in the era of the 'developmental state', pre-1974; latterly, the term overstates the scope for state control over organised interests and of the possibility of state-imposed concertation. He stresses, instead, the fragmented and rent-seeking character of interest mediation. Thus, he prefers the identification of the system as one of a unique type of 'parentela pluralism' (2003: 162). Lavdas had earlier depicted the Greek system as one of 'disjointed corporatism' – a pithy term, but one defined rather cumbersomely as where there is 'a combination of a set of corporatist organisational features and a prevailing political modality that lacks diffuse reciprocity and remains incapable of brokering social pacts' (1997: 17). The enclaves of sectoral corporatism "have been the result of mutations" of the state corporatist tradition (1997:17). By contrast, Pagoulatos wishes to give more emphasis to the "generally pluralistic group setting" (2003: 162).

The extent of recent change is disputable. In the 1990s, Pagoulatos argues, government and party intervention in trade union organisation and activity had been "relaxed, financial autonomy of labour unions was increased, the General

Confederation of Greek Workers (GSEE) acquired significant political autonomy, and collective bargaining was liberalised" (2003: 167). Further, "consensus-oriented, neocorporatist-type procedures and institutions were strengthened, centralised collective bargaining and the pursuit of social pacts coexisting with highly decentralised company-level agreements" (2003: 167). This seems to exaggerate the degree of consensus and the significance of the pursuit of social pacts, however. The rhetoric on the importance of social dialogue only emerged gradually in the late 1980s and early 1990s (Ioannou, 2000). Since then, it has been marked by a 'stop-go' character, discrediting it as a process and creating further mistrust. Moreover, the agenda of social dialogue has been inconsistent and fragmented, resulting in ad hoc, partial bargaining. Thus, Lavdas' earlier pessimism was not fundamentally overcome. Before returning to power, PASOK in 1993 had assailed the Mitsotakis Government for the absence of social dialogue. In government, its strategy was attacked for being ad hoc and opportunistic (Ioannou, 2000). It created several bipartite and tripartite bodies to facilitate dialogue (most notably, OKE: Economic and Social Committee / OKE: Οικονομική και Κοινωνική Επιτροπή in 1995), but it then neglected and bypassed them, creating a new 'National Social Dialogue' in 1997 with a different structure and an inconsistent purpose (Featherstone and Tinios, 2006).

The attempts at 'tripartite social dialogue' in 1997 and 2000 were widely regarded as failures (Zambarloukou, 2006: 220-223). The unions had initially shifted ground by supporting dialogue because of the transformation of the economic setting (increased unemployment, declining union density, privatisation, the opening to foreign competition, technological change, and the abolition of compulsory arbitration) (Zambarloukou, 2006). Yet the dialogue broke down: Zambarloukou argues that this was due to long-term problems of a lack of trust and the absence of a culture to support dialogue, as well as the internal structural problems of the unions. More specifically, the unions came to view government initiatives on pension and labour market reform as a 'zero-sum' agenda, involving costly losses and few gains.

What the neo-corporatist focus suggests for the Greek case studies - with the 'disjointed' or 'parentela' character of interest mediation - is the structuring of conflict, with coordination and consensus extremely difficult to manage in a climate of antagonism and mistrust. Indeed, Greece is typically depicted as exhibiting low 'social capital' (Putnam, 1993; Lyberaki and Paraskevopoulos, 2002). Moreover, the structure of conflict is strongly marked by the mode of representation within the major bodies. Both the union (GSEE and ADEDY) and employers' (SEV) federations have internal representation that is skewed towards certain groups, over-playing their interests. In the union confederations, disproportionate strength has been enjoyed by employees of the public sector, affecting the stance of the leadership on key economic and social issues. At the same time, the employers' federation has displayed the predominance of the few very large firms (some ex-state monopolies). This has favoured the distinctive interests of those who have benefited from the prevailing market regulations, barriers to entry, and stable product demand.

Moreover, the membership of Greek firms in the major employers' organisations is relatively low in European terms. The representation balance is tipped away from those with interests in more open, competitive private markets. Interest representation tends to reflect the legacy of the risk-averse, statist and anti-competitive traditions of the 'developmental state'.

3. Models of capitalism: Greece as an outlier?

Recent scholarship has shifted away from neo-corporatist frameworks to develop a rather more holistic approach on the nature of the domestic economy. Hall and Soskice (2001), in particular, broke new ground with their 'varieties of capitalism' approach and it has encouraged a burgeoning literature in comparative political economy. Hall and Soskice set out to answer how different models of capitalism, defined by their institutional characteristics, shape economic performance. In particular, "It provides a new analysis of the pressures governments experience as a result of globalisation and one capable of explaining the diversity of policy responses that follow" (Hall and Soskice, 2001: vi).

The basic idea is that national economies can be modelled in terms of their institutional frameworks and that the behaviour of these economies can be explained by reference to the propositions of rational interest derived from the models. Whilst the perspective accounts for different kinds of actors, the models are strongly focussed on the behaviour of firms as "companies [are] the crucial actors in a capitalist economy" (2001: 6). They are the key agents of change within systems. This represented a clear attempt to shift the focus of the 'neo-corporatist' literature beyond the stress on the state's relationship with organised labour.

With respect to types of national setting, Hall and Soskice draw a central distinction between *liberal market economies* (LMEs) and *coordinated market economies* (CMEs). The former comprise nations such as the USA, UK, Australia, Canada, New Zealand and Ireland. Here, a market-friendly economy structures interactions: firms coordinate with an "arm's length exchange in a context of competition and formal contracting", responding to market signals in the manner described by neoclassical economics (2001: 8). The supply of finance and the system of industrial relations are dominated by market mechanisms. By contrast, in *coordinated market economies* (such as Germany; Japan; the Netherlands; Sweden) firms rely more on non-market relationships to resolve their coordination problems (including finance and industrial relations). Economies are structured by an embedded network of corporate institutions and collective organisations, which encourages collaborative relationships and a sensitivity to the interests and strategies of other actors.

The general approach is not without its critics (Morgan *et al*, 2005). Of more immediate relevance to the present study is that Hall and Soskice left explicitly outside either of their models France, Italy, Spain, Portugal, Greece and Turkey (2001: 21). The southern European states are seen as 'ambiguous' cases falling between the two ideal types. Intuitively, specialists on southern Europe were left uncomfortable – though to varying degrees - with an approach that:

- Is centred on the firm and its myriad of relationships, seeing them as the key agents of change, contrasting with the distinct market structures and histories of southern Europe, and tending to downplay the centrality of the state in the domestic economy;
- Neglects other forms of non-market relationships (to those found in coordinated market economies), such as clientelism and corruption.
- Has difficulty in fully accounting for the distorted (or disjointed) nature of the parallel welfare regimes of southern Europe; and,
- Understates the relevance of the EU dimension to domestic reform and development in small, marginal economies (see Thatcher, 2004, for a related argument on external pressure overcoming domestic institutional inertia).

It is not surprising, in this context, that France - the home of étatisme - could not be neatly fitted into the two models of Hall and Soskice. To underplay the role of the state in southern Europe is to take the 'politics' out of the model, leaving a partial and abstract notion.

The tradition of state-driven development in southern Europe is central to Greece's economic history (Diamandouros, 1994: 11, 1993; Tsoucalas, 1993: 62). Pagoulatos, for example, identifies Greece in the post-war period as a weak and incomplete 'developmental state', based on a 'state-driven policy pattern' with a protected market and a deeply underdeveloped civil society (2003: 47). The late (or 'late-late') industrialisation of Greece, and its dependence on the Greek Diaspora and on foreign capital, meant that the state filled a domestic vacuum (Demertzis, 1994; Mouzelis, 1978, 1993). The state exercised disproportionate influence over the economy, through extensive regulation, protectionist measures, transfers and subsidies. Moreover, these instruments were applied in a particularistic manner, with the state subject to a pervasive 'rent-seeking' behaviour and favouring certain sectors and interests (Sotiropoulos, 2004). The foreign origin and deployment of capital became associated with a semi-peripheral, underdeveloped form of capitalism (Diamandouros, 1994: 23; Giner, 1982: 176; Mouzelis 1978). Rather than manufacturing, these capital funds were directed by a 'comprador' bourgeoisie (serving foreign interests) towards activities such as banking, commerce and shipping (Mouzelis, 1978: 20 – 1). A large agrarian and service sector, alongside a limited manufacturing base and an economy structured on small and medium-sized enterprises that were predominantly family-owned, shaped the economy. Yet, whilst the state was omnipresent, it was also fundamentally weak (Tsoukalis, 1997). "Its pervasive influence", notes Tsoukalis, "is intimately related to a clientele system, which it has been precisely intended to serve" (1997: 169). State institutions are typically denoted as weak, inflexible and inefficient.

To make the approach of Hall and Soskice more relevant to Greece, therefore, the typology needs to be adapted. Three alternative typologies are worth examination in this regard: ‘state capitalist’; ‘mixed market economies’; and a more holistic representation.

Schmidt has elaborated a ‘state capitalist’ model, with which she approximates France and Italy (2002). She contrasts this model with the ‘market capitalism’ of the US and the UK and the ‘managed capitalism’ of Germany, the Netherlands and Sweden. She outlines the ‘ideal-typical’ characteristics of state capitalism as follows:

> “In state capitalism, the business relationship tends to be state-organized. Inter-firm relations are mediated by the state, while interaction between firms when not mediated by the state is generally as competitive and distant as in market capitalism [e.g. US, UK] except where there are ties through cross-shareholding akin to the managed capitalism model. Industry-finance relations are similarly state-mediated. Industry is more dependent on the state than the banks or the markets for financing and takes a more medium-term view due to the state’s greater focus on national politico-economic priorities than on firm value or profits per se. Therefore, business-government relations tend to be state-directed, with the state influencing business development through planning, industrial policy, or state-owned enterprises. It often picks winners and losers rather than only arbitrating among economic actors or facilitating their activities. Government relations with labour also tend to be state-controlled although more distant than its relations with business. Wage bargaining is largely determined by the state, which often imposes its decisions on fragmented unions and business, while labour-management relations are mostly adversarial” (2002: 116).

This ideal model is closer to the Greek reality than either of the Hall and Soskice categories. Schmidt suggests that the ‘state capitalist’ countries are being transformed in their economic practices as a result of the retreat of the state and towards the lesser depiction of ‘state-enhanced’ capitalism (2002: 141) and even more recently ‘State-influenced market economies’ (2007). While the Greek economy – and the role of the state within it - have undergone various and significant changes over the last two decades, its distinguishing features remain significant. Moreover, a challenge for any depiction of a more statist model than that advanced by Hall and Soskice is that the state is important in different systems in different ways (Hancke et al, 2007). The particular structure of the Greek economy and the position of the state within it does indeed display some distinctive characteristics. It is not clear that Schmidt's formulations help very much in modelling the interests and behaviour of the state, firms and unions in Greece. The theoretical interpretation of their interaction appears somewhat limited.

Table 1 Southern European Capitalism: Amable (2003)

Institutional area	*South European capitalism*
Product-market competition	Price- rather than quality-based competition, involvement of the State, little 'non-price' coordination, moderate protection against foreign trade or investment, importance of small firms
Wage–labour nexus	High employment protection (large firms) but dualism: a 'flexible' fringe of employment in temporary and part-time work, possible conflicts in industrial relations, no active employment policy, centralization of wage bargaining
Financial sector	Low protection of external shareholders, high ownership concentration, bank-based corporate governance, no active market for corporate control (takeovers, mergers and acquisitions), low sophistication of financial markets, limited development of venture capital, high banking concentration
Social protection	Moderate level of social protection, expenditures structure oriented towards poverty alleviation and pensions, high involvement of the State
Education	Low public expenditures, low enrolment rates in tertiary education, weak higher-education system, weak vocational training, no lifelong learning, emphasis on general skills

Source: Amable, Barré, and Boyer (1997); Amable (2000).

A second approach is the more holistic one of Amable (2003), who deploys cluster analysis (and principal components analysis) to investigate a range of prevailing empirical conditions across twenty-one OECD countries. He offers a typology of five ideal types: the market-based (akin to a LME for Hall and Soskice); the social democratic; the continental; the Mediterranean; and, the Asian. A summary of his Mediterranean type is given in Table 1.

The portrayal of the Southern European conditions reflects a number of important realities. The depiction recognises the extensive regulatory role of the State and it usefully broadens the picture to incorporate the institutional complementarities with welfare and education. These complementarities help to highlight a likely pattern of interests held by actors: for example, limited welfare provision increases the attachment to job security. This point is taken up later.

Amable's methodology here displays a distinctive purpose: it garners the quantitative data to offer a picture of the empirical reality. Its validity depends on how well the data reflect that reality. It is not an 'ideal-type' modelling strategic behaviour as such, rather it is a categorisation of prevailing conditions, lacking strong theoretical support (Hancke et al, 2007: 23). Its depiction is close to the conditions evident in Greece, but an interpretation has to be added of actor interests and behaviour before explanations of outcomes may be developed.

A third alternative formulation for the Mediterranean states is provided by Molina and Rhodes (2005). Working within the framework of Hall and Soskice, they propose an additional model: that of mixed market economies

(MMEs). In MMEs, unions and employers have stronger organisational structures than in LMEs (like US, UK), but they are more fragmented and have more problems in articulating their interests than in coordinated market economies (CMEs) (like Germany, Sweden). They have difficulty in delivering collective goods and in sustaining autonomous coordination in collective bargaining. However, they do have the strength to veto reform: indeed, the political system is marked by a capability problem in responding to reform pressures. Reform is arduous and depends greatly on the leadership of government actors in being able to overcome the coordination problems and to manage domestic veto points. The creation of reform coalitions is more prolonged and problematic than in LMEs or CMEs. The MMEs exhibit some stability: they are more than 'a cluster of countries in transition with only partially-formed institutional ecologies' (Hancke et al, 2007). Moreover, MMEs are hybrid systems: southern European states have low social protection and high employment protection. The depiction of MMEs appears more conducive to developing theoretical explanations of interests and behaviour.

The model differs from that of Hall and Soskice who posited the complementarity of production and welfare regimes and see them as being essential for efficiency[2]. By contrast, Molina and Rhodes see the hybrid of MMEs as potentially having greater scope for adaptation and compromise. Other writers have also challenged the 'functionalist' assumption that complementarities will lead to higher systemic performance (Boyer, 2005;

[2] Two institutions are complementary when the existence of one increases the efficiency of the other (see Amable, 2003:6).

Crouch, 2005). Soskice has now himself examined other types of system, as in Latin America, where institutional complementarities produce sub-optimal Pareto outcomes.

As a model, the MME depiction supports an explanation of the problems of Lisbon-type reforms being enacted in Greece. The inability to sustain social concertation is at the heart of the problem. In addition, coordination problems and veto points abound. The reform task is daunting: a number of important features are strongly embedded. Moreover, the 'hybrid' character is reflected in skewed and limited social provision (see below) which affects the rational self-interest of key groups affected by economic reform.

4. Distinguishing the Greek case: an empirical check

The discussion so far has been largely concerned with conceptualisations. It is now appropriate to consider those conditions that appear to reflect the essential Greek 'reality'. A brief survey of the empirical evidence is in order to indicate the goodness of fit with the conceptual models of the economy[3].

The problems of the Greek state, of the economy and of clientelism, noted above, continue today. In international comparisons of 'government effectiveness' Greece scores relatively low in comparison to other EU states. Moreover, the problems of state inefficiency are evident, for example, from the

[3] Featherstone and Papadimitriou (2008) contains the relevant data tables.

fact that Greece has had a poor record in the transposition of the EU's single market rules and has had a high rate of infringement cases. And whilst it has been inefficient, the Greek state is not small. Total public spending in Greece (as a percentage of GDP) was 49.8% in 2004, a little higher than the EU-25 average whereas in 2006 it dropped to 46.1%, a bit lower than the EU-25 average (Eurostat, 2006). Of a more local character, successive governments have struggled to assert state authority over illegal building by 'land-grabbers'[4], to establish a first-ever land registry to help in this regard (a problem that also involves arsonists and summer forest fires), to stamp out petty corruption in countless everyday state transactions (in which, for example, the citizen is obliged to provide 'fakelaki' or envelopes of money to secure a public service), or to end the practice of party appointees even at the lowest level of the public sector to jobs with little function or application. The state remains inefficient, obese and often corrupt.

With respect to the economy, the key characteristics in this regard are the following:

- *The structure of the economy is marked by very few large enterprises and very many micro- and small-firms and this has multiple consequences for the state's role in the economy and for interest mediation.*

[4] In July 2007, the Greek daily Kathimerini reported local outrage when the Finance Ministry, apparently bowing to pressure from illegal builders, transferred the head of the state land service in Aitolacarnania, in western Greece, who had sought to apply the law against land-grabbers in Mesolongi (Kathimerini, 24 July 2007).

Characterising 'statism' in Greece – the state's relations with the private sector - must reflect this juxtaposition and the contrasting influence that follows it. On the one hand, there is the pre-eminence of a small number of enterprise networks, and especially their individual heads who possess a strong public profile, and have privileged access to, and influence over, the 'party-state', which in turn affects the policy, planning and allocative decisions of relevance to their particularistic interests. By contrast, there is the relative political weakness of the vast majority of Greek enterprises vis-à-vis the state and the impact of the latter in terms of the regulation and availability of resources, though this is tempered by problems of local implementation.

- *The employment structure reflects this pattern (which is a consequence of Greece's late industrialisation).* The structure is based on:
  - The importance of services, the disproportionate size of agriculture and the relatively low importance of industry;
  - Low rates of employment for women; low numbers of part-time workers; and, a very high percentage of unemployed.
  - A problem of long-term structural unemployment: with relatively high numbers unemployed for a prolonged period and high youth unemployment.
- *Union voices favour the public sector, whilst business representation is skewed towards the few large corporations rather than the myriad of very small enterprises.*

The market conditions the interests represented by the unions and business, advantaging public sector workers and under-representing the voice of small and micro-firms. The interests of women, part-time and temporary workers –

and, of course, the (long-term) unemployed – have a weak union voice. The profile of large manufacturing firms is much larger, but also distinct and unrepresentative.

- *The Greek market exhibits an 'insularity' - statism and protection, cheap labour and a problem of law compliance:*
    - Labour costs, relative to hours worked, are comparatively low.
    - International comparisons of competitiveness, the extent and quality of state regulation, and burdens on doing business indicate structural disadvantages.
    - The size of the black economy (informal sector) is exceptionally high.

The conditions identified by Amable (2003) are relevant here: high state regulation and low competition. Whilst job protection is strong, labour is relatively cheap and flexibility is available via a range of mechanisms (e.g. compulsory overtime). Business activity can circumvent state regulation via the black economy.

- *The effectiveness and efficiency of the Greek state is comparatively low, undermining the capability to deliver public goods:*
    - The size of government administration, as a proportion of GDP, is relatively high in international comparisons.
    - International measures of government effectiveness show Greece scoring relatively low.

The Greek case reflects a 'statism' but it is one of weakness, poor coordination, limited resources, and low skill. Managing the state machine to enact and deliver reform is thus an exceptional challenge.

- *Perceived corruption and tax evasion is very high, undermining competition and the effective delivery of public services and functions:*
    - Greece scores poorly on comparative international indices of corruption;
        - Irregular payments by businesses in tax collection is reportedly one aspect of the problem of corruption.

The cultural phenomenon of corruption is anti-competitive: it imposes costs and distorts the market, whilst offering privileged contact via enclosed networks. It is evident at all levels and across sectors. Tax evasion indicates the problem of the state administration maintaining an appropriate revenue base.

- *State spending on social protection is relatively high, but skewed, reflecting prevailing political interests as well as the availability of resources:*
    - Public expenditure on social provision, as a percentage of GDP, has increased over the long-term and compares favourably with other EU states.
    - However, the coverage of state provision is relatively limited: that spent on families is low whilst the cost to the state of pensions is high.
    - Other provision is patchy: unemployment benefit is low and limited in scope and duration.

This regime structures interests, as actors respond to 'complementarities'. The welfare 'deficit' is made up by families, where possible. It undermines job mobility and flexibility. The inequity in benefit entitlement creates problems of social exclusion, whilst those covered by pension funds act as veto points to reform.

The data shows the relevance of the literature considered here. The highlighted characteristics reinforce and also deepen the depiction of Amable (2003), who examined cross-country data. They qualify the picture of ‘statism’ offered by Schmidt. State-economy relations are differentiated by the former’s obesity and weakness and by the skewed structure and representation of the latter, affected by the mode and timing of economic development. They add empirical detail to the explanatory model of MMEs advanced by Molina and Rhodes that emphasizes the problems in delivering collective goods and signals the blockages to reform. The latter appears most promising. That said, the depiction of actor interests needs to take account of the distinctive economic structures and practices of the Greek setting.

5. Welfare Regimes: Greece’s skewed and embryonic provision

As the MME model refers to welfare politics and the economic-social policy linkages are recognised here as very important for the case of Greece, it is appropriate to turn to the comparative literature on welfare regimes. The linkage between capitalist models and welfare regimes is an important one for political economy approaches and it has been the subject of much debate. The focus of contention is whether complementarities lead to optimal outcomes or whether they sustain inefficiencies. Either way, as Pierson has argued, analysts need to consider how different national patterns of social policy are "embedded in and help to shape distinctive national 'varieties of capitalism'" (2001: 5).

The focus on social models, in fact, predates that on varieties of capitalism. Esping-Andersen's ground-breaking analysis of 'three worlds of welfare capitalism' depicted liberal, Christian democratic, and social democratic welfare regimes (1990). The extent to which this typology reflected conditions in southern Europe was taken up by Ferrera (1996), who argued that there was a distinctive type of welfare regime in the region. With respect to specific pension provision, a conventional distinction is that drawn between 'Bismarckian' social insurance schemes and the 'Beveridge' poverty-prevention model. The former are found in Germany, France and Italy; whilst the latter are found in Denmark, Sweden and the UK. Different types of provision carry distinctive risks. The 'pay-as-you-go' pension schemes are more vulnerable to demographic and political changes; the 'funded' insurance schemes are subject to capital market vicissitudes (Boersch-Supan and Miegel, 2001). Such features suggest that 'policy makes process': the nature of provision affects the reform process. Moreover, Europe's 'welfare states' have reached different stages of development: these raise different issues for a reform agenda (Pierson, 2001: 431n). The objectives of reform must thus be placed within the domestic context of provision: a politics of retrenchment (Pierson, 1998) is distinct from an agenda of varied policy objectives (Pierson, 2001; Natali and Rhodes, 2003). In some contexts, the agenda on pensions must be directly related to wider issues of welfare, employment, education, taxation, and wages.

The politics of welfare reform are complex. Pierson (2001) has seen welfare system reform as being ‘path-dependent’ and his analysis places them within a frame of historical institutionalism (see above). Thus, welfare institutions are ‘sticky’, immovable objects. The capability of government to achieve (e.g. pension) reform will be circumscribed by the political power of blocking constituencies formed by those regarded as the current ‘winners’ of the system; the latter will act defensively, fearful of incurring ‘losses’. Similarly, Esping-Andersen referred to a ‘frozen welfare landscape’. In this view, reform initiatives are likely to be seen as involving ‘zero-sum’ outcomes: with clear winners and losers.

The Greek ‘model’ follows that of the Mediterranean welfare state (Ferrera, 1996)[5]. It is marked by a highly fragmented system of income maintenance, with peaks of generosity and major gaps in provision (e.g. pensions); a shift towards universalistic principles in healthcare (albeit with major problems of adaptation and funding); a low degree of state provision in social assistance (and a reliance on other sources of non-state support); and, the persistence of clientelism affecting the selective distribution of benefits and privileges. The major gaps in the provision are left for other structures to fill: traditionally, the extended family. From the inauguration of compulsory social insurance in

[5] Matsaganis et al argue that it should be seen in the context of other flanking measures (Matsaganis et al, 2003).

1934, the Greek system has been anarchic, separating social need from a rational allocation of scarce resources and struggling to develop notions of solidarity and citizenship (Venieris, 1996). Indeed, social policy has been subordinate to 'social politics'. Katrougalos and Lazaridis (2003) distinguish the systems of Greece and Italy from those of Spain and Portugal: the former are more fragmented in structure and more costly as a percentage of GDP[6]. But alongside matters of cost are major issues of the coverage and equity of provision, as the later case study will examine.

Social conditions in Greece reflect its relatively late economic development, a labour force more skewed towards agriculture and services, and continuing poverty relative to the EU averages. Successive governments have given higher priority to redistributive policies at various times from the 1970s onwards. In parallel there has been increased debate in Greece over the effectiveness, efficiency and equity of social provision, in the context of deepening concerns over the failings of the domestic State. The Greek agenda on pension reform has not been one of simple retrenchment, but rather of reordering privileges and coverage alongside rationalisation. It is a variant of the 'late-comers' agenda recognised by Pierson, where welfare provision is in some respects still being created. The institutional setting is critical to the explanation of reform (or its failure) – composed apparently of 'immovable objects' and 'irresistible forces' (Pierson, 1998). Successive reform initiatives on pensions have faced powerful veto points, with current stakeholders

[6] They contest, however, the notion that in general the systems of all four states are more generous than those found elsewhere in the EU.

defending entrenched and highly iniquitous privileges and other groups being squeezed out, whilst political leaders have also been constrained by the pervasiveness of clientelistic interests.

Few would argue that the linkages between the Greek economic and welfare regimes produce Pareto optimal outcomes. The welfare system is expensive, wasteful and socially exclusive. There is much concern that it fails current and future needs. Similarly, the economic system displays inefficiencies and dysfunctionalities. It is a juxtaposition of over-regulation and a large black economy, of business collusion and dependence on the state, strong labour protection and high structural unemployment. Finding Pareto optimality across these regimes for a majority seems an illusion.

6. Research hypotheses for explaining policy outcomes

Where is the hypothesis here that might help explain policy outcomes in Greece? Linking the various approaches, there are several steps to take to derive an hypothesis of the rational actor interest.

The labour and product markets define the economic interests of the relevant actors. A 'varieties of capitalism' perspective – the MME model is closest - would focus on the rational interests of the 'median voter' towards policy reform and assume their representation through the labour mediation process. However, in the Greek context, the interests of voters show a marked contrast.

Katrougalos and Lazaridis identify Greece (and other southern EU states) as having a division between the protected core of the labour market and the rest, especially those in temporary and irregular employment, those working in the informal sector and the unemployed (2003: 33-34). They term this division the 'Janus face' of the southern European labour market, where one side is characterised by rigidity and the other by flexibility and irregularity (2003: 42). This is directly relevant to the discussion here. Workers in the public sector enjoy high employment protection and seek to safeguard it. In the absence of high unemployment benefits and a developed system of vocational training, job protection is cherished. This indicates the close linkage between the labour market and the pensions system: heavy regulation and skewed welfare complement each other, as a 'varieties of capitalism' approach would expect. By contrast, workers in the private sector enjoy lower job protection, are often 'hidden' in a myriad of small family businesses, operate with lower unionisation, and face the regulatory inefficiency of the state administration in enforcing legislation. Their regulatory benefits are fewer, though their material rewards typically higher. Their 'voice' within the major unions is weaker. At the same time, the large firms leading SEV, the employers' association, have shown an attachment to the anti-competitive product regulations and barriers to entry, with stable product demand. By contrast, the 'voice' of the huge number of small and often micro-enterprises – a potential constituency for liberal market measures - is weaker. Interest mediation is thus characterised by contrasting interests and strength of voice.

A general hypothesis can be derived (synthesising the varieties of capitalism and neo-corporatism approaches) to explain (Lisbon-type) policy outcomes:

Market liberalising reforms (e.g. employment flexibility, privatisation) encounter a weak domestic constituency for support as the structure of interest mediation favours the interests of the public sector and the privileged position of the few large private corporations. As a result, the key social partners defend the current privileges and protection, fearing the risks of more open competition and the consequences of low state welfare provision. Similarly, pension reform will be resisted if it threatens current privileges or market stability, with workers anxious as to the lack of wider welfare support and firms as to the threat to current labour conditions. Stop-go, incremental policy reform is the most likely outcome across such sectors.

The general hypothesis allows a number of assumptions to be derived, to be 'tested':

- The institutional position of the major employers is marked by problems of representation. Major firms may tolerate lower efficiency in the deployment of labour and in the welfare regime at home in favour of the comparative institutional advantages that stem from the high level of regulation: stability and peace; barriers to market entry.
- Domestic firms lack the will or resources to accept the challenge of taking over inefficient and indebted state enterprises, requiring as it

would the defeat of entrenched union power and a threat to the advantages noted above.

- Union confederations, dominated by public sector interests, resist greater labour market flexibility and pension reform for fear of loss of privileges and low welfare protection. They have little interest in a widening of employment protection (e.g. to part-time workers, immigrants) if it risks opening-up an agenda of reform threatening current job securities. The privatisation of state enterprises will be similarly opposed: as a threat to current protection and privileges.

Each of these propositions reflect the rational economic self-interests of the key actors and they are endogenous to the system, highlighting the impediments to radical policy change.

The propositions need to be explored in detailed case studies; moreover, the 'static' picture needs to take account of variation and trends. The studies in Featherstone and Papadimitriou (2008) endeavour to test them in relation to the recent experience in Greece of reform initiatives concerned with the labour market; pensions; and, privatisation. It is beyond the scope of this paper to delve into the empirical evidence, but brief reference can be made to the relevant conclusions of the case studies.

The distinctive nature of interest mediation - 'disjointed corporatism', 'parentela' culture - structured the voices deployed in the reform process. The reform initiatives on pensions and the labour market seen over the last decade incurred the wrath of the major unions. Moreover, the strongest union voices – GSEE, ADEDY – were deployed on behalf of the interests of public sector workers, protecting their pension benefits and their employment position. The mode of representation was shown to be skewed to the interests of such workers. The low rate of unionisation across the plethora of SMEs in Greece meant there was no corresponding voice from that quarter, one that would have had a greater affinity with the interests of liberalisation and flexibility. The voice of the bodies representing SME employers – a natural constituency for liberalisation measures – was much weaker in the policy process (reflecting major distortions in the way in which these interests are articulated within their supposedly representative association, GSEVEE). Government strategy has been shaped by this context.

In the case of the two labour market reforms of 2005, the Karamanlis Government succeeded in its limited reform objectives only by crafting a package deal that divided the opposition and delivered some side payments to most players on the negotiating table. The DEKO reform was much more bold, however. Here the government took on and defeated the powerful unions of the state-controlled enterprises, even though that risked alienating some of the party's own trade unionists. The latter case is an exception from the general pattern of reform initiatives (although significant aspects of the DEKO reform are yet to be implemented).

The economic setting has structured actor interests. Given the low provision of the Greek welfare regime – limited unemployment benefits, little support for mobility or retraining – it is in the interests of public sector workers, who are also relatively poorly paid on the whole – to act in a manner that protects their accumulated privileges and employment status. The pensions and labour market cases bear out such interests – rational to the system – and the agendas of the relevant workers. For its part, the attempts by government to broaden the agenda of negotiation – in the context of the social dialogue – were weak and inconsistent, offering limited resources for flanking measures related to welfare or mobility. Trust and social capital was not developed. The 'game' was not restructured and actor interests remained stable. The structure of the economy meant that those with interests in liberalisation were too small and diffuse to project an effective alternative agenda. The private sector has too few medium-sized players to offer a sizeable constituency and voice on behalf of liberalisation. The 'system', rather than personalities or parties, told the essential story of both voice and interest.

The position of SEV, as the representative body of large firms, is intriguing in this context. Structurally, it has a relatively small coverage, in EU terms, of firms as a proportion of the total, given the plethora of very small enterprises. It is dominated by a few large corporations, including some of those that have recently undergone a (partial) privatisation. SEV's rhetoric has espoused a conventional agenda of market liberalision, but at the same time it remained committed to consensus-driven reforms. The deal between SEV and GSEE prior to the Giannitsis labour market reform, revealed the extent to which the organisation was determined to protect the stability of a dysfunctioning market regime. This inevitably raised the question of whether large firms in a small pool had grown complacent, secure in the knowledge that the status quo offered barriers to new entrants, via high levels of regulation, and peace.[7] Whilst rhetorically committed to greater labour market flexibility and the lowering of the cost of pension provision to the economy, SEV has been unable (whether through a question of will or capability) to take a leading role in shaping reform agendas or outcomes. In the debate over Olympic's restructuring, its voice was hardly heard at all. Hence, to a large extent, its overall attitude in the domestic reform game is compatible with the 'varieties of capitalism' assumptions elaborated above. Lavdas (1997: 248) also noted that the impact of SEV on the politics of privatisation was 'limited because of the emergence of considerable intra-business interest divisions….SEV's role did not expand beyond a general advocacy for privatisation'.

7. Conclusions

The literatures reviewed here offer a distinctive and innovative guide to explaining the outcome of recent reform attempts in Greece. On the whole, they lend themselves to modelling rational actor interests. The 'model' has to be adapted to the distinctive conditions of Greece, but the short empirical

[7] A notable exception from this pattern is the banking sector, which throughout the 1990s saw considerable domestic restructuring and major entrepreneurial initiatives to break into neighbouring markets in south east Europe.

review offered here suggested the potential of the MME depiction. Inevitably, it will need further refinement. The general hypothesis that was derived here for the Greek reform attempts appeared to reflect important features of the cases of reform considered (labour market; pensions; privatisation). As such, it shows the relevance of this type of approach to the understanding of contemporary Greek politics. It signals a new turn for future research.

The 'Europeanisation' and 'varieties of capitalism' approaches are typically seen as opposites. They define different paths for European economic systems: crudely, one asserts the likelihood of increasing convergence, the other of sustained divergence – though both seek to allow for instances of the opposite. The 'varieties of capitalism' approach is not focussed to account for different kinds of external pressure influencing domestic change. Instead, 'globalisation' is seen as confirming systemic differences and accentuating divergences between them. The international dimension is interpreted in terms of the comparative institutional advantages that remain after external pressures, more than as a specific causal explanation of general adaptation. Thus, the approach would support hypotheses of path dependency in relation to external pressure and would stress the resilience of the particular market model in interpreting such pressures. By contrast, 'Europeanisation' seeks to account for domestic change as a result of pressures arising from EU membership. Here, the problem is to determine the relative significance of the external and the domestic, but also to disentangle the 'global' from the 'European'.

The Europeanisation hypotheses potentially have general applicability, whereas those derived from the ‘varieties of capitalism’ more readily apply at the level of firms and unions in particular sectors. There is a difference of focus here. ‘Europeanisation’ approaches focus more directly on policy change. Yet, the more the research task shifts towards explaining the lack of domestic adaptation to EU stimuli, the greater the need to delve into the systemic conditions affecting ‘reform capacity’ at the member state level and this should involve their micro-foundations.

Moreover, both approaches share more ontological similarities than is often recognised. Neither posits deterministic outcomes. ‘Europeanisation’ recognises divergent outcomes to common stimuli. ‘Varieties of capitalism’ has a ‘strong, non-deterministic understanding of change, given its appreciation that the institutions that underpin coordination are subject to constant renegotiation’ (Hancke et al, 2007). Both approaches are concerned with tendencies or trajectories. The clarification of independent and dependent variables is sometimes problematic with respect to positing a specific causality. Both depict system dynamics. Neither readily penetrates the internal processes that transmit stimuli to outcomes, in the sense of highlighting the intervening actors, actions and mechanisms that link them. To overcome these limitations, both must borrow from other conceptual approaches and methodologies in order to provide greater empirical depth.

Further, in an important sense, the one approach compensates for the weakness of the other. ‘Varieties of Capitalism’ approaches help to identify the systemic conditions militating against adaptation to ‘Europeanisation’ pressures. On the other hand, ‘Europeanisation’ serves to highlight the precise nature of the external pressures an EU member state faces. Indeed, recent work has considered the extent to which the ‘Europeanisation’ and ‘varieties of capitalism’ approaches may be placed alongside each other. Menz (2005) suggests that the two approaches can be linked in order to explain particular empirical outcomes. His study asserts that it is possible to predict ex ante the way in which national systems will respond after the initial domestic equilibrium has been challenged by EU policies. Thatcher (2007) considered the impact of EU regulation that followed a ‘liberal market economy’ model on systems that equated with ‘coordinated market economies’. He found that France and Germany needed EU regulation to legitimate reform and overcome domestic opposition to reforms such as liberalisation and privatisation. EU regulation helped national policy makers to break with previous institutional arrangements and to adopt sectoral arrangements very different from the prevailing national institutions. He concluded that the ‘varieties of capitalism’ approach was weak in accounting for the impact of EU intervention, but of high value in understanding cross-national differences in informal institutions and the processes of institutional change.

Such arguments are consistent with the thrust of the present paper and the discussions in Featherstone and Papadimitriou (2008). ‘Europeanisation’ offers an account of agenda-setting, of the availability (under certain conditions) of a legitimating discourse, and of strategic opportunities that appear beyond the reach of modelling capitalism. At the same time, ‘varieties of capitalism’ helps to define actor rationality within the context of prevailing market conditions starting from the reverse vantage point to that of ‘Europeanisation’. As such, the two approaches can be viewed as two sides of the same coin: each is concerned with that which is not covered by the other. They are distinct rather than being necessarily contradictory.

Too much scholarly attention has, perhaps, been paid to ‘Europeanisation’ processes in Greece. It has become a very fashionable perspective. In reality, its study frequently suggests the limitations of EU stimuli and of the strength of domestic impact. On some occasions, a normative preference to find ‘Europeanisation’ leads too readily to an assertion of its general existence without adequate rigour being shown in the causal explanation. The shortfall may be covered by an adaptation of the ‘varieties of capitalism’ and ‘welfare regimes’ literature to the specifics of the Greek case in order to clarify the limitations, the domestic impediments to externally-induced reform. This paper has attempted to sketch the basis for such a research agenda.

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