The Quest for a Panacea. A Comparative Varieties of Capitalism Analysis of the Economic Adjustment Programmes in Greece and Ireland

A thesis submitted for the degree of Doctor of Philosophy
by

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Abstract

The economic crisis in the European Union has raised numerous policy questions. It has also raised many important questions for scholars. One of these is the question of why we have witnessed such radically divergent reform speeds in different countries under Economic Adjustment Programmes. Closer examination of these Programmes clearly shows their high degree of uniformity, so that the answer cannot be found in the nature of policy input. This thesis instead takes a Varieties of Capitalism approach. Looking in depth at the cases of Greece and Ireland, which represent polar opposites of the spectrum of economic models within the EU, this thesis argues that success of Economic Adjustment Programmes crucially depends on a country's pre-existing economic model. This insight challenges the current approach to crisis resolution, which endorses a 'one size fits all' approach to structural reforms. An adapted version of Bruno Amable's Varieties of Capitalism (VOC) approach is conducive to detailed analysis, as it permits disaggregating the structural reform agenda according to five institutional areas. Thus, reform patterns can be compared between countries as well as between institutional areas.

The hypothesis put forward in this dissertation is that the reforms promoted in Greece and Ireland can be accurately described as a reform trajectory intended to take both countries closer to a market based variety of capitalism. The analysis, based on textual analysis of the Economic Adjustment Programmes, as well as interviews with Greek, Irish and European policy-makers, suggests that VOC predicts reform trajectories largely accurately.

The application of Amable's approach also revealed its weaknesses, particularly in underestimating the role of political decision making in times of crisis through a rather mechanistic conceptualisation of the EAP implementation process. This is addressed through the inclusion of Streeck and Thelen's mapping of political responses to external change, adding an important component to the VOC literature and making it suitable to the analysis of reform in crisis conditions.

Table of Contents

List of Figures

List of Abbreviations

AIB -Allied Irish Bank

ALMPs - Active Labour Market Programmes

BOI -Bank of Ireland

BSA - Balance Sheet Assessment

C.S.O.L.I. - Council of Social Oversight of the Labour Inspectorate

CBFSAI - Central Bank and Financial Services Authority of Ireland

CBI -Central Bank of Ireland

CIFS - Credit Institutions Financial Support Scheme

CMEs - Coordinated Market Economies

CON – Certificate of Need (healthcare)

CRD - Capital Requirements Directive

CRR - Capital Requirements Regulation

DSP - Department of Social Protection

EAP - Economic Adjustment Programme

EC – European Community

ECB - European Central Bank

EEC – European Economic Community

EFSF – European Financial Stability Facility

ELG - Eligible Liabilities Guarantee Scheme

EMU – European Monetary Union

EOPYY -National Organisation for the Provision of Health Services

EPL - Employment Protection Legislation

ERO’s - Employment Regulation Orders

ESM – European Stability Mechanism

ESY - National Health Care Service

ETBs - Education and Training Boards

ETEA -Single Supplementary Insurance Fund (Greece)

EU - European Union

FAS - Irish National Employment and Training Authority

FDI – Foreign Direct Investment

FET - Further Education and Training

FMP - Financial Measure Programme

FR - Financial Regulator

FSF - Fiscal Stability Fund

FT – Financial Times

FYROM – Former Yugoslav Republic of Macedonia

GDP – Gross Domestic Product

GMS - General Medical Services Scheme

GNI - Gross National Income

HDIGF - Hellenic Deposit and Investments Guarantee Fund

HEA - Higher Education Authority

HERD - Higher Education research and development

HFSF - Hellenic Fiscal Stability Fund

HI - Historical Institutionalism

HIQA - Health Information and Quality Authority

HSE - Health Service Executive

IDA - Industrial Development Agency

IMF - International Monetary Fund

INBS - Irish Nationwide Building Society

INN - International non-propriety name

IPOs – Initial Public Offering

LDR – Loan To Deposit Ratio

LMEs - Liberal Market Economies

MEP – Member of European Parliament

MFTP - Money Follows Patient

MME - Mixed Marked Economy

MOU – Memorandum of Understanding

NAMA - National Asset Management Agency

NEAP - National Employment Action Plan

NEES - National Employment and Entitlement Service

NHS - The National Health System

NMW - National Minimum Wage

OECD - Organisation for Economic Co-operation and Development

PAYG - Pay As You Go

PCAR - Prudential Capital Assessment Review

PCRS - Primary Care Reimbursement Service

PLAR - Prudential Liquidity Assessment Review

PPP - Public Private Partnership

PSI - Private Sector Involvement

R&D - Research and Development

REAs - Registered Employment Agreements

SEA - Single European Act

SFLCA -Special Firm-Level Collective Agreements

SOLAS - Further Education and Training Authority

SSM - Single Supervisory Mechanism

The UK – The United Kingdom

The US – The Unites States

VECs - Vocational Education Committees

VOC - Varieties of Capitalism

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Chapter 1

Introduction

Whether they live in Aberdeen or Milan, Lisbon or Warsaw, European citizens have experienced the single most important socio-economic event of their lives thus far: the European economic crisis. In the mildest variant of this impact, European citizens saw austerity become the dominant political paradigm of our times.[1] For the unfortunate citizens of Greece, Cyprus, Portugal and Ireland, the ramifications were more profound: their governments had to seek financial aid from fellow Eurozone states to avoid defaulting and exiting from the Eurozone.

This financial assistance was provided through bilateral loans from Eurozone countries and the International Monetary Fund (IMF),[2] in exchange for a commitment to implement sweeping reform agendas and fiscal consolidation measures. These agreements between bail-out countries and the European Union (EU)/IMF were formalised in the Economic Adjustment Programmes (henceforth referred to as EAPs). This approach represents a new dimension in the interactions of EU member states with one another and the EU institutions: prior to the EAP for Greece, the EU had encompassing powers only in specific policy areas, particularly in relation to the single market.[3]

The EU had issued country-specific recommendations in a range of other policy areas and had formulated general policy goals before the onset of the crisis,[4] but these were non-binding. During the crisis, however, Frits Scharpf observed a 'radical extension of *hierarchical* European controls over national policy choices'.[5] This extension of EU policymaking powers is most profound in countries under EAPs, where compliance with the policy recommendations of the representatives of the IMF/ECB (the European Central Bank) and the Eurozone (henceforth referred to as the 'mission' or 'Troika') is enforced through the conditionality mechanism, by which the disbursement of tranches of the financial assistance provided through the EAPs is dependent on compliance with structural reforms and fiscal consolidation.[6]

The importance of this mechanism has been underlined by Olli Rehn, then Vice President of the European Commission in the context of the first Greek programme, which was 'based on rigorous conditionality which is strengthened by reinforced monitoring of the implementation of the programme through enhanced and permanent presence of the Commission's task force on the ground'.[7] Hence, the EAPs gave EU institutions a powerful policy instrument to promote structural reforms in member states. The effect of these structural reforms has been divergent, although the cause of this divergence is uncertain. This divergence poses an empirical puzzle,

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[1] M. Blyth, *Austerity. The History of a Dangerous Idea,* Oxford University Press, Oxford, 2013

[2] European Commission, [Occasional Paper 61] *Economic Adjustment Programme for Greece*, European Commission, May 2010, p. 8

[3] I. Bache, S. George and S. Bulmer, *Politics in the European Union,* 3rd edn., Oxford University Press, Oxford, 2011, p. 227

[4] C. Schweiger, *The EU and the Global Financial Crisis: New Varieties of Capitalism*, Edward Elgar, Cheltenham, 2014, p. 191

[5] F. Scharpf, 'Monetary union, fiscal crisis and the disabling of democratic accountability', *ETUI Working Paper*, European Trade Union Institute, 2014, p. 137

[6] S. Theodoropoulou and A. Watt, 'An evaluation of the austerity strategy in the Eurozone: Was the first Greek bailout programme bound to fail?', in G. Karyotis and R. Gerodimos (eds.), *The Politics of Extreme Austerity: Greece in the Eurozone Crisis,* Palgrave Macmillan, New York, 2015, pp. 71-72

[7] O. Rehn, *Statement by Vice President Rehn at the Eurogroup*, cited in F. Laursen, *The EU and the Eurozone Crisis: Policy Challenges and Strategic Choices,* Ashgate, London, 2013, p. 51

raising questions about the compatibility of a highly standardised reform agenda with different economic models. Additionally, questions about the political commitment to the reform agenda and the underlying causes for this commitment or lack thereof need to be answered.

This thesis will answer the research questions of why the reform speeds during their respective EAPs varied in Greece and Ireland and why Ireland was able to implement reforms more swiftly and arguably more successfully. The selection of Ireland and Greece for in-depth comparative study was prompted by the intent to achieve maximal diversity while restricting the number of cases to two. This restriction to two cases was necessary, given the limits imposed on the lengths of the thesis and the necessary analytical detail.

This thesis aims to draw more attention to the study of the pre-crisis VOC model of a country in an EAP. The findings of this research suggest that this is essential for the success of the programme for two interlinked reasons: Firstly, Ireland's greater success and speed in implementing its EAP can be traced to the country already containing important elements of a market based VOC. Thus, incorporating a VOC analysis could help provide better estimates of the political, social and economic cost associated with programme implementation, which appear to have been overoptimistic.

Secondly, the research conducted here indicates that attitudes towards the EAPs by the respective national governments can be understood through the compatibility of the EAP's policy recommendations with the country's pre-crisis VOC, thereby challenging the mission's approach to enforce a relatively standardised set of structural reforms with little regard for pre-existing institutional settings. The inclusion of Wolfgang Streeck and Kathleen Thelen's schematic, outlining political choices in the face of severe economic shocks and externally mandated change, allows the conceptualisation of alternative political responses to these uniform sets of reforms. In this way, this thesis aims to adjust Amable's VOC framework to the study of countries in crisis, by 'bringing the state back in'.

Given the greater powers of the EU to enforce structural reforms, a closer examination of the nature of these reforms seems to be required. At first glance, the policy response enshrined in the EAPs appears to reveal a paradox: there is widespread recognition of the diversity of causes underlying the crises in different countries.[8] This recognition is explicitly shared by the mission, a select group of representatives of the IMF, the ECB and the European Commission in their assessment of the causes of the crises in Greece and Ireland. In the first Irish progress report, the mission identified a 'bubble' economy, wherein 'light-touch macro-prudential regulation and supervision did little to stem the swelling banking sector imbalances'.[9] In Greece, by contrast, the mission found the causes of the crisis to be 'systemic overspending, endemic tax evasion and persistently overoptimistic tax projections'.[10]

Despite this recognition of the different causes underlying the crises, there are numerous similarities between the EAPs, such as an emphasis on liberalisation and a preference for expenditure cuts over revenue-enhancing measures. Armingeon and Baccaro attribute this to a

[8] C. Aldici and D. Gros, *Adjustment Difficulties and Debt Overhangs in the Eurozone Periphery,* CEPS Working Document No. 347, Centre for European Policy Studies, Brussels

[9] European Commission, [Occasional Paper 76] *The Economic Adjustment Programme for Ireland*, February 2011, p. 5

[10] European Commission, [Occasional Paper 61] *Economic Adjustment Programme for Greece*, European Commission, May 2010, p. 3

shared philosophy.[11] A closer look at the seemingly neutral term 'structural reform' as understood by the European Commission lends support to this assertion:

'Structural reforms tackle obstacles to the fundamental drivers of growth by liberalising labour, product and service markets, thereby encouraging job creation and investment and improving productivity. They are designed to boost an economy's competitiveness, growth potential and adjustment capacity'.[12]

The simple fact that the European Commission can provide such a specific description of structural reforms without taking account of the circumstances of the country where the reforms are intended to take place is instructive, as it suggests an underlying conviction that a uniform set of reforms can be imposed on a member state in crisis and that the implementation of these will ultimately lead to export-led economic recovery. The Commission website further supplies examples of structural reforms: 'Typical structural reforms include policies that: •make labour markets more adaptable and responsive •liberalise service sectors, boost competition in product and service markets or improve the overall business environment'[13]

This rigid understanding of structural reforms and their near uniform application to the EAPs of Greece and Ireland is instructive from a varieties of capitalism (VOCs) perspective, as it suggests the underlying conviction that there is a 'best practice' approach to structural reforms that can be universally applied to political economies in financial difficulties. Scholars have challenged this assumption explicitly: 'It is now established consensus that the globalisation convergence theory which assumed the emergence of a best practice liberal economic model was flawed'.[14]

The VOCs perspective rejects notions of convergence on a single model of political economy that produces superior economic performance,[15] arguing instead that 'cross-national divergence in institutional practices and patterns of economic activity of the sort emphasised by VOCs approaches persist over time'.[16] The explanation of this institutional continuity is grounded in the concept of complementarities,[17] which are positive interactions between different institutional areas. Peter Hall and David Soskice, the best-known exponents of this approach, assert that 'two institutions can be said to be complementary if the presence (or efficiency) of one increases the returns from (or efficiency of) the other'.[18]

The VOCs perspective is therefore ideally suited to theoretically challenge reform agendas based on the notion of best practice structural reforms.[19] Hall and Soskice devised a VOCs framework centred on the dichotomy of liberal market economies and coordinated market economies.[20] While

[11] K. Armingeon and L. Baccaro, 'The sorrows of young euro: the sovereign debt crises of Ireland and South Europe', in N. Bermeo and J. Pontusson (eds.), *Coping with Crisis: Government Reactions to the Great Recession,* Russell Sage Foundation, New York, 2012
[12] European Commission website, accessed on 13th August 2016
http://ec.europa.eu/economy_finance/structural_reforms/index_en.htm
[13] Ibid.
[14] C. Schweiger, *The EU and the Global Financial Crisis: New Varieties of Capitalism*, Edward Elgar, Cheltenham, 2014, p. 9
[15] B. Hancké, 'Introducing the debate', in B. Hancké (ed.), *Debating Varieties of Capitalism*, Oxford University Press, Oxford, 2009, p. 6
[16] P. Hall, 'The evolution of varieties of capitalism in Europe', in B. Hancké, M. Rhodes and M. Thatcher (eds.), *Beyond Varieties of Capitalism: Conflict, Contradictions and Complementarities in the European Economy,* Oxford University Press, Oxford, 2007, p. 39
[17] B. Hancké, 'Introducing the debate', in B. Hancké (ed.), *Debating Varieties of Capitalism*, Oxford University Press, Oxford, 2009, p. 2
[18] P. Hall and D. Soskice, 'An introduction to varieties of capitalism', in P. Hall and D. Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,* Oxford University Press, Oxford, 2010, p. 17
[19] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 23
P. Hall and D. Soskice, 'An introduction to varieties of capitalism', in P. Hall and D. Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,* Oxford University Press, Oxford, 2010

this framework has been widely acclaimed for its clarity and parsimony,[21] it is ill suited to the comparative study of the Greek and Irish EAPs undertaken in this doctoral dissertation.

While the dualistic distinction between liberal market economies (LMEs) and coordinated market economies (CMEs) holds great appeal through its conceptual simplicity, it offers little insight into complementarities found in countries that cannot be neatly categorised as either. Greece is a case in point here. For those six countries that are neither LMEs nor CMEs, Hall and Soskice merely note that 'they may constitute another type of capitalism, sometimes described as 'Mediterranean'',[22] without offering much conceptualisation beyond that. Ireland is firmly placed in the cluster with the LMEs, but the findings of this dissertation will reveal this as being too simplistic.

Bruno Amable's VOCs framework is used instead of the better-known Hall and Soskice approach because, unlike the latter, it is not modelled on ideal-typical cases[23] but should rather be seen as a categorisation representing prevailing conditions. Amable's inclusion of the two additional institutional areas of education and the welfare state has been recognised as giving his analytical framework more analytical depth than Hall and Soskice's: 'Amable's methodology provides a rich empirical account, and an impressive overview of the features of Southern European capitalism'.[24] In addition, the fivefold typology employed in Bruno Amable's analytical framework, which identifies market-based, Continental European, Asian, social-democratic and Southern European VOCs,[25] provides a basis for in-depth analysis of the institutional features of Greece and Ireland.

The EAPs, through the structural reform agenda they promote, represent a distinct new dimension in the relationship between the EU and its member states. The declared aim to 'alter the economy's structure towards a more investment- and export-led growth model'[26] implies that fundamental alterations to the core institutions of member states are imposed by the mission. The VOCs perspective is uniquely suited to explain why the socio-economic outcomes of these relatively uniform reform agendas have produced such varied results. One of the criticisms most frequently levelled against the VOCs perspective is that it is too focused on continuity.[27] In the context of explaining reform progress in the EAPs, this perceived theoretical weakness can actually be used to highlight the difficulty of shifting a political economy from one VOC to another.

VOC literature would suggest that this process can be understood as a linear process in which depth and duration are largely dependent on the compatibility of the reform agenda with the institutional structures already in place. The research conducted on the Greek and Irish EAP's suggests that while these are essential components, this compatibility matters primarily through

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[21] C. Crouch, 'Typologies of capitalism', in B. Hancké (ed.), *Debating Varieties of Capitalism*, Oxford University Press, Oxford, 2009

[22] P. Hall and D. Soskice, 'An introduction to varieties of capitalism', in P. Hall and D. Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,* Oxford University Press, Oxford, 2010, p. 21

[23] B. Hancké, M. Rhodes and M. Thatcher 'Introduction: beyond varieties of capitalism', in M. Rhodes, M. Thatcher and B. Hancké (eds.), *Beyond Varieties of Capitalism: Conflict, Contradictions, and Complementarities in the European Economy,* Oxford University Press, Oxford, 2007, p. 23

[24] K. Featherstone and D. Papadimitrou, 'Assessing reform capacity in Greece: applying political economy perspectives', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment: Reforms in Greece 1974-2010,* Hurst and Company, London, 2012, p. 40

[25] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 13-16

[26] European Commission, [Occasional Paper 61] *Economic Adjustment Programme for Greece*, European Commission, May 2010, p. 10

[27] See: W. Streeck and K. Thelen, *Beyond Continuity: Institutional Change in Advanced Political Economies,* Oxford University Press, Oxford, 2005

and G. Jackson and R. Deeg 'How many varieties of capitalism? Comparing the comparative institutional analysis of capitalist diversity', *Max-Plack Institut für Gesellschaftsforschung*, Discussion Paper 06/2 Cologne and

C. Crouch and H. Farrell, 'Breaking the path of institutional development? Alternatives to the new determinism', *Rationality and Society*, vol. 16, no. 1, 2004 the way in which it influences the political decision to fully endorse the reform agenda or not. The often referred to 'ownership' of the reform process can thus be conceptualised, rather than being regarded as given.

Amable stresses the importance of conducting structural reforms comprehensively in order to avoid negative effects on economic performance, which would otherwise follow from an absence of institutional complementarities: 'The overall performance declines when one changes one institution, leaving the other unchanged'.[28] Hence, applying this theoretical insight to the EAPs of Greece and Ireland, it follows that the structural reform agenda should include all five institutional areas.

As it has been recognised that structural reforms mean different things to different people, the definition used here is that 'structural reforms mean changes to the economic-governmental structure'.[29] This definition is simultaneously narrow and very broad. It is narrow in that it rejects the often very loose usage of the term in the progress reports, by clarifying that there has to be an identifiable change to the structure. Thus, the reduction of unemployment benefits, sometimes labelled a structural reform by the mission, is not a genuine structural reform following this definition. At the same time, this definition is very broad in the sense that it carries no underlying assumption of what 'typical' structural reforms are.

The nature of the 'typical' structural reforms outlined by the European Commission suggests that the net result of a successful reform implementation would most closely resemble that of a market-based VOC.[30] From this, structural reforms necessary for the successful implementation of this 'new economic model' can be derived. In this way, Amable's approach is utilised to identify important features of the pre-crisis VOCs of both countries but also permits the assessment of the suitability of EAP structural reforms to successfully introduce a market-based VOC.

The hypothesis proposed in this dissertation is that the diverging reform speeds in Greece and Ireland and across institutional areas within these countries can be explained using Bruno Amable's VOCs framework. Given the rather rigid and uniform application of structural reform packages in both countries, the diverging reform speeds can be understood through the very different institutional settings prior to the EAPs and the compatibility of these settings with the structural reforms in the EAPs.

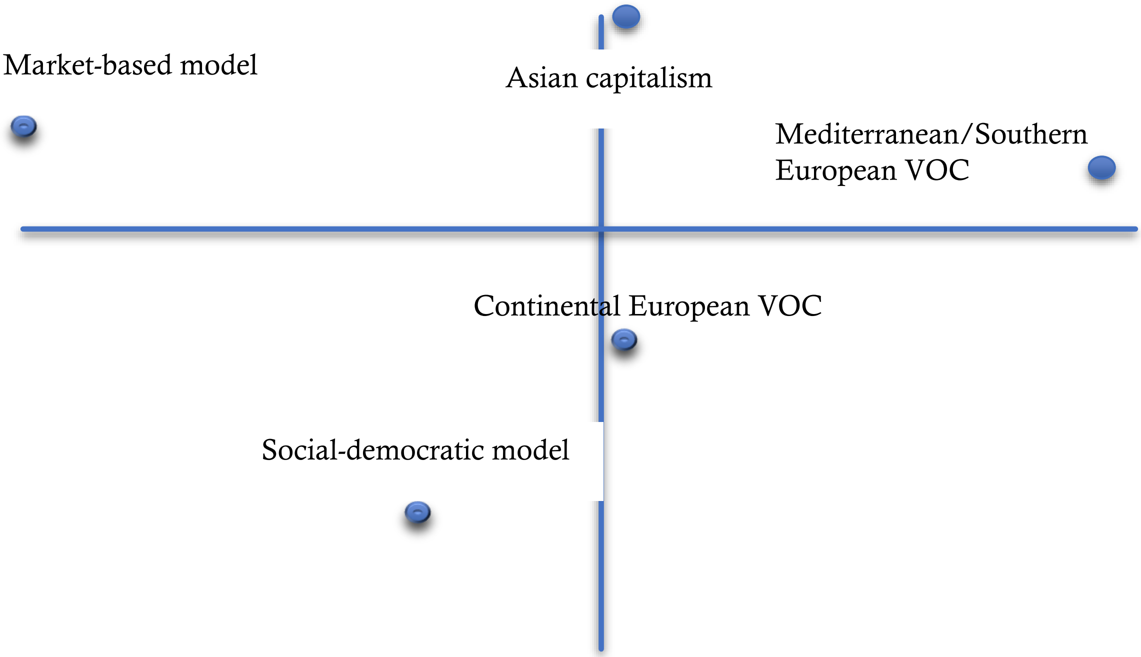
The case selection was directly informed by this hypothesis. Due to the very detailed nature of Amable's framework and the limitations of time and length of the dissertation, an analysis of all four EAPs was not feasible. The choice of Greece as a case study was motivated by the fact that Greece was the first country to apply for a bail-out and on a conceptual level by the fact that the pre-crisis VOC of Greece, the Southern European VOC, was diametrically opposed to the VOC model that the EAPs aimed to turn the country into (*see Figure 1 below*).

The case of Ireland is conductive to the analysis undertaken in this thesis, as its pre-crisis VOC already contained features of a market-based VOC and thus complementarities that should have eased the implementation of further market-based VOC structural reforms. In Amable's typology, Ireland constitutes a hybrid case. Although Ireland is categorised as a Continental European VOC in the aggregate final analysis of all five institutional areas, it contains strong elements of a market-based VOC. A schematic graph of the relative position of each of the five VOCs in Amable's typology shows the Southern European VOC to be the furthest away from the market-based VOC, whereas the Continental VOC to which Ireland belongs occupies a position halfway between the

[28] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 63
[29] John Aziz, *What are structural reforms?*, Pieria, 20th May 2013, accessed on 25th September 2016 http://www.pieria.co.uk/articles/what_are_structural_reforms
[30] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 174-175

two (*see Figure 1 below*). The case selection of Ireland and Greece thus maximises variation in this comparative study.

Figure 1*: Bruno Amable's five VOCs



*Based on Figure 5.2 in B. Amable, *The Diversity of Modern Capitalism,* p. 177

The VOCs approach employed for this research does not allow the conceptualisation of government responses to the external reform pressure imposed by the conditionality based EAPs, beyond assuming a rational response proportional to the compatibility of the demanded reforms with the pre-existing VOC. Wolfgang Streeck and Kathleen Thelen provide a useful, if basic, schematic,[31] according to which two principal options are available to Greece and Ireland: Either they attempt what Streeck and Thelen call 'breakdown and replacement', in which case the existing institutional settings are rejected and replaced by new institutional settings and thus complementarities. Alternatively, a government may choose to pursue a 'survival and return' strategy, which in the context of the EAPs would mean making minimal concessions to the reform agenda laid down in the EAP and still receiving the loan instalments. Once the crisis has passed, this strategy would entail reverting back to its original VOC.

Prior to giving a brief overview of the structure of this thesis, it seems necessary to define a few important concepts and to clarify how they are used in this dissertation. The terms 'supply-side economics' and 'demand-side economics' are used in this dissertation as a first approximation of delineating economic policies. The working definition of supply-side theory used here is as 'an economic theory holding that bolstering an economy's ability to supply more goods is the most effective way to stimulate economic growth'.[32] Conversely, demand-side economics is defined here

[31] W. Streeck and K. Thelen, *Beyond Continuity: Institutional Change in Advanced Political Economies,* Oxford University Press, Oxford, 2005, p. 9
[32] Investopedia.com, accessed 10th September 2016
http://www.investopedia.com/terms/s/supply-sidetheory.asp

as 'based on the belief that the main force affecting overall economic activity and causing short term fluctuations is consumer demand for goods and services'.[33]

The term 'neoliberalism' has been defined by James Ferguson as follows: 'In perhaps the strictest sense, neoliberalism refers to a macroeconomic doctrine'.[34] This doctrine has, when applied in real-world settings, usually been accompanied by a shift of economic factors from the public to the private sector.[35] The definition of ordoliberalism by Simon Wren-Lewis not only delineates the core tenets of ordoliberalism but also identifies the role of the state as a core difference between the two concepts: 'Ordoliberalism sees a vital role for the state, in ensuring that markets stay close to some notion of an ideal market. In particular, ordoliberals believe that without a strong government powerful private interests would undermine competition. This view is often credited with inspiring strong competition laws in Germany, and perhaps also in the European Union'.[36]

The structure of this dissertation is as follows: Chapter 2, 'Explaining radical change in political economies', introduces a number of theories and explores their utility in explaining institutional change. The chapter discusses historical institutionalism, punctuated equilibrium and alternative VOCs approaches. Additionally, it examines the literature on the transition of Eastern European countries into capitalist democracies after the collapse of the Soviet Union. From this comparative analysis emerges that most theories examined in this chapter fail to adequately frame the abrupt nature of institutional change or the fact that it is externally imposed. The chapter also provides a more detailed account of VOCs approaches, highlighting their relative merits and weaknesses. Crucially, the chapter demonstrates the superiority of Amable's fivefold typology over the dualistic model of Hall and Soskice for the purpose of this research.

Chapter 3 presents a qualitative data analysis of the progress reports of the EAPs of Greece and Ireland. The chapter provides support for the expectation of a predominance of liberal market reforms in the EAPs of Greece and Ireland. In this way, it provides strong support for the assertion that the liberal reform trajectory, which is assumed to take both countries closer to a market-based VOC, can in fact be identified in the EAPs. Furthermore, by disaggregating structural reforms according to institutional areas, the chapter traces positive institution building or the absence thereof.

A comparison of the overall reform volumes of Ireland and Greece then also serves to assess the differences between Ireland and Greece. The chapter finds in this respect that overall reform volumes are much lower in Ireland, which can be understood in VOCs terms through the greater distance of Greece's pre-crisis VOC to the designated 'export-led growth model' envisioned by the mission.

Structurally, Chapters 4 to 8 are organised according to the structure outlined by the five distinct institutional areas identified in Bruno Amable's analytical framework: product markets, the wage–labour nexus, financial sectors, social protection and education.[37] The analysis of institutional features in Ireland and Greece is conducted in two steps: each chapter commences by outlining core institutional features, which in turn leads to the allocation of the country to a VOC in Amable's framework. In doing so, the chapters highlight the similarities and differences between the institutional settings of the countries. Simultaneously, this analysis of pre-crisis institutional features also maps out deviations from the 'pure' VOC models identified by Amable. This is

[33] Ibid.
[34] J. Ferguson, 'The uses of neoliberalism', *Antipode*, vol. 41, no. 1, 2010 p. 170
[35] Investopedia.com, accessed 10th September 2016
http://www.investopedia.com/terms/n/neoliberalism.asp
[36] Mainly Macro Blog, accessed 5th August 2016
https://mainlymacro.blogspot.co.uk/2014/01/ordoliberalism-neoliberalism-and.html
[37] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009

particularly important in the case of Ireland, which is found to exhibit institutional features of the Continental European VOC and the market-based VOC and can thus be regarded as a hybrid case.

The second analytical step in these institutional area chapters is the juxtaposition of the structural reforms mandated in the EAPs with the expected reform measures derived from the presumed trajectory towards a market-based VOC. In this way, the chapters can point to, from a VOCs perspective, flaws in the design and implementation of the structural reform agendas, highlighting for instance the failure to flank structural reforms in the labour and product market with reforms aimed at introducing a fully fledged market-based financial and education sector, which points to the future absence of important institutional complementarities from these areas.

This second analytical step also pays particular attention to the respective governments' support or lack thereof, as this indicates which of the response strategies outlined by Streeck and Thelen, survival and return or breakdown and replacement,[38] the government is pursuing. The findings of the institutional area chapters further suggest that domestic opposition to specific structural reforms can be conceptualised under Amable's VOCs paradigm, as it emerges that governments tend to defend the core institutional features of their pre-crisis VOCs particularly fiercely. This is exemplified by Greece's opposition to the liberalisation and deregulation of employment protection in the labour market (termed the 'wage–labour nexus' in Bruno Amable's terminology, but hereafter referred to as the labour market), whereas Ireland repeatedly attempted to sustain its active employment policy during its EAP.

The last chapter synthesises the findings of the preceding chapters, thereby offering insights into the viability of the approach of this thesis to explain the diverging reform speeds in Ireland and Greece through Bruno Amable's VOCs framework. The results of the EAPs in terms of shifting the VOCs towards a market-based VOC model will be assessed. In addition, the conclusion will delineate strengths and weaknesses of the approach when applied to the cases of EAP reforms in Greece and Ireland and discuss the thesis's contribution to the field, particularly with regard to the introduction of political choice to the VOC literature. In this way, Amable's framework is adapted to the analysis of abrupt and externally mandated change, which could previously not be conceptualised systematically within the VOC framework.

Additionally, the chapter will reiterate the theoretical inconsistencies inherent in the EAPs, such as the mismatch between the introduction of a market-based VOC with an export-led growth strategy. Lastly, the chapter will offer an overview of possible future reform agendas and observations on the future crisis resilience of the newly emerging VOCs of Greece and Ireland.

[38] W. Streeck and K. Thelen, *Beyond Continuity: Institutional Change in Advanced Political Economies,* Oxford University Press, Oxford, 2005, p. 9

Chapter 2

Explaining radical change in political economies

Introduction

In the aftermath of the economic crisis and the EAPs they ultimately led to, a vast body of literature was produced seeking to conceptualise causes of the crisis, as well as offering possible remedies. The progress reports of the EAPs were written by staff of the Directorate-General for Economic and Financial Affairs of the European Commission. Although it is difficult to generalise, most theoretical approaches struggled with one or both of the following problems: firstly, the swiftness of change posed significant difficulties for theories that focus on incremental modes of change. Secondly, the external source of the demands for change in combination with a strong power asymmetry in the negotiations accompanying the bail-out posed important obstacles for theories tracing institutional change to shifting domestic dynamics.

However, many excellent theoretical approaches can be meaningfully applied to the case studies of this dissertation and will be presented in this chapter, with particular attention paid to their usefulness in explaining institutional change in Greece and Ireland. Here, institutionalist approaches form the starting point, specifically a detailed account of the merits and shortcomings of the VOCs literature, and commences with the Hall and Soskice framework, which can be regarded as the primary contribution to the VOCs literature. Following this is a juxtaposition of the features of their framework to those of Bruno Amable's work. Additionally, other approaches within the VOCs paradigm will be outlined and assessed comparatively. From this, the specific characteristics of the Amable framework emerge, which highlight its value for the task set in this dissertation.

Other forms of institutionalism, such as historical institutionalism, are examined in detail, as well as a relatively basic schematic by Streeck and Thelen, which aims to provide an overview of different modes of change, incremental as well as abrupt.[39] While the VOCs perspective will be shown to possess great strengths in explaining the inherent difficulty of attempts to 'alter the economy's structure towards a more investment- and export-led growth model',[40] Streeck and Thelen's framework delineates the options available to countries in an EAP. While their primary research focuses on the analysis of modes of incremental change,[41] they offer a conceptualisation of responses to abrupt, external change.

According to their schematic, governments can choose to opt either for 'breakdown and replacement' or 'survival and return'.[42] Under the first option, the government commits to dismantling its existing VOC and replacing it, while the second option entails minimal concessions to reform, sufficient to weather an economic crisis but not extensive enough to amount to a

[39] W. Streeck and K. Thelen, 'Introduction: institutional change in advanced political economies', in W. Streeck and K. Thelen (eds.), *Beyond Continuity: Institutional Change in Advanced Political Economies*, Oxford University Press, Oxford, 2010, pp. 5-10
[40] European Commission, [Occasional Paper 61] *Economic Adjustment Programme for Greece*, European Commission, 2010, p. 10
[41] W. Streeck and K. Thelen, 'Introduction: institutional change in advanced political economies', in W. Streeck and K. Thelen (eds.), *Beyond Continuity: Institutional Change in Advanced Political Economies*, Oxford University Press, Oxford, 2010
[42] Ibid., p. 9

paradigm shift. In this way, the often referenced 'ownership'[43] of the reform agenda or lack thereof by the Greek and Irish governments can be conceptualised as a strategic choice.

This choice in turn will be influenced by the amount and intrusiveness of the reforms necessary to bring about the desired 'replacement' VOC model. Here, Amable's approach is again highly instructive, as it highlights the significantly larger task faced by Greece compared to Ireland, which in his framework stems from the fact that the pre-crisis VOC model of Greece, the Southern European VOC, is in many important aspects diametrically opposed to the market-based VOC model,[44] which appears to be the intended reform outcome. Hence, the choice of different response strategies to the EAP can be understood in terms of different cost–benefit structures.

Historical institutionalism is another theoretical approach within the institutionalist school and focuses on long-term continuity, which it explains through path-dependent institutional development.[45] Historical institutionalism makes a valuable addition to the analytical toolkit used in this dissertation, as it allows and in fact requires a thorough examination of institutional developments over time, whereas the VOCs perspective's strength lies in the comparative insights it provides. The notion of path dependency is essential to historical institutionalism and refers to a process by which past political, inter-institutional and intra-institutional compromises and arrangements determine the future developments of these same institutions.[46] The assumption of path dependency is essential to understanding the emphasis of continuity over change.

The punctuated equilibrium theory, which also belongs in the broader institutionalist school, is included in the analytical toolkit of this chapter due to its focus on 'discontinuous change'.[47] While the assumption that institutional change may only occur as a result of large external shocks is debatable at best, its underlying assumption of large periods of institutional continuity interspersed by periods of profound socio-economic upheaval, which in turn leads to a new equilibrium, is well suited to the situations that both countries have found themselves in since the onset of the crisis. Punctuated equilibrium thus has the potential to provide the theoretical framework to explain the drastic changes observable in the European periphery.[48]

Following this is a discussion of the literature conceptualising the transformation of Central and Eastern European countries into market economies and their subsequent trajectory towards membership of the EU. The lessons of this transition are relevant in the context of the crisis in the Eurozone, as the change is of a similar magnitude. This section also entails an outline of different ways to bring about systemic change, whether in a sequential manner or through a 'big bang' approach, which implies the simultaneous implementation of numerous reforms. As the latter appears to be followed in the EAPs of Greece and Ireland with 'mixed' results, the literature surrounding both options is highly relevant here. Concluding this chapter is a small section outlining the research methodology of this thesis.

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[43] European Commission, [Occasional Paper 78] *The Economic Adjustment Programme for Ireland*, European Commission, 2011, p. 3

[44] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 104-105

[45] S. Steinmo, K. Thelen and F. Longstreth, *Structuring Politics: Historical Institutionalism in Comparative Analysis,* Cambridge University Press, Cambridge, 1998, p. 15

[46] J. March and J. Olsen, 'Elaborating the new institutionalism', in R. A. W. Rhodes, S. A. Binder and B. A. Rockman (eds.), *The Oxford Handbook of Political Institutions*, Oxford University Press, Oxford, 2008, p. 12

[47] Ibid.

[48] F. Laurensen, *The EU and the Eurozone Crisis: Policy Challenges and Strategic Choices*, Ashgate, Surrey, 2013, pp. 46-48

Institutionalist Approaches

Institutionalism has had great successes over the past two decades, and this has led influential scholars to declare: 'We are all institutionalists now'.[49] While there are many approaches to institutionalism, they all share an emphasis on the role of institutions in shaping political behaviour, policy outcomes and determining processes. A useful starting point would therefore be to provide a commonly accepted definition of institutions:

'An institution is a relatively enduring collection of rules and organised practices, embedded in structures of meaning and resources that are relatively invariant in the face of turnover of individuals and relatively resilient to the idiosyncratic preferences and expectations of individuals and changing external circumstances'.[50] The definition given here stresses the enduring character of rule structures, which transcends individual preferences.

Varieties of Capitalism

The VOCs literature, which belongs in the wider field of institutionalism, gained prominence in the early 2000s with the publication of Hall and Soskice's seminal volume *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*.[51] Their research provided a new framework for understanding and analysing institutional differences between developed political economies, 'by placing the firm at the center of the analysis'.[52] The core argument of their research is that specific institutional setups promote specific types of economic models by shaping the way in which economic actors compete and collaborate with one another and the state.[53]

Hall and Soskice's work identifies two broad models: CMEs and LMEs. In their work, they identify most developed economies as belonging to either one of these two models, which have a number of identifying features. A crucial notion in this regard is that of institutional complementarities, which Hall and Soskice and indeed all VOCs scholars see as the single most important mechanism that reinforces specific institutional settings, the corporate strategies employed by firms and which types of industries prosper in these institutional settings.

The existence of complementarities is also fundamental to understanding why 'the new institutionalist scholarship expects national economies to perform differently, and *not* to converge, because of the possibility of path dependency in growth performance over time'.[54] According to the VOC approach, the existence of institutional complementarities confers important advantages to specific industries and promotes specific models of coordination. These advantages provide powerful economic incentives, which in turn lead to path-dependent economic and institutional development. One good example is the publication of the *First Programme for Economic Expansion*

[49] P. Pierson and T. Skocpol, 'Historical institutionalism in contemporary political science', in I. Katsnelson and H. V. Milner (eds.), *Political Science: State of the Discipline,* W.W. Norton, New York, 2002, p. 695

[50] J. March and J. Olsen, 'Elaborating the new institutionalism', in R. A. W. Rhodes, S. A. Binder and B. A. Rockman (eds.), *The Oxford Handbook of Political Institutions*, Oxford University Press, Oxford, 2008, p. 3

[51] P. Hall and D. Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,* Oxford University Press, Oxford, 2010

[52] Ibid., p. 5

[53] P. Hall, 'The evolution of varieties of capitalism in Europe', in B. Hancké, M. Rhodes and M. Thatcher (eds.), *Beyond Varieties of Capitalism: Conflict, Contradictions and Complementarities in the European Economy,* Oxford University Press, Oxford, 2007, p. 39

[54] D. Coates, 'Paradigms of explanation', in D. Coates (ed.), *Varieties of Capitalism, Varieties of Approaches,* Palgrave Macmillan, London, 2005, p. 17

in Ireland,[55] which set the country on an export-led growth path, which it has pursued to the present day.

In the context of understanding and capturing the changes occurring in Ireland and Greece in a theoretical framework, it is important to note that the aforementioned complementarities occur across sub-spheres of any political economy, which has vital implications for broad reform packages such as the EAP: 'It implies that efforts to reform one sphere of the political economy may yield negative economic results if unaccompanied by parallel reforms in other spheres'.[56] Bruno Amable uses similar reasoning to assert that institutional change has to encompass all institutions, as 'the overall performance declines when one changes one institution, leaving the other unchanged'.[57]

Policymakers have recognised the catastrophic impact of 'off-the-shelf' economic reforms that fail to take the specific economic and institutional features of a country into account. Former Greek Finance Minister Nicos Christodoulakis remarked that reforms in the area of privatisation and the opening of closed professions have been largely unsuccessful because the reforms are alien to the Greek economic model: 'In the past three years, results have been meagre in these three areas, simply because they were treated as ominous preconditions for receiving the instalments of the financial assistance, and not as tools for rebuilding the economy'.[58]

The Troika's preference for these 'off-the-shelf' reforms reflects a belief that there is an 'international best practice',[59] the implementation of which will promote economic growth. The promotion of relatively uniform reform agendas in countries under EAPs, whether triggered by a desire to avoid political negotiation of individual reforms or by an ideological commitment to the neoliberal paradigm, places the mission at odds with insights derived from VOCs approaches, which hold that 'one of the conclusions of the institutional-complementarities approaches is that there is no such thing as a 'one best way' for achieving superior economic performance'.[60]

The rejection of the notion of 'one best way' is shared by Amable's and Hall and Soskice's VOCs frameworks. Hall and Soskice, drawing on neo-corporatist literature, assume 'a U-shaped curve, linking the degree of organisation of an economy to its efficiency'.[61] A core distinguishing feature between LMEs and CMEs in Hall and Soskice's framework is the way in which economic behaviour is coordinated. They note that in 'liberal market economies, firms coordinate their activities primarily via hierarchies and competitive market arrangements',[62] whereas CMEs rely more on non-market forms of coordination, and the state plays an essential role in influencing strategic behaviour. In addition, firms in CMEs are more likely to choose a collaborative approach with other firms and actors. Hall and Soskice's analysis comprises the institutional areas of

[55] T. K. Whitaker, 'From protection to free trade: The Irish experience', *Social Policy Administration,* vol. 8, no. 2, 1974, pp. 95-115

[56] P. Hall and D. Gingerich, 'Varieties of capitalism and institutional complementarities in the political economy: an empirical analysis', in B. Hancké (ed.), *Debating Varieties of Capitalism*, Oxford University Press, Oxford, 2009, p. 136

[57] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 63

[58] N. Christodoulakis, *Greek Endgame: From Austerity to Growth or Grexit*, Rowman and Littlefield International, London, 2015, p. 116

[59] European Commission, [Occasional Paper 61] *Economic Adjustment Programme for Greece*, European Commission, 2010, p. 47

[60] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 23

[61] M. Schröder, *Integrating Varieties of Capitalism and Welfare State Research: A Unified Typology of Capitalism*, Palgrave Macmillan, New York, 2013, p. 15

[62] P. Hall and D. Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,* Oxford University Press, Oxford, 2010, p. 8

financial systems, industrial relations, education and training systems, and inter-company relations.[63]

The appeal of this dichotomous approach lies in its simplicity and parsimony,[64] although other scholars have drawn attention to the deductive logic underlying the theoretical framework, with Colin Hay criticising that Hall and Soskice do not sufficiently justify 'why capitalism should come in *two* varieties and why it should only come in *these* two varieties'.[65] Furthermore, the logic of this deductive approach is undermined by Hall and Soskice themselves, as they admit that there are several ambiguous cases that do not fit in the dichotomous structure proposed by them.[66] These ambiguous cases include France, Italy, Portugal and Greece. In this regard, the authors note that these countries 'may' constitute a third variety, which is characterised by a large agrarian sector and a history of extensive state intervention. However, apart from the theoretical difficulty of accounting for a third variety of capitalism in an essentially dichotomous system, this potential third category is ill defined and only outlined in very rudimentary terms.

As one of the cases discussed in great detail is Greece, which is part of the potential third category in Hall and Soskice's framework, this raises questions about the suitability of Hall and Soskice's framework for this dissertation. Yet, even more important are the analytical limitations stemming from a dual approach, as they blur important variations within the two groups, which appear to be centred on the presumed ideal-typical cases of Germany and the United States.[67]

Two scholars have sought to address the flaw of excluding the Mediterranean countries within the Hall and Soskice framework by introducing a third variety to it: the mixed market economy (MME).[68] In Molina and Rhodes' framework, which includes case studies of Italy and Spain, they assert that 'MMEs will typically combine both market and non-market forms of coordination'.[69] They conclude that the economic performance of such MMEs will usually be poorer than that of either LMEs or CMEs due to a lack of complementarities, concurring with most other VOCs scholars on the performance of so-called 'hybrids'.[70] Despite the introduction of the third VOC, Molina and Rhodes still operate within the dual framework of Hall and Soskice, which is demonstrated by the fact that their third category occupies the awkward space between LME and CME and lacks any genuinely unique features. Instead, as the name suggests, it is merely an amalgamation of CME and LME typical features and as a result suffers from the same shortcomings while lacking the same parsimony.

Apart from the lack of descriptive precision associated with the dualistic framework of Hall and Soskice, scholars of VOCs have also ought to be mindful of the danger of over-reliance on institutional complementarities as the sole means of explaining economic and institutional patterns, as Kathleen Thelen stresses: 'Sectoral variations, global positionings, cross-national

[63] P. Hall and D. Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,* Oxford University Press, Oxford, 2010, pp. 21-31
[64] For a comprehensive discussion of dualistic approaches in the VOCs literature, see: C. Crouch, 'Typologies of capitalism', in B. Hancké (ed.), *Debating Varieties of Capitalism*, Oxford University Press, Oxford, 2009
[65] C. Hay, 'Two can play at that game… or can they? Varieties of capitalism, varieties of institutionalism', in D. Coates (ed.), *Varieties of Capitalism, Varieties of Approaches,* Palgrave Macmillan, London, 2005, p. 115
[66] P. Hall and D. Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,* Oxford University Press, Oxford, 2010, p. 21
[67] M. Blyth, 'Same as it never was: temporality and typology in the varieties of capitalism', *Comparative European Politics*, vol. 1, no. 2, pp. 215-225
[68] O. Molina and M. Rhodes, 'The political economy of adjustment in mixed market economies: a study of Spain and Italy', in B. Hancké, M. Rhodes and M. Thatcher (eds.), *Beyond Varieties of Capitalism: Conflict, Contradictions and Complementarities in the European Economy,* Oxford University Press, Oxford, 2007
[69] Ibid., p. 227
[70] P. Hall and D. Gingerich, 'Varieties of capitalism and institutional complementarities in the political economy: an empirical analysis', in B. Hancké (ed.), *Debating Varieties of Capitalism*, Oxford University Press, Oxford, 2009, p. 136

influences and class tensions are all likely to be causalities of too mechanistic an adoption of the logics of institutional complementarities'.[71]

The aforementioned mechanistic adoption of the logics of institutional complementarities may otherwise lead to an overemphasis on the path dependency of institutional development. It has been pointed out by scholars in the field that the VOCs perspective is better suited to explaining institutional continuity than to explaining change.[72] Indeed, Hall and Soskice's theoretical framework is heavily focused on accounting for the dynamics of continuity and largely neglects to outline and explain sources of change. Insofar as it discusses change, the presumed source is a large external shock, while the possibility of incremental change is excluded altogether.[73]

Hall and Soskice emphasise the impact of considerations of comparative advantage on international negotiations: 'their [national political leaders'] stance toward new regulatory initiatives will be influenced by judgements about whether those initiatives are likely to sustain or undermine the comparative institutional advantages of their nation's economy'.[74] Unfortunately, the authors do not elaborate this point further. Yet, other contributions to Hall and Soskice's seminal work seek to shed light on this issue by building on Andrew Moravcsik's work[75] on national preferences. Orefo Fioretos uses Hall and Soskice's VOCs approach to account for the formation of national preferences in EU-level negotiations.[76]

The subsequently devised approach by Bruno Amable shares the emphasis on institutional continuity over change, but it differs from Hall and Soskice's dichotomous approach in important respects. While the Hall and Soskice framework provides a certain elegance through its simplistic division of developed economies into LMEs and CMEs, Amable employs a fivefold typology, which examines five distinct institutional areas, broadly resembling those identified by Hall and Soskice.[77]

Amable's analytical framework identifies the following five institutional areas: product markets, the wage–labour nexus, financial markets, social protection and education.[78] The addition of social protection models (i.e. the inclusion of welfare models in the analysis) is of course significant, although the fundamental difference between the approaches lies elsewhere: while Hall and Soskice arrive at their dualistic model in a deductive manner, Amable conducts extensive cluster and principal components analyses, as a result of which he identifies five distinct VOCs inductively. By contrast, Hall and Soskice present the United States and Germany as ideal-typical cases of their respective models, which is enormously useful for illustrative purposes but poses problems if the supposedly ideal-typical cases undergo transformation themselves, which Hall himself concedes in a subsequent paper.[79]

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[71] K. Thelen, 'The political economy of business and labour in developed democracies: agency and structure in historical-institutional perspective', in I. Katsnelson and H. Milner (eds.), *Political Science: The State of the Discipline*, W.W. Norton, New York, p. 28

[72] C. Hay, 'Two can play at that game… or can they? Varieties of capitalism, varieties of institutionalism', in D. Coates (ed.), *Varieties of Capitalism, Varieties of Approaches,* Palgrave Macmillan, London, 2005, p. 112

[73] P. Hall and D. Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,* Oxford University Press, Oxford, 2010, p. 65

[74] Ibid., p. 52

[75] A. Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht,* Routledge, London, 2005

[76] O. Fioretos, 'The domestic sources of multilateral preferences: varieties of capitalism in the European community', in P. Hall and D. Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,* Oxford University Press, Oxford, 2010

[77] P. Hall and D. Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,* Oxford University Press, Oxford, 2010, pp. 21-31

[78] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 115-171

[79] P. Hall and K. Thelen, 'Institutional change in varieties of capitalism', in B. Hancké (ed.), *Debating Varieties of Capitalism*, Oxford University Press, Oxford, 2009, pp. 252

A second important distinction between the models is the greater analytical and theoretical detail provided by the Amable approach, which leads him to identify five distinct VOCs: market-based VOCs, social-democratic VOCs, Asian capitalism, Continental European capitalism and Southern European capitalism.[80] It is important to note that these categories are best perceived as clusters that contain a certain degree of variety within them, so not all countries in a cluster necessarily exhibit all identifying features of the VOC in question. In part, this is owed to the inductive methodology employed, and in part it can be attributed to the great detail of analysis. Amable points out that coherency varies significantly, whereby the variety of market-based economies display the highest number of shared features, as well as the least variance within their cluster. At the other end of the spectrum is the Continental European VOC, with significantly fewer shared institutional features.[81]

When Amable's analytical framework is applied to the country cases of Greece and Ireland, it's greater detail provides valuable additional information. Greece is placed unequivocally in the Southern European VOC cluster and displays all the identifying features of this VOC. Ireland is a more ambiguous case, which combines elements of a market based VOC and a Continental European VOC. While Ireland is placed in the Continental European cluster overall, the country contains an employment protection regime, a product market and social protection, which most closely resemble that of a market based VOC. This hybrid state does not only occur between institutional areas, but also within institutional areas, as is the case for the labour market, where the employment protection regime is typical for a market based VOC, but the wage bargaining institutions and employment policies resemble most closely that of a Continental VOC.

All five VOCs are associated with specific institutional features in the five institutional areas identified in his framework. In particular, scholars researching institutional features in Southern European countries have praised Amable's model for its accurate mapping of institutional realities in Mediterranean countries: 'This portrayal of 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'.[82]

One particularity of Bruno Amable's framework is his usage of geographical terms for his fivefold typology, although he does not do so consistently (i.e. Asian and Continental European VOCs but also social-democratic VOCs). Amable justifies this denomination on the grounds that 'the various models are not in general reducible to a single "logic" that would be pervasive in all institutions'.[83] The inductive method employed to devise the typology also means that countries are in categories that do not match their geographical locations. Ireland as a member of the Continental European cluster is a case in point.

Apart from the potentially misleading denomination of its VOCs, Bruno Amable's approach has other limitations, too. The mechanistic understanding of change is an important limitation and is addressed through the introduction of political choice to Amable's framework, particularly through the incorporation of Streeck and Thelen's schematic. This linear and mechanistic understanding of institutional change was less significant in previous research projects, when VOC was primarily used to examine periods of relative institutional stability, but has come to the

[80] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 104-105
[81] Ibid., p. 172
[82] K. Featherstone and D. Papadimitriou, 'Assessing reform capacity in Greece: applying political economy perspectives', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment: Reforms in Greece 1974-2010*, Hurst, London, 2012, pp. 39-40
[83] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 103

forefront through the application of Amable's framework to the study of institutional change in Greece and Ireland.

Additionally, the framework severely underestimates the importance of financial regulation, which is measured with only one summary indicator in the financial sector analysis. In this way, the entire framework is biased in favour of the market based VOC system, as it neglects the impact of systemic risks to the economy by underregulated financial markets. This is an important limitation and could be addressed through the inclusion of additional indicators to reflect the financial sectors' resilience to systemic crises. Indicators measuring mandatory deposit ratios, the separation of investment from consumer banking and exposure to international financial markets would be suitable to achieve this. Linguistically, it is unhelpful to speak of 'sophistication' of markets, as this suggests a linear development path and carries positive connotations. New terminology should reflect the greater growth potential and the greater systemic risk associated with deregulated financial markets.

However, in the context of the Irish and Greek case studies, Amable's framework holds great appeal. It offers analytical scope and detail, as well as predictions as to which institutional areas and settings are essential to the functioning of the overall economic model.[84] In Greece, for instance, the prevalence of rigid and extensive employment protection legislation has ramifications for the structure of the welfare state, the product market and the financial sector.[85] Above all, the VOCs framework highlights the difficulty inherent in attempts to 'alter the economy's structure towards a more investment- and export-led growth model'.[86]

It is vital to emphasise the insight shared by the vast majority of VOCs scholars that governments are reluctant to endorse measures that have the potential to diminish their comparative institutional advantages through the removal of complementarities. However, this assertion needs to be qualified in the case of highly asymmetrical power structures during negotiations, as was the case in the Irish and Greek EAP negotiations, as numerous observers have pointed out.[87]

Given the repeated assertions of national politicians in both countries, we can conclude that a flat refusal of reform was not an option in either country, at least initially, as this would have almost certainly meant default and disorderly exit from the Eurozone and even more political, social and economic upheaval than was already the case. Therefore, both countries had to devise a strategy that would permit continued membership of the Eurozone while minimising the adverse consequences of the crisis. Here, a significant divergence in response occurred between Ireland and Greece.

Streeck and Thelen conceptualise the choice faced by both countries in a framework aiming to capture different modes of change, as well as the outcomes of this change.[88] On a basic level, they distinguish modes of incremental change from abrupt change. In this schematic, incremental change can lead to either reproduction of the VOC by adaptation or gradual transformation. For the purpose of this dissertation, the second mode of institutional change is by far the more

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[84] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 26-32

[85] Ibid, p. 113

[86] European Commission, [Occasional Paper 61] *Economic Adjustment Programme for Greece*, European Commission, 2010, p. 10

[87] Irish Independent, accessed 12th December 2015
http://www.independent.ie/business/irish/irish-were-bullied-and-treated-outrageously-during-crisis-legrain-30250226.html
See also: G. Tsogopoulos, *The Greek Crisis in the Media: Stereotyping in the International Press,* Ashgate, Surrey, 2013

[88] W. Streeck and K. Thelen, 'Introduction: institutional change in advanced political economies', in W. Streeck and K. Thelen (eds.), *Beyond Continuity: Institutional Change in Advanced Political Economies*, Oxford University Press, Oxford, 2010, pp. 5-10

significant. In cases of abrupt institutional change, which may be triggered by external events, two outcomes are possible: one is labelled 'survival and return', which entails minimal concessions to the economic necessities arising through the crisis; the other is termed 'breakdown and replacement', which refers to circumstances where the economic model as a whole collapses and is then replaced by another.[89]

The focus of Streeck and Thelen's research is very much on the various modes of incremental change[90], but their conceptualisation of modes of change is nevertheless highly useful for the purpose of this dissertation, as it maps out, in rudimentary terms, the choice faced by Greece and Ireland at the onset of the crisis: embrace the requested changes to the economic model of the country and hope for a swift recovery or make only minimal concessions to the demands of the Troika and hope to weather the storm while preserving the existing economic and institutional model.

Yet, if presented in this manner, the picture emerging is far too simplistic. A detailed look at the provisions of the Greek EAP makes this abundantly clear. The memorandum not only outlines specific fiscal targets and the measures to achieve them in great and increasing detail but also specifies discretionary measures that are to be implemented if the aforementioned targets are missed. In the words of a former minister of finance of Greece: 'As the recession worsened, the targets set by the programme were serially missed, inviting a new round of similar actions with the same predictable contraction'.[91]

Hence, if we assume that the Greek government made a conscious choice for the survival and return strategy, it would appear that the Greek economy is trapped in a vicious cycle of ever harsher austerity measures. This strategy of survival and return is made more likely by Greece's pre-crisis economic model, which Professor Georges Siotis, senior economic advisor to the Task Force for Greece, described as a 'very ineffective, but extremely stable local equilibrium'.[92] One might speculate that this response by the Greek government was due to a serious miscalculation on their side with regard to the willingness of the international negotiation partners to give ground on the conditionality of the programme. Professor Kevin Featherstone lends support to this hypothesis by emphasising the uncertainty about 'whether they [the Troika] would keep with the existing agenda or whether they would back down'.[93] This hypothesis is further supported by the repeated attempts of the Greek government to remove the IMF from the oversight of the EAP.[94]

Hence, while VOCs approaches in general are instructive in highlighting the enormous difficulty associated with altering the economic growth model of a country, Amable's detailed analytical framework permits predictions as to which reforms would be necessary for a transition to a specific model. In the case of the reforms mandated in the EAPs, the goal most closely resembles the market-based VOC in Amable's typology. From the EU/IMF point of view, this change was driven by the policy instrument of strict conditionality. However, VOC scholars have acknowledged that when faced with significant external EU-level pressure, national responses may

[89] Ibid., p. 9
[90] For further reading on incremental institutional change, see also:
J. Mahoney and K. Thelen, 'A theory of gradual institutional change', in J. Mahoney and K. Thelen (eds.), *Explaining Institutional Change: Ambiguity, Agency and Power,* Cambridge University Press, Cambridge, 2010
[91] N. Christodoulakis, *Greek Endgame: From Austerity to Growth or Grexit*, Rowman and Littlefield International, London, 2015, p. 60
[92] Georges Siotis, senior economic advisor, Task Force for Greece, interviewed by Benjamin Klos, 2015
[93] Kevin Featherstone, professor, interviewed by Benjamin Klos, 2015
[94] M. Wolf, 'Hope and fear in the endless Greek crisis', *Financial Times*, accessed 29th December 2015 http://www.ft.com/cms/s/0/0a0c5ef2-a7ff-11e5-9700-2b669a5aeb83.html

vary significantly.[95] In this respect, the contribution of Streeck and Thelen is significant, as they provide a conceptualisation (albeit rudimentary) of the possible responses to this external pressure.

It is noteworthy that Bruno Amable is not the only scholar who is aware of the shortcomings of the dualist model proposed by Hall and Soskice. Best known among these multi-polar approaches, apart from that of Bruno Amable, is perhaps Vivien Schmidt's threefold typology.[96] In addition to the 'market' variety, bearing a strong resemblance to Hall and Soskice's LME, and the 'managed' VOC, similar to the CME variety, she introduces a 'state' VOC, which is loosely based on the state interventionist model observed in France. Schmidt argues that the heavier emphasis of the role of the state in such systems warrants a third category.[97]

One crucial advantage of the model proposed by Schmidt is that it explicitly acknowledges that 'over time individual countries have moved around the triangular space which her [Schmidt's] particular model of types of capitalism allows them'.[98] Schmidt characterises the core features of state capitalism as follows: 'In state capitalism, the business relationship tends to be state-organised. 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'.[99] While this model adequately captures the role of state intervention in state capitalist VOCs, to which Greece would belong, it fails to account for a large informal economy, which plays a large role in some Mediterranean countries.[100] The next section will discuss other approaches in the broader institutionalist tradition.

Bringing the state back in: from Amable's mechanistic predictions to a unified model

Historical institutionalism is primarily concerned with 'the construction, maintenance, and adaptation of institutions'.[101] John Ikenberry further identified three levels of analysis, which 'range from specific characteristics of government institutions, to the more overarching structures of state, to the nation's normative social order'.[102] Peter Hall stresses the role played by formal rules and informal relationships and settings in this process.[103]

Historical institutionalism would supplement this definition with the caveat that the very structures that form institutions are themselves 'human creations'[104] and thus the result of human

[95] G. Mens, *Varieties of Capitalism and Europeanisation: National Response Strategies to the Single European Market*, Oxford University Press, Oxford, 2005, p. 10
[96] V. Schmidt, *The Futures of European Capitalism,* Oxford University Press, Oxford, 2002
[97] O. Molina and M. Rhodes, 'The political economy of adjustment in mixed market economies: a study of Spain and Italy', in B. Hancké, M. Rhodes and M. Thatcher (eds.*), Beyond Varieties of Capitalism: Conflict, Contradictions and Complementarities in the European Economy,* Oxford University Press, Oxford, 2007, p. 227
[98] C. Crouch, 'Typologies of capitalism', in B. Hancké (ed.), *Debating Varieties of Capitalism*, Oxford University Press, Oxford, 2009, p. 87
[99] V. Schmidt, *The Futures of European Capitalism,* Oxford University Press, Oxford, 2002 p. 116
[100] K. Featherstone and D. Papadimitriou, 'Assessing reform capacity in Greece: applying political economy perspectives', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment: Reforms in Greece 1974-2010*, Hurst, London, 2012, p. 38
[101] E. Sanders, 'Historical institutionalism', in R. A. W. Rhodes, S. A. Binder and B. A. Rockman (eds.), *The Oxford Handbook of Political Institutions*, Oxford University Press, Oxford, 2008, p. 42
[102] J. Ikenberry, 'Historical institutionalism in comparative politics', in S. Steinmo, K. Thelen and F. Longstreth (eds.), *Structuring Politics: Historical Institutionalism in Comparative Analysis*, Cambridge University Press, Cambridge, 1998, p. 2
[103] P. Hall, 'Governing the economy: the politics of state intervention in Britain and France', *Political Science Quarterly*, vol. 103, no. 4, 1988-1989, p. 19
[104] E. Sanders, 'Historical institutionalism', in R. A. W. Rhodes, S. A. Binder and B. A. Rockman (eds.), *The Oxford Handbook of Political Institutions*, Oxford University Press, Oxford, 2008, p. 39

interactions. The process thus becomes reciprocal, rather than institutions being an independent variable shaping human behaviour. Historical institutionalism can make a singularly important contribution to the understanding of the genesis of the crises in Ireland and Greece and the reforms that followed because it looks at a given country sequentially over a long period in time and thus goes beyond merely taking a snapshot of an existing situation.[105]

The important role played by the concept of path dependency in historical institutionalism has been emphasised by a leading scholar in the field.[106] A research project has further supported the emphasis on the path-dependent development of core institutions by concluding that the development of institutions over time is crucial to the understanding of the economic performance of a country over time.[107] The historical institutionalist approach shares a desire to explain continued variety across countries with VOCs approaches but adds to this a stronger focus on historical developments: 'What has made this approach so attractive is the theoretical leverage it has provided for understanding policy continuities over time within countries and policy variation across countries'.[108]

An excellent example of how a historical institutionalist perspective can supplement the insights gained through a VOCs approach is the area of social protection. Historical institutionalism might make a valuable contribution to our in-depth understanding of low to medium levels of social protection in Southern European VOCs by pointing to the importance of family and other social interactions as crucial factors in shaping institutions of social protection: 'Family networks in Greece play a crucial role. The absence of an extended social state and its services is, in essence, compensated for by family care, leading to an important decrease in the demand for public services'.[109] This type of welfare scheme as found in Greece prior to the crisis has been named the 'family care model' and has been studied in some detail by scholars specialising in welfare models, such as Esping-Andersen, Abrahamson and others.[110]

While Petrakis assumes that the family adapted to a lack of social services by enhancing family networks, historical institutionalist scholars are likely to see this causal chain reversed, so that the existence of close and supportive family networks is making the building of strong social protection networks superfluous. Bruno Amable would of course point to the existence of stringent employment protection and its horizontal interaction with social protection as the cause of social services' rudimentary development in Greece.[111]

The historical institutionalist approach can thus explore the question of why institutions have evolved in particular ways through its emphasis on sequential development, as Elisabeth Sanders points out.[112] The historical institutionalist approach is sensitive to cultural and institutional particularities, which might play a crucial role in understanding the reform process, as Kevin Featherstone emphasises: 'The administrative culture, the way of doing things, which are so deeply

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[105] Ibid., p. 53
[106] P. Pierson, 'Increasing returns, path dependence, and the study of politics', *American Political Science Review*, vol. 94, no. 2, pp. 251-268
[107] D. Acemoglu, S. Johnson and J. Robinson, 'Institutions as the fundamental cause of long-run growth', *CEPR Discussion Paper 4458*, CEPR Discussion Papers, 2004
[108] K. Thelen and S. Steinmo, 'Historical institutionalism in comparative politics', in S. Steinmo, K. Thelen and F. Longstreth (eds.), *Structuring Politics: Historical Institutionalism in Comparative Analysis,* Cambridge University Press, Cambridge, 1998, p. 10
[109] P. Petrakis, *The Greek Economy and the Crisis: Challenges and Responses*, Springer, Heidelberg, 2012, p. 147
[110] See G. Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Polity Press, Cambridge, 2013
[111] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 107
[112] E. Sanders, 'Historical institutionalism', in R. A. W. Rhodes, S. A. Binder and B. A. Rockman (eds.), *The Oxford Handbook of Political Institutions*, Oxford University Press, Oxford, 2008, p. 53

engrained in the Greek case, are being challenged by an unprecedented agency, the Troika, and their challenge of trying to deal with those entrenched traditions'.[113]

Through its explicit assumption of path-dependent development, the approach is somewhat ill suited to explain a crucial phenomenon related to institutional change: a transformation / radical change that occurs in a global context and spans most countries in the developed Western world, such as the neoliberal paradigm with its emphasis on deregulation and privatisation, which dominated conventional approaches to political economy for three decades from the 1980s onwards and is enshrined in the Washington Consensus.[114]

These broad global shifts touching to a varying degree every developed economy are difficult to incorporate in historical institutionalist frameworks precisely because 'Explaining this persistence of cross-national differences despite common challenges and pressures was a central theme'.[115] This shortcoming is further aggravated if the external trigger for change occurs in a sudden rather than gradual manner, as Sanders admits: 'The approach lends itself much better to the study of incremental growth around an original path than to sudden, drastic change'.[116]

A good example of this type of change would be the abandonment of social partnership in the immediate aftermath of the banking crisis in Ireland. James Wickham notes in this context: 'The crisis marks the end of the social partnership that had been seen as a distinctive feature of the Irish model'.[117] The remark stresses the importance of social partnership within the Irish model. Its removal within a very narrow timeframe can thus not be explained away by classifying it as 'adaptive change'.[118] However, it should be noted that historical institutionalism is by no means the only theoretical approach that fails to account for the external pressures imposed on sovereign member states of the EU through the conditionality of an EAP, which is a shortcoming of institutionalism in a wider sense, rather than a specific failure of historical institutionalism.[119]

The concept of 'critical junctures'[120] has sometimes been utilised to account for departures from the development assumed under a path-dependent model. This is certainly a very helpful addition to the toolbox of historical institutionalism. It is worth noting that this concept has been occasionally referred to as 'critical moments', in which 'windows of opportunity' for significant

[113] Kevin Featherstone, professor, interviewed by Benjamin Klos, 2015

[114] B. Jessop, 'Variegated capitalism and the political economy of austerity', in R. Westra, D. Badeen and R. Albritton (eds.), *The Future of Capitalism after the Financial Crisis: The Varieties of Capitalism Debate in the Age of Austerity*, Routledge, Oxon, 2015, p. 19

[115] K. Thelen and S. Steinmo, 'Historical institutionalism in comparative politics', in S. Steinmo, K. Thelen and F. Longstreth (eds.), *Structuring Politics: Historical Institutionalism in Comparative Analysis*, Cambridge University Press, Cambridge, 1998, p. 5

[116] E. Sanders, 'Historical institutionalism', in R. A. W. Rhodes, S. A. Binder and B. A. Rockman (eds.), *The Oxford Handbook of Political Institutions*, Oxford University Press, Oxford, 2008, p. 41

[117] J. Wickham, 'Irish paradoxes: the bursting of the bubbles and the curious survival of social cohesion', in S. Lehndorff (ed.), *Divisive Integration: The Triumph of Failed Ideas in Europe – Revisited,* European Trade Union Institute, Brussels, 2015, p. 140

[118] K. Thelen and S. Steinmo, 'Historical institutionalism in comparative politics', in S. Steinmo, K. Thelen and F. Longstreth (eds.), *Structuring Politics: Historical Institutionalism in Comparative Analysis*, Cambridge University Press, Cambridge, 1998, p. 5

[119] E. Sanders, 'Historical institutionalism', in R. A. W. Rhodes, S. A. Binder and B. A. Rockman (eds.), *The Oxford Handbook of Political Institutions*, Oxford University Press, Oxford, 2008, pp. 40-41

[120] G. Capoccia and R. Ketlem 'The study of critical junctures: theory, narratives, and counterfactuals in historical institutionalism', *World Politics,* vol. 59, no. 3, 2007, pp. 341-369

change can take place.[121] The source of this change is assumed to be an external shock.[122] However, a crucial distinction from the punctuated equilibrium framework is historical institutionalism's focus 'on manoeuvring within the institutions, in response to these external events'. [123] Nevertheless, it is hard to deny that the theoretical framework of historical institutionalism tends to see periods of relative institutional stability as free of change.

A growing number of scholars in the tradition of institutionalism have become aware of this flaw in their approach with regard to accounting for institutional change. In fact, Thelen and Mahoney summarise the issue rather aptly when they state: 'We begin by noting that all leading approaches to institutional analysis – sociological institutionalism, rational-choice institutionalism, and historical institutionalism (Hall and Taylor 1996) – face problems in explaining institutional change'. [124]

Institutionalist scholars have sought to address this inability to explain change in two major ways: the initial response to this problem, articulated by Hall and Soskice, among others,[125] was to distinguish between minor changes that are brought about through adaptive changes of institutions to accommodate changes in the society in which the institutions are embedded. This approach tends to stress continuity over extended periods and development occurring along path-dependent lines: 'In sum, we contend that differences in the institutional framework of the political economy generate systemic differences in corporate strategy'.[126] As these systemic differences are reinforced through institutional complementarities between different institutions, a national economy is unlikely to depart from its given model unless forced to do so by large external shocks.

The role attributed to large external shocks lends itself at first glance to the study of the crises in Ireland and Greece and might even account for the difficulty faced by Greece in altering its economic model. However, as the approach employed here is focused primarily on the factors contributing to institutional continuity, it merely acknowledges the potential for large exogenously generated shocks, failing to provide an analytical toolkit for analysing them. Furthermore, it does not account for the possibility of systemic failures causing the crisis endogenously, which has been asserted by numerous scholars to be the case for Greece at least: 'The causes of the Greek sovereign debt crisis are undoubtedly structural and largely internal'.[127]

Nevertheless, this model of accounting for institutional change has long been dominant in institutionalist approaches. More recently, a number of scholars have departed from this orthodoxy in explaining institutional change. Wolfgang Streeck and Kathleen Thelen have developed an analytical framework that goes beyond regarding incremental change as mere adaptation to ensure the continued functioning of institutions, which characterised earlier approaches. They explicitly state that the departure point for developing an analytical framework

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[121] S. Bulmer and M. Burch, 'The "Europeanisation" of central government: the UK and Germany in historical institutionalist perspective', in G. Schneider and M. Aspinwall (eds.), *The Rules of Integration*, Manchester University Press, Manchester, 2001, pp. 73-96

[122] K. Thelen and S. Steinmo, 'Historical institutionalism in comparative politics', in S. Steinmo, K. Thelen and F. Longstreth (eds.), *Structuring Politics: Historical Institutionalism in Comparative Analysis*, Cambridge University Press, Cambridge, 1998, p. 15

[123] Ibid., p. 17

[124] J. Mahoney and K. Thelen, 'A theory of gradual institutional change', in J. Mahoney and K. Thelen (eds.), *Explaining Institutional Change: Ambiguity, Agency and Power,* Cambridge University Press, Cambridge, 2010, p. 4

[125] P. Hall and D. Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,* Oxford University Press, Oxford, 2010

[126] P. Hall and D. Soskice, 'An introduction to varieties of capitalism', in P. Hall and D. Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,* Oxford University Press, Oxford, 2010, p. 16

[127] M. Karamessini, 'Greece as an international test-case: economic adjustment through a Troika/state-induced depression and social catastrophe', in S. Lehndorff (ed.), *Divisive Integration: The Triumph of Failed Ideas in Europe – Revisited,* European Trade Union Institute, Brussels, 2015, p. 95

that describes and analyses the modes of gradual change was their dissatisfaction with the answers offered by the VOCs and welfare state literature: 'For different reasons, contemporary scholarship both on "varieties of capitalism" and on the welfare state seem to be producing analyses that understate the magnitude and significance of current changes. Hall and Soskice's highly influential work on varieties of capitalism is one example'.[128]

Mahoney and Thelen's criticism of the traditional paradigm explaining institutional change is not limited to the empirical observation that it fails to adequately reflect the reality of changing institutional settings. Instead, they challenge the core assumption of path dependency by arguing that, at the very least, it has been applied too rigidly: 'New insights have grown out of the literature on path dependence and the ensuing debate over this framework… Important strands of this literature suggest that path-dependent lock-in is a rare phenomenon, opening up the possibility that institutions normally evolve in more incremental ways'.[129]

Hence, a major contribution from Thelen, Streeck and Mahoney has been to devise a categorisation of the various ways in which instructions can evolve incrementally over periods of time, eventually culminating in significantly different institutional outcomes, which, in their view, would be difficult to account for in other institutional models because of their focus on sudden external shocks. They further assume that it is possible to devise a comprehensive typology of distinct modes of incremental institutional change: 'The underlying assumption, amply supported by recent literature, is that there is *a wide but not infinite variety* of modes of institutional change that can meaningfully be distinguished and analytically compared'.[130]

Streeck and Thelen identify four modes in which gradual change in institutions may occur. The first of these modes is displacement, whereby an existing set of rules is replaced by a new one within one institution. The second mode is layering, where a new set of rules is placed on top of an old one or exists parallel to it. Drift, the third mode, refers to a change in the impact of existing rules due to changing circumstances, rather than a change in the rules themselves. Lastly, there is conversion, in which existing rules are enforced differently, due to altered strategic goals.[131]

The brief description of these four modes of incremental change outlined here should suffice to demonstrate that this toolkit is ill suited to explaining either the immediate government response to the crises or the legislation and implementation of the reform agendas in the aftermath of the agreement of the EAPs, as the timeframe under observation here was significantly too short and the impetus of the reforms was external, rather than deriving endogenously from the Greek and Irish societies themselves, as numerous scholars have pointed out.[132] Furthermore, the change observable in both countries was hardly incremental.

However, particularly in the Irish case, the model set up by Thelen and Streeck can provide a theoretical framework for the gradual shift of the Irish economy towards reliance on foreign direct investment and the promotion of an export-led economy through an analysis of the Irish Industrial

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[128] W. Streeck and K. Thelen, 'Introduction: institutional change in advanced political economies', in W. Streeck and K. Thelen (eds.), *Beyond Continuity: Institutional Change in Advanced Political Economies*, Oxford University Press, Oxford, 2010, p. 5
[129] J. Mahoney and K. Thelen , 'A theory of gradual institutional change', in J. Mahoney and K. Thelen (eds.), *Explaining Institutional Change: Ambiguity, Agency and Power,* Cambridge University Press, Cambridge, 2010, p. 3
[130] W. Streeck and K. Thelen, 'Introduction: institutional change in advanced political economies', in W. Streeck and K. Thelen (eds.), *Beyond Continuity: Institutional Change in Advanced Political Economies*, Oxford University Press, Oxford, 2010, p. 1
[131] Ibid., pp. 22-30
[132] See: H. Patomäki, *The Great Eurozone Disaster: From Crisis to Global New Deal,* Sed Books, London, 2013
and: G. Majone, *Rethinking the Union of Europe Post-Crisis: Has Integration Gone Too Far?* Cambridge University Press, Cambridge, 2014

Development Agency (IDA).[133] In the case of the IDA, as highlighted in the Ireland chapter, the institution was incepted with a rather narrow mandate, which was then rapidly expanded, and additional layers of rules and tasks were added. This can be usefully analysed through the Streeck and Thelen framework, although this framework is much less useful in explaining the dynamics of the EAP.

The analytical framework itself seems to have undergone modification over time. While the initial typology of Streeck and Thelen contained a fifth mode of change, institutional exhaustion,[134] this mode has been dropped in subsequent work on modes of institutional change.[135] The reason for this might be that 'the processes we have in mind here strictly speaking lead to institutional breakdown'.[136] Yet, as the mode describes a process by which types of behaviour are allowed under a set of rules that are ultimately detrimental to the proper functioning of the institution itself, it can be applied to the dysfunctional operation of the Greek administrative system before and throughout the crisis: 'Although existing institutional arrangements should have made the passage of reforms a predictable process, in practice, bureaucracy, unions and the courts have periodically acted as institutional impediments, preventing governments from materialising policy shifts'. [137] Of course, this is only applicable if one subscribes to an interpretation of the crisis whereby Greece would have faced an economic crisis regardless of the international circumstances, which is a matter of substantial debate.[138]

Punctuated Equilibrium

The focus of other theories discussed in this chapter on incremental institutional change has been identified as an obstacle to their applicability to the crises in Ireland and Greece, as change here is clearly not incremental in nature. However, another theory with the potential of explaining the response to the economic crises in Ireland and Greece is that of punctuated equilibrium, which 'appears to enjoy rather widespread acceptance among intuitionalists'.[139] The main attractiveness of this model derives from its ability to explain both periods of relative institutional stability and

[133] J. Haughton, 'Historical background', in J. W. O'Hagan and C. Newman (eds.), *The Economy of Ireland: National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2014, p. 20
[134] W. Streeck and K. Thelen, 'Introduction: institutional change in advanced political economies', in W. Streeck and K. Thelen (eds.), *Beyond Continuity: Institutional Change in Advanced Political Economies*, Oxford University Press, Oxford, 2010, p. 29
[135] J. Mahoney and K. Thelen, 'A theory of gradual institutional change', in J. Mahoney and K. Thelen (eds.), *Explaining Institutional Change: Ambiguity, Agency and Power,* Cambridge University Press, Cambridge, 2010
[136] W. Streeck and K. Thelen, 'Introduction: institutional change in advanced political economies', in W. Streeck and K. Thelen (eds.), *Beyond Continuity: Institutional Change in Advanced Political Economies*, Oxford University Press, Oxford, 2010, p. 29
[137] D. Sotiropoulos, 'The paradox of non-reform in a reform-ripe environment', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment: Reforms in Greece 1974-2010*, Hurst, London, 2012, p. 13
[138] For three former policymakers' views on the crisis that span the entire spectrum of opinion, see:
C. Simitis, *The European Debt Crisis: The Greek Case*, Manchester University Press, Manchester, 2014
G. Papandreou, 'Reflections on the Greek and the Eurozone crisis: a view from the inside', in G. Karyotis and R. Gerodimos (eds.), *The Politics of Extreme Austerity: Greece in the Eurozone Crisis*, Palgrave Macmillan, London, 2015
N. Christodoulakis, *Greek Endgame: From Austerity to Growth or Grexit*, Rowman and Littlefield International, London, 2015
For a more theory-based account, see:
N. Jabko, 'The elusive economic government and the forgotten fiscal union', in M. Matthijs and M. Blyth (eds.), *The Future of the Euro*, Oxford University Press, Oxford, 2015, pp. 70-72
[139] K. Thelen and S. Steinmo, 'Historical institutionalism in comparative politics', in S. Steinmo, K. Thelen and F. Longstreth (eds.), *Structuring Politics: Historical Institutionalism in Comparative Analysis*, Cambridge University Press, Cambridge, 1998, p. 15

brief episodes of abrupt institutional change.[140] In their model, Baumgartner and Jones confirm the underlying assumption of path dependency, which they regard as the underlying rationale for long periods of relative stability.

Moving beyond path dependency, they assert that these periods are often interrupted by abrupt change: 'Massive failure is an important condition for change'.[141] This view of failure as a driving force for moving an institutional policymaking setting from one equilibrium to the next has a number of important implications. It outright denies the possibility of gradual change as stipulated by Thelen, Streeck and Mahoney, as the authors themselves point out: 'Our principal claim in this book is that the course of public policy in the United States is not gradual and incremental, but rather is disjoint and episodic'.[142] Their understanding of policymaking in periods of institutional stability is also distinct from that of other institutional scholars: 'Policymaking at equilibrium occurs in more or less independent subsystems, in which policies are determined by specialists located in federal agencies and interested parties and groups'.[143]

This is an important distinction from much of the existing literature on VOCs as well. Scholars adhering to the punctuated equilibrium framework would readily assert that in times of institutional stability, path dependency is a powerful glue that ensures continuity,[144] thus concurring with scholars of VOCs.[145] However, the explanation of these equilibrium states differs widely: the punctuated equilibrium approach essentially traces the absence of gradual change to the fragmentation of political systems,[146] where day-to-day policymaking occurs in separate and distinct subsystems, which only loosely interact, so that 'policy stability is a function of two distinct sources. There is "friction" in "the rules of the game" that make it difficult for any action to take place in a political system'.[147]

This line of reasoning is diametrically opposed to the explanation given in VOCs approaches, which emphasise the interconnectedness of institutions and their resultant mutual reinforcing mechanisms as the underlying force for institutional continuity: 'The architecture of "comparative advantage" is portrayed in terms of key institutional complementarities'.[148] Thus, while punctuated equilibrium and VOCs approaches might agree on the results (i.e. institutional continuity), there is significant disagreement over the underlying causes.

Apart from friction, however, the punctuated equilibrium approach identifies another source of continuity in the limitations of human cognitive function. To this end, scholars use the term 'bounded rationality', which 'refers to the failure of people to tally up costs and benefits from a

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[140] J. March and J. Olsen, 'Elaborating the new institutionalism', in R. A. W. Rhodes, S. A. Binder and B. A. Rockman (eds.), *The Oxford Handbook of Political Institutions*, Oxford University Press, Oxford, 2008, pp. 12-13
[141] Ibid., p. 12
[142] F. Baumgartner and B. Jones, *Agendas and Instability in American Politics*, 2nd edn., The University of Chicago Press, Chicago, 2009, pp. introduction-17
[143] Ibid., pp. 17-18
[144] J. March and J. Olsen, 'Elaborating the new institutionalism', in R. A. W. Rhodes, S. A. Binder and B. A. Rockman (eds.), *The Oxford Handbook of Political Institutions*, Oxford University Press, Oxford, 2008, pp. 12-15
[145] D. Coates, 'Paradigms of explanation', in D. Coates (ed.), *Varieties of Capitalism, Varieties of Approaches,* Palgrave Macmillan, London, 2005, p. 17
[146] B. Jones and F. Baumgartner, *The Politics of Attention*, University of Chicago Press, Chicago, 2005
[147] F. Baumgartner and B. Jones, *Agendas and Instability in American Politics*, 2nd edn., The University of Chicago Press, Chicago, 2009, pp. introduction-13
[148] B. Hancké, M. Rhodes and M. Thatcher, 'Introduction: beyond varieties of capitalism', in M. Rhodes, M. Thatcher and B. Hancké, *Beyond Varieties of Capitalism: Conflict, Contradictions, and Complementarities in the European Economy,* Oxford University Press, Oxford, 2007, p. 5

potential decision and then to choose the best course of action (which technically is called "maximising the potential returns")'.[149]

This shortcoming in human cognitive function, or the failure of any one human being to rationally assess the best possible course of action at one point in time, introduces the need for *policy images*, which frame the way and context in which policy is understood. Baumgartner and Jones argue that 'specialists in any particular area have an advantage over all others. Since they know the issue better, they are sometimes able to portray the issue in simplified and favourable terms to non-specialists'.[150] This monopoly on shaping the policy image might not always be a given, so 'issue definition, then, is the driving force in both stability and instability, primarily because issue definition has the potential for mobilising the previously disinterested'.[151]

It is vital that both of the factors contributing to stability in this model (friction and bounded rationality) cannot be seen separately – they have to be seen in conjunction. In fact, Jones and Baumgartner themselves point out the high degree to which the factors are conflated: 'Stability is enforced through a complex system of mutually noninterfering policy monopolies buttressed by powerful supporting images'.[152] The conjunction of fractious policymaking and the ability of powerful insider groups to shape policy images can thus explain why Baumgartner and Jones regard most political systems as inherently conservative.

The initial response by the Greek government to the emerging crisis can be understood in the terms outlined by Jones and Baumgartner, as one of the government's immediate priorities seems to have been an attempt to retain a measure of control over the policy image portrayed to the outside world: 'The main objective was to achieve a constant and coordinated presence of the Greek political elite in various TV and radio programmes and in the pages of newspapers, either by granting interviews or by publishing articles. Former Finance Minister George Papaconstantinou, for example, gave approximately 400 interviews to international media from the beginning of October 2009 until the end of 2010'.[153]

The other component of the explanation of institutional stability also tallies with empirical and analytical sources on Greece, namely the key importance and power within the system of policy monopolies, which restrict access to privileged areas of access to the political system.[154] This insider–outsider dichotomy is widely recognised by scholars specialising in Greek institutional reforms[155] and has been examined in some detail as 'disjointed corporatism'.[156]

Most scholars agree, with varying emphases, on the following mechanisms sustaining what Baumgartner and Jones labelled policy monopolies: 'The significant role of clientelism; the pervasive role of political parties in political life; corruption; the fragmented and particularistic

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149 F. Baumgartner and B. Jones, *Agendas and Instability in American Politics*, 2nd edn., The University of Chicago Press, Chicago, 2009, pp. introduction-13
150 Ibid., p. 24
151 Ibid., pp. introduction-16
152 F. Baumgartner and B. Jones, *Agendas and Instability in American Politics*, 2nd edn., The University of Chicago Press, Chicago, 2009, p. 15
153 G. Tsogopoulos, *The Greek Crisis in the Media: Stereotyping in the International Press,* Ashgate, Surrey, 2013, p. 5
154 F. Baumgartner and B. Jones, *Agendas and Instability in American Politics*, 2nd edn., The University of Chicago Press, Chicago, 2009, pp. introduction-19
155 K. Featherstone, 'Introduction: "modernisation" and the structural constraints of Greek politics', in K. Featherstone (ed.), *Politics and Policy in Greece: The Challenge of Modernisation,* Routledge, London, 2005, pp. 1-19
156 K. Lavdas, 'Interest groups in disjointed corporatism: social dialogue in Greece and European competitive corporatism', *West European Politics,* vol. 28, no. 2, 2005, pp. 297-316

structure of interest representation...' [157] George Tsogopoulos regards the incentive structure derived from this modus operandi as the root cause of the Greek economic crisis.[158] This modus operandi produced huge benefits to the insider group, as the punctuated equilibrium model would suggest, and hence can account for the reluctance of Greek elites to alter the status quo.

Baumgartner and Jones outline the response of political elites within such a system as follows: 'An entire political system based on such a model is very conservative. When shocks are introduced into a system dominated by negative feedback, the system moves away from its equilibrium for a time, but then returns to the status quo ante'.[159] The initial response of the government to the crisis in Greece was thus thoroughly along the lines of path-dependent policy development, as it sought to increase tax revenue rather than make unpopular wage cuts: 'The government had initially attempted to solve the impasse solely through tax increases, and it took until March to make the step to actually target government expenditure'. [160] Thus, the limited enthusiasm of Greek authorities to fully implement the reform agenda, particularly with regard to expenditure cuts,[161] could be explained in light of a strategy aimed at making minimal concessions before returning to the status quo.

The punctuated equilibrium framework suffers from some crucial shortcomings, despite the features that make it suitable to analyse Greece and Ireland. First and foremost among these limitations is the fact that it was explicitly designed to describe and explain continuity and change in the American political landscape. Baumgartner and Jones propose: 'initial findings from many different countries and political systems suggest that many of the characteristics we have observed in the United States are not peculiar to that system by any means'.[162]

However, a closer examination of the macro-institutional or -constitutional features of Ireland and Greece casts doubt on that assertion. While the American constitutional system, with its emphasis on checks and balances, might be conductive to the shift of policymaking to what Jones and Baumgartner call 'policy subsystems', this is not necessarily transferable to the Irish and Greek cases without at least some major qualifications.

One significant difference that applies to both countries is their membership of the EU, which is simultaneously a major source of new policies and a significant limitation on the room for manoeuvre on the national level.[163] The structural features of the EU and EMU (European Monetary Union) are essential in shaping national policy responses in member states.[164] For Jones and Baumgartner, the assumption is that an endogenous change in policy preference, which might

[157] V. Monastiriotis and A. Antoniades, 'Reform that! Greece's failing reform technology: beyond vested interests and exchange', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment: Reforms in Greece 1974-2010*, Hurst, London, 2012, p. 51
[158] G. Tsogopoulos, *The Greek Crisis in the Media: Stereotyping in the International Press,* Ashgate, Surrey, 2013, p. 134
[159] F. Baumgartner and B. Jones, *Agendas and Instability in American Politics*, 2nd edn., The University of Chicago Press, Chicago, 2009, p. 16
[160] M. Mitsopoulos and T. Pelagidis, 'The 2010 Greek economic crisis and the conditionality programme', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment: Reforms in Greece 1974-2010*, Hurst, London, 2012, p. 219
[161] Senior Greek tax official, interviewed by Benjamin Klos, 2015
[162] F. Baumgartner and B. Jones, *Agendas and Instability in American Politics*, 2nd edn., The University of Chicago Press, Chicago, 2009, pp. introduction-16
[163] P. Lane, 'Role of government: rationale and issues', in J. W. O'Hagan and C. Newman (eds.), *The Economy of Ireland: National and Sectoral Policy Issues*, 12th edn., Gill & Macmillan, London, 2014, p. 66
[164] F. Laursen, 'Equilibrium, further deepening or more "variable geometry": reflections on the future of European integration', in F. Laurensen (ed.), *The EU and the Eurozone Crisis: Policy Challenges and Strategic Choices*, Ashgate, Surrey, 2013

nevertheless be triggered by an exogenous economic shock, brings about a new policy equilibrium that closely reflects the preferences of the newly formed policy coalition or monopoly.[165]

In the context of the European economic crisis, however, the punctuated equilibrium framework can accurately describe the responses to the crises in Ireland and Greece as an abrupt departure from previous policy paradigms, which is hardly surprising, given the scale of the crises. However, the model misrepresents the forces underlying the observable policy shift. Far from being the result of shifting policymaking coalitions that managed to influence the framing of policy images and the setting of policy agendas in their favour, the responses of the national governments in both countries were heavily influenced by EU and fellow member state politicians, as has come to light more recently. In Ireland, the European Commission played a crucial role in forcing the Irish government to extend a bank guarantee for two years,[166] which was a monumental decision that consequently severely limited the scope of policy choices available to the Irish government.

While the exact extent and nature of this influence by the Commission continues to be severely disputed,[167] it is safe to assume that the decision-making processes did not take place in an insulated policy bubble in Dublin but in close consultation with fellow member states and European institutions. The role of the ECB, as well as the impact of the guarantee decision, is further stressed by Jean Pisani-Ferry: 'The ECB also played hardball in the Irish case… The Irish government in September 2008 pledged to guarantee all the banks' liabilities, including bonds, for a period of two years. In fact, the commitment of taxpayers' money went far beyond what was expected at the time'.[168]

In a similar vein, the Greek crisis shows that the authorities there were not solely in charge of forming a new policy equilibrium, as the attempt of George Papandreou to hold a referendum illustrates. The former Greek prime minister explained the rationale for his desire to hold a referendum in terms of forming a coalition of reform-minded parties based on broad public consensus: 'As I explained to my European colleagues, even though we might have been able to pass the programme in Parliament, it would be a real struggle, an uphill battle, to implement it fully, unless we had achieved broader public consensus'.[169]

The fact that the Greek prime minister reported his domestic political measures to his European colleagues is in itself revealing, as it offers a rare glimpse into the inner workings of the EU – even more so if one contemplates that the interactions between the Greek prime minister and his colleagues were not limited to mere reporting.[170] Several journal articles and books outline the influence of EU officials and fellow member states, here particularly Germany, to pressure Greece into abandoning the referendum.[171] The fact that this claim is disputed by German Finance

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[165] F. Baumgartner and B. Jones, *Agendas and Instability in American Politics*, 2nd edn., The University of Chicago Press, Chicago, 2009, pp. introduction-59
[166] P. Legrain, *Aftershock: Reshaping the World Economy after the Crisis*, Abacus, London, 2013, p. 67
[167] S. McCabe, 'Commission blasts Legrain "bully" claims', *Independent Ireland*, accessed 13th May 2015 http://www.independent.ie/business/irish/commission-blasts-legrain-bully-claims-30258318.html
[168] J. Pisani-Ferry, *The Euro Crisis and Its Aftermath*, Oxford University Press, Oxford, 2011, p. 90
[169] G. Papandreou, 'Reflections on the Greek and Eurozone crisis: a view from inside', in G. Karyotis and R. Gerodimos (eds.), *The Politics of Extreme Austerity: Greece in the Eurozone Crisis*, Palgrave Macmillan, London, 2015, p. 256
[170] Marietta Gianakou, former minister of education, interviewed by Benjamin Klos, 2015
[171] G. Tsogopoulos, *The Greek Crisis in the Media: Stereotyping in the International Press,* Ashgate, Surrey, 2013, p. 51

Minister Wolfgang Schäuble[172] is perhaps more a reflection on the political sensitivity of the claim than evidence of its untruthfulness.

In the period of financial assistance to Greece and Ireland, it quickly became apparent that the EAPs of both countries would be subject to stringent conditionality, and the very composition of the programme, with the inclusion of the IMF,[173] pointed to the rigidity with which the mission intended to enforce the conditions laid down in the memorandum of understanding. The very design of the programme reflected a desire on the part of the European partners to allow as little room for political manoeuvre as possible,[174] and this made the application of the punctured equilibrium framework highly problematic because 'the loan conditionality negotiated with the Greek government's creditors (the European Commission, the ECB and the IMF, all three acting together as the 'Troika') operated as the crucial external constraint'.[175] The same applied to Ireland.

Transformation Literature: Eastern Europe

Although the transition from command to market economies and the accompanying political upheaval in Central and Eastern Europe at the beginning of the 1990s were significantly more extensive than anything observable in Ireland and Greece thus far, the literary body analysing this transformation can make valuable contributions to our understanding of the EAPs, particularly concerning modes of change.

Thus far, most of the theoretical frameworks discussed in this chapter have evaluated change through structural reforms primarily in terms of their net results. However, the authors of the Greek EAP raised a crucial point about the possible ways in which these structural reforms could be executed, distinguishing between sequential and simultaneous reform implementation: 'Reforms need to take place in parallel as theoretical and empirical evidence shows that a comprehensive reform programme leads to significantly better outcomes than a sequential implementation of partial reforms'.[176] The EAP for Greece further specified that 'Consolidation is strongly frontloaded',[177] which means specifically that 'difficult measures will be legislated and implemented upfront'.[178]

These remarks in the Greek EAP are interesting for several reasons. To begin with, they highlight the existence of a body of empirical data in the area of deep structural reforms and liberalisation of the economic model of a country. In this regard, the example of the transition of Eastern European countries from command economies towards market-based economic models comes to mind. These countries experienced drastic and swift alterations to their economies, although the approaches chosen differed widely from country to country. Secondly, drawing on the body of literature that examined this transformation in Eastern and Central Europe, it should be possible

[172] Norbert Häring, 'Schäuble schreibt die Geschichte neu', *Handelsblatt Online*, accessed 13th May 2015 http://www.handelsblatt.com/politik/deutschland/griechenland-rettung-schaeuble-schreibt-die-geschichte-neu/11761992.html
[173] P. Petrakis, *The Greek Economy and the Crisis: Challenges and Responses*, Springer, Heidelberg, 2012, p. 345
[174] M. Karamessini, 'Greece as an international test-case: economic adjustment through a Troika/state-induced depression and social catastrophe', in S. Lehndorff (ed.), *Divisive Integration: The Triumph of Failed Ideas in Europe – Revisited,* European Trade Union Institute, Brussels, 2015, pp. 95-99
[175] G. Pagoulatos , 'The political economy of forced reform and the 2010 Greek economic adjustment programme', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment: Reforms in Greece 1974-2010*, Hurst, London, 2012, p. 249
[176] European Commission, [Progress Report 77] *Economic Adjustment Report Greece*, February 2011, p. 32
[177] European Commission, [Progress Report 61] *Economic Adjustment Report Greece*, May 2010, p. 15
[178] Ibid.

to provide an assessment of the claim made in the Greek EAP that a simultaneous implementation of various reforms yields better results than reform implementation in a sequential manner.

Research on the transition of Central and Eastern European countries from Communist command economies to market economies shows that two different approaches were taken by different countries,[179] as the reference in the Greek EAP indicates: the gradualist approach relies on a sequencing of reforms that are more incremental in their scope and impact, which allows the country-specific circumstances to be taken into account in this sequencing.[180] In addition to temporal sequencing, this approach is characterised by a more decentralised approach to reforms that draws on the expertise of the existing bureaucratic elites in the transition countries, as opposed to the 'big bang' approach, which in Murrell's view is characterised by 'disdain for the usefulness of the practical knowledge that can only be derived from experience'.[181]

The 'big bang' or 'shock therapy' approach, on the other hand, advocates the quick and simultaneous implementation of a wide range of reforms.[182] Reform approaches in this mould usually assume a type of 'one size fits all' in political economy: 'Their discussion does not examine existing institutional structures and how to change them to reach the goal, but rather focuses on the ways, the methods, and the strategies to replace these structures entirely'.[183] There is very little consideration of social forces in this approach, and these considerations are often put aside with a reference to the long-term gains that the approach will bring about.

A brief assessment of the track record of both approaches is in order here, as the Greek EAP makes explicit reference to the better empirical record of the big bang approach in its progress reports. Dell'Anno and Villa find that greater success of one model over the other is by no means assured; instead, they assert that: 'There are episodes of success and failure for both views',[184] whereby they refer to the Czech Republic as having successfully implemented the big bang approach, whereas Hungary and Russia have chosen this approach with more mixed results, not to say decidedly negative outcomes. China is given as an example of a country that successfully chose a gradualist approach.

Given the mixed outcomes of both approaches, an immediate question arises as to why the authors of the Greek EAP endorsed the 'shock therapy' approach to economic reform so emphatically. Part of the answer is certainly rooted in political considerations. It has been pointed out that the advocates of the big bang approach correspond closely with the advocates of the Washington Consensus and thus adhere to a neoliberal economic perspective.[185] The reason for these corresponding preferences can be found in the nature of the reform agenda. As mentioned earlier,

[179] R. Dell'Anno and S. Villa, 'Growth in Transition Countries: Big Bang versus Gradualism', *Discussion Paper 122*, accessed on 14.05.2015, < http://www.unisa.it/uploads/2551/122_dp.pdf>, p. 7

[180] P. Aghion and O. Blanchard, 'On the speed of transition in Central Europe', in S. Fischer, J. Rotemberg (eds.), *NBER Macroeconomics Annual*, Cambridge MA, The MIT Press, 1994, pp. 283–319.

[181] P. Murrell, 'What is shock therapy? What did it do in Poland and Russia?', *Post-Soviet Affairs*, vol. 9, no. 2, 1993, p. 118

[182] A. Berg, E. Borensstein, R. Sahay and J. Settelmeyer, 'The evolution of output', in *Transition Economies: Explaining the Difference*, IMF Working Paper, WP/99/73.

[183] P. Murrell, 'What is shock therapy? What did it do in Poland and Russia?', *Post-Soviet Affairs*, vol. 9, no. 2, 1993, pp. 113

[184] R. Dell'Anno and S. Villa, 'Growth in transition countries: big bang versus gradualism', *Discussion Paper 122*, accessed 14th May 2015
http://www.unisa.it/uploads/2551/122_dp.pdf, p. 7

[185] K. Murphy, M. Shleifer and R. Vishny, 'The transition to a market economy: pitfalls of partial reform', *Quarterly Journal of Economics,* vol. 107, no. 3, pp. 889-906.

the mission not only sought to heavily frontload the reform agenda but also stipulated that 'difficult measures will be legislated and implemented upfront'.[186]

The reform package contained extensive cuts to welfare state provisions, which had a positive economic effect on most sections of society but disproportionately affected those in the lower-income strata. Hence, 'difficult' in the above quote almost certainly refers to the implementation of policies that were deeply unpopular, rather than technically challenging in their implementation. The assumption would be that these reforms would be politically impossible to implement once the worst of the crisis had passed.[187]

Nicos Christodoulakis, former finance minister of Greece, identifies five distinguishing features of the IMF programmes for Latin America in the 1980s and 1990s, which, in his opinion, 'reflected the neo-liberal economic orthodoxy of the time code named as the "Washington Consensus"'[188]: 'a. Tight monetary policy to combat inflation b. Front-loaded austerity to cut fiscal deficits c. Extensive market deregulation d. Drastic wage cuts to improve competiveness e. Quick privatisation of strategic sectors'.[189] These key policy recommendations bear a strong resemblance to those promoted in the EAPs of Greece and Ireland and thus replicate many of its flaws in aggravating social inequality and democratic deficits, as Joseph Stiglits points out: 'The net effect of policies set by the Washington Consensus has all too often been to the benefit of the few at the expense of the many, the well-off at the expense of the poor. In many cases, commercial interests and values have superseded concern for the environment, democracy, human rights and social justice'.[190]

However, this perspective alone might be too simplistic. Underlying this 'ideological bias' is also a desire to bypass the national political level in both Ireland and Greece, as a statement in the Greek EAP admits surprisingly bluntly: 'In particular, a simultaneous implementation of reforms helps to overcome opposition from interest groups that benefit from specific restrictions and impose a burden on the whole Greek society. Moreover, the faster reforms are implemented, the sooner they will have an effective impact and contribute to jobs and growth'.[191] This line of argument is supported by some research that points to the pitfalls of gradual economic reforms.[192]

Discussing the implementation of 'shock therapy' economic reform as advocated in the EAPs, Peter Murrell makes a very similar point: 'I show that, as in Poland, shock therapy failed in its primary objective of producing a sequence of top-down policy changes that neutralises and by-passes the existing political and social forces dominant in economic matters'.[193] In this context, the choice of top-down structural reforms, in the cases of Ireland and Greece from the EU level, was intended because LMEs were the preferred outcome in both cases and 'the knowledge of how to create market institutions is viewed as readily available and easily implemented'.[194]

The preference for top-down policy implementation thus stemmed from a deep distrust of (particularly) the Greek political elites. This led to the somewhat paradoxical outcome that the

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[186] European Commission, [Progress Report 61] *Economic Adjustment Report Greece*, May 2010, p. 15
[187] Senior Greek tax official, interviewed by Benjamin Klos, 2015
[188] N. Christodoulakis, *Greek Endgame: From Austerity to Growth or Grexit*, Rowman and Littlefield International, London, 2015, p. 129
[189] Ibid., p. 130
[190] J. Stiglits, *Globalisation and Its Discontents*, W. W. Norton & Company, New York, 2002, p. 20
[191] European Commission, [Progress Report 77] *Economic Adjustment Report Greece*, February 2011, p. 32
[192] J. Hellman, *Winners Take All: The Politics of Partial Reform in Post-Communist Transitions,* John Hopkins University Press, 1998, p. 203
[193] P. Murrell, 'What is shock therapy? What did it do in Poland and Russia?', *Post-Soviet Affairs*, vol. 9, no. 2, 1993, p. 112
[194] Ibid., p. 115

Greek political elites were charged with their own disempowerment, through the vehicle of the EAP. Since the introduction of the EAP, some researchers have realised the potential of applying the lessons from the transformation of Eastern and Central Europe after the collapse of communism but have drawn somewhat more-optimistic conclusions: 'Similarly to the outcomes of Eastern Europe, we expect a structural break with a negative impact in the short-run but positive over the long-run'.[195]

The expressed desire for top-down policy implementation has been critically discussed by Frits Scharpf, who links this to a loss of political legitimacy at the national level.[196] The concepts of 'positive' and 'negative' integration were originally devised in the 1960s[197] and do not refer to economic integration exclusively. Scharpf defines both processes as 'government policy aimed at enlarging the economic space beyond existing national boundaries'.[198] In this terminology, negative integration refers to the removal of barriers to trade and other obstacles to the internal market of the EU, whereas positive integration aims at rebuilding regulations at the EU level.[199]

Bringing together both analytical frameworks, it becomes apparent that the appeal of the big bang approach for EU officials was precisely that 'establishment of a market economy is seen as mostly involving destruction'.[200] As such, an EAP can also be understood as an important tool for the promotion of negative integration, particularly in the area of product markets. The EAP progress reports make repeated references to the implementation, or lack thereof in the Greek case, of EU legislation, such as the Services Directive, and actively promote the far-reaching liberalisation of product markets: 'Regardless of how it is attained, from a neoliberal point of view most legitimate aspirations of economic integration are realised with the completion of the common market'.[201]

The emphasis on privatisation in both the Irish and Greek cases hence also served the added purpose of surpassing the national level of policymaking by reducing each state's direct influence over its economy through public ownership. Furthermore, it also supplied an important explanation for the absence of positive institution building in the areas of education and the financial services, which the VOCs approach would lead one to expect.[202]

In terms of economic performance, the big bang approach to the implementation of an economic reform agenda can also be employed to explain the misjudgement of the severity of the economic crisis in the Greek case.[203] The fact that the policymakers behind the EAP did not account for the fact that the Greek economy was largely driven by domestic demand and thus that radical austerity would lead such an economy to near collapse seems baffling at first sight but becomes more understandable when seen in this light. As Murrell puts it in his critique of the shock therapy / big bang approach, 'History, society, and the economics of present institutions are all minor issues in choosing a reform program'.[204] It is also worth mentioning that the underlying assumptions about

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[195] D. Giannaros, 'Two decades of Eastern Europe's economic transformation: lessons for Greece?', Research Notes, *International Atlantic Economic Society*, 2011, p. 488
[196] F. Scharpf, *Governing in Europe: Effective and Democratic?,* Oxford University Press, Oxford, 1999, p. 2
[197] J. Tinbergen, *International Economic Integration*, 2nd edn., Elsevier, Amsterdam, 1965
[198] F. Scharpf, *Governing in Europe: Effective and Democratic?* Oxford University Press, Oxford, 1999, p. 45
[199] Ibid., pp. 45-48
[200] P. Murrell, 'What is shock therapy? What did it do in Poland and Russia?', *Post-Soviet Affairs*, vol. 9, no. 2, 1993, p. 114
[201] F. Scharpf, *Governing in Europe: Effective and Democratic?,* Oxford University Press, Oxford, 1999, p. 49
[202] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 63
[203] European Commission, [Progress Report 87] *Economic Adjustment Report Greece*, October 2011, p. 1
[204] P. Murrell, 'What is shock therapy? What did it do in Poland and Russia?', *Post-Soviet Affairs*, vol. 9, no. 2, 1993, p. 113

the behaviour of political actors and society at large are seen as being firmly grounded in the rational actor model and thus closely related to the rational-choice approach.[205]

All this explanatory value aside, there is one fundamental difference between the situations in which the political economies of Central and Eastern Europe vs. Greece and Ireland found themselves: while the former had a strong incentive to conduct reforms in the form of prospective membership of the EU, this did not apply to Greece and Ireland to the same extent, as scholars familiar with the subject matter have already pointed out.[206] Thus, in this sense, the situation of the transition economies resembled more closely that of Ireland and Greece prior to their joining the EC. Furthermore, while there was considerable influence in the transition economies by external players such as the US and the IMF, the degree of influence was never as strong as that of the Troika through its conditionality regime.

Methodology

In this section, the methods used to answer the research question as to why the reform speeds in Greece and Ireland diverged are outlined. This question is answered through a comparative two-case study, which examines five distinct institutional areas separately. In determining the economic models of Greece and Ireland, interviews and secondary sources from country-specific literature are used. Documentary analysis and semi-structured interviews are then used for the sections tracking and analysing the structural reforms mandated in the EAPs. Here, the documentary analysis uses the progress reports of the mission for Ireland and Greece, which appeared relatively regularly and were written by staff of the Directorate-General for Economic and Financial Affairs.

The aforementioned progress reports are first examined using Nvivo software for text analysis in Chapter 3. For the purpose of tracing the overall trajectory of the reform progress, a coding framework containing categories of structural reform measures is applied to the entirety of the progress reports, excluding economic forecasts. The coding framework, which can be found in *Figures 2-4 (pages 44-45)*, uses at its most basic a distinction into 'supply-side terminology', 'demand-side terminology' and 'neutral terminology'. The primary reason for choosing textual analysis using Nvivo software was its ability to provide quantitative data that could be juxtaposed with the rhetoric of the authors of the reports, highlighting possible discrepancies.

The textual analysis conducted in this chapter sheds light on the nature of the reforms and which concepts frequently appeared in conjunction, thus providing an important component in answering the research question posed. The progress reports are also used as a primary source for the chapters analysing the five institutional areas delineated by Bruno Amable's VOCs framework. Here, the indicators constituting the basic analytical units of Bruno Amable's framework are applied to the progress reports.

The aim of this approach is to test the hypothesis that the diverging reform speeds in the two case studies can be explained through their pre-existing VOCs by using two different methods, thereby reducing methodological bias. Semi-structured interviews with senior policymakers are used as a vital source of additional information, particularly regarding the political processes underlying various policy decisions that cannot be gleaned from the reports themselves. The interview partners were chosen according to their respective policy areas and seniority. The choice of policy areas was informed by Bruno Amable's fivefold typology.

[205] Ibid., p. 117
[206] Kevin Featherstone, professor, interviewed by Benjamin Klos

The selection of Greece and Ireland for this research reflects their respective political economy models, which can be conceptualised as being polar opposites on the spectrum in many respects. Given the high level of analytical detail required and the limitations imposed on the maximum length of a PhD thesis, the selection of Greece and Ireland was a way to maximise variation within the sample.

Conclusion

Inevitably, the task of discussing influential theories within the paradigm of institutionalism, as well as alternative approaches, poses significant difficulties, as these theories cannot be discussed in sufficient breath or depth in one chapter comprehensively. Nevertheless, this chapter strove to outline the crucial features of each of the theories under discussion and to apply them to the two case studies in this dissertation. The following paragraphs will now set out these findings.

The starting point of this chapter was a detailed discussion of the VOCs literature. In part, this pride of place is owed to the choice of this approach for the research project set out in this dissertation. This chapter demonstrated that the economic approach underlying the EAPs in Greece and Ireland was based on the assumption that there is an 'international best practice', the comprehensive implementation of which will ultimately lead to economic growth and prosperity. This assumption also explains the similarity between the EAPs in both countries, which is itself noteworthy, as Greece and Ireland had, apart from the shared experience of a severe economic crisis, very little in common. Subsequent chapters will show this point more fully, suffice it here to state that they were found to be diametrically opposed to one another in many important aspects.

The VOCs perspective challenges this assumed convergence onto one 'international best practice' model and offers instead an analytical toolkit to explain why countries do in fact not converge onto one model. Key to this explanation are institutional complementarities, which describe the positive, reciprocal interaction between institutional settings in different socio-economic areas. Due to the notions of path dependency and institutional complementarities, it has been remarked that the VOCs perspective 'has always emphasised structural constraints and continuity'.[207]

Crucially, this emphasis on institutional constraints is not a weakness of the approach but rather constitutes the second vital contribution that the VOCs perspective makes to the understanding of the EAPs in Greece and Ireland and structural reforms in general: transforming the growth model of a national economy, which was intended in Greece and to a lesser extent in Ireland, is enormously difficult even under ideal conditions, as structural reforms need to be comprehensive across institutional areas for new complementarities to emerge. The tone of the reports and the highly optimistic recovery projections[208] suggest that the mission severely underestimated the difficulty of the task ahead.

The discussion of the VOCs literature in this chapter duly commenced with Hall and Soskice's approach, which continues to hold great appeal because of its simplicity and elegance. This being said, this chapter revealed that despite its undoubted strengths, this particular VOCs approach is

[207] W. Streeck and K. Thelen, 'Introduction: institutional change in advanced political economies', in W. Streeck and K. Thelen (eds.), *Beyond Continuity: Institutional Change in Advanced Political Economies*, Oxford University Press, Oxford, 2010, p. 6

[208] European Commission, [Occasional Paper 61] *Economic Adjustment Programme for Greece*, European Commission, 2010, p. 12

ill suited to the task of this dissertation, as it fails to adequately conceptualise Mediterranean countries and merely locates them between its two conceptual poles. By contrast, among the most noteworthy strengths of Bruno Amable's framework is certainly the multi-polar nature of its framework, as well as its approach to institutional complementarities, where the inclusion of welfare regimes and education is recognised as highly useful.[209]

This chapter further demonstrated the usefulness of Streeck and Thelen's schematic in conceptualising possible responses by the national governments in Greece and Ireland.[210] They have accounted for the choice faced by the national policymakers in implementing the EAPs, outlining two possible avenues: either survival and return, which entails minimal concessions regarding the implementation (which carries the risk of involuntary dismissal from the Eurozone), or breakdown and replacement, which amounts to the adoption of an entirely new model of political economy.

Historical institutionalism is a valuable addition to the theoretical framework of VOCs, particularly when utilised in conjunction with it. Through its inductive approach and historical perspective, it allows a more comprehensive assessment and evaluation of institutions, as it not only explains why institutions differ across countries but also sheds light on the question as to why institutions evolved the way they did. Similar to the VOCs approach, it explains institutional continuity through path-dependent development, which proved useful in explaining how the Irish and Greek political economies took the shapes they did at the onset of the crisis.

The punctured equilibrium approach merits particular attention, as it is one of the very few approaches in the institutionalist school of thought that addresses the issues of sudden and far-reaching change, which other types of institutionalism commonly struggle to account for. This approach not only describes the drastic reshuffling of the Greek domestic political landscape accurately but also suggests that policymakers will eventually settle for a new political equilibrium either through a reversal to the pre-crisis institutional setup or by bringing about a new institutional equilibrium. Yet, here, as in many of the other approaches under examination in this chapter, the role of the external political actors is not convincingly accounted for. Additionally, the assumption of policymaking in political subsystems seems to be more apt for the American political landscape than it is for either Greece or Ireland.

Among the 'auxiliary' theories, the comparison of the Greek case to the situation found in the transition economies in Central and Eastern Europe has been particularly fruitful. The suggestion that the EAPs in Greek and Ireland countries were, among other things, vehicles for the promotion of negative integration is particularly relevant. It could also demonstrate that, despite ambiguous empirical findings, the Troika has been unwavering in its support for the big bang approach to economic reform, explicitly using it as a way to bypass the national policymakers.

Overall, the framework offered by Streeck and Thelen offers important avenues of research by mapping out different strategies that member states under an EAP may pursue. The body of literature on the transformation of Central and Eastern European countries provides both empirical and theoretical insights into how reform agendas can be implemented, while the various VOCs approaches presented in this chapter provide an important theoretical counterweight to the apparent prevalence of the assumption that there is one 'best' model for the political economy of

[209] D. Papadimitriou, K. Featherstone and S. Kalyvas, 'Assessing reform capacity in Greece: how can political economy help?', in H. Tsoukas, S. N. Kalyvas and G. Pagoulatos (eds.), *From Stagnation to Forced Adjustment: Reforms in Greece, 1974-2010*, Hurst, London, 2011. p. 40

[210] W. Streeck and K. Thelen, 'Introduction: institutional change in advanced political economies', in W. Streeck and K. Thelen (eds.), *Beyond Continuity: Institutional Change in Advanced Political Economies*, Oxford University Press, Oxford, 2010, pp. 22-30

a country. Further, this theoretical insight is empirically supported by the difficulty faced in implementing the Greek EAP and the continued dismal economic outcomes.

Chapter 3

A qualitative data analysis of the Greek and Irish Economic Adjustment Programmes

Introduction

When the global financial crisis reached European shores in 2009, several member states of the European Union found themselves in financial difficulties, which were further aggravated by prohibitively high interest rates for these countries in raising money from international bond markets. At the time, fears that this fiscal instability might prove contagious for other member states led to the inception of the Economic Adjustment Programmes. These programmes offer fiscal assistance to member states applying for it. However, the disbursement of these funds is conditional on strict adherence to an extensive set of structural reforms.

The conditional release of fiscal assistance necessitated the introduction of a control mechanism. This was accomplished through regular inspections by a group of representatives of the European Central Bank, the European Commission and the International Monetary Fund (IMF), commonly referred to as the Troika. These disbursements of funds would be decided on the basis of regular progress reports by the representatives of this group. These reports were compiled by members of staff of the Directorate-General for Economic and Financial Affairs, on occasion assisted by external experts.[211]

The overall claim in this PhD thesis is that the diverging reform speeds in Greece and Ireland during the EAPs can be explained using Bruno Amable's VOC framework. The reform trajectory of the Economic Adjustment Programmes (EAPs) can be conceptualised under this framework as taking both countries closer to the market based VOC, which is the most economically liberal VOC in Amable's typology. The slower reform speed in Greece is then explained through the greater distance of its pre-crisis VOC from the destined reform outcome.

One contribution of this chapter is to demonstrate the similarity of the Irish and Greek EAPs in terms of their policy prescriptions. A first analytical step of this chapter outlines important features in the Economic Adjustment Programmes of both countries, with little or no regard for the country-specific circumstances. To achieve this, the analysis applied a coding system using the Nvivo software to the progress reports of the EAPs, which permits a detailed analysis of how frequently specific types of reforms are discussed in both programmes.

A second vital contribution of this chapter to the overall thesis is to test whether the reforms mandated in the Economic Adjustment Programme are compatible with an assumed trajectory towards a market based VOC as defined by Bruno Amable.[212] In order to make the Irish and Greek VOCs more market-based, we would for instance expect extensive deregulation, privatisation and the general reduction of state involvement in the economy to take place.[213]

The Nvivo software allows the researcher to provide a numerical overview of which structural reforms are mentioned how often and where exactly. This is extremely useful in identifying potential preferences of certain economic policies over others through a categorisation of the

211 European Commission, Directorate General for Economic and Financial Affairs, Accessed 15. July. 2016, <http://ec.europa.eu/dgs/economy_finance/index_en.htm>
212 B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 104-106
213 Ibid., p. 174

terminology in three groups, supply side terminology, demand side terminology and neutral terminology, as indicated in *Figures 2-4* below. In an Economic Adjustment Programme which moves the Irish and Greek VOCs closer to the ideal-typical market based VOC, we would expect policies which fall inside the 'supply side terminology' category to heavily outweigh the other two.

Figure 2: Nvivo coding framework for supply side terminology

Supply Side Terminology	Sub-level 1	Sub-level 2	Sub-level 3
Expenditure Cuts	Expenditure control and monitoring		
	Spending reduction	Cancelation and reduction of infrastructure spending	
		Education	
		Public Sector	Administrative costs
			Public sector wages
		Social Protection	Healthcare
			Pensions
			Unemployment benefits
Indirect reduction of private sector wages			
Liberalisation	Deregulation		
	Privatisation		
Markets	Business environment		
	Competitiveness		
	Market confidence		

Figure 3: Nvivo coding framework for demand side terminology

Demand side terminology	Sub-level 1
Effects of domestic demand	
Employment policies	Measures to fight long term unemployment
	Measures to fight youth unemployment
Equality of income distribution	
Improved labour productivity	
Indirect boost to private sector wages	
Infrastructure spending	Activation of EU structural and regional funds

	Government infrastructure spending
Revenue and Taxation	Anti-tax evasion measures
	Revenue increasing measures
	Tax administrative reforms
	Tax collection

Figure 4: Nvivo coding framework for neutral terminology

Neutral terminology	Sub-level 1
Administrative reform	
Corruption	
Fiscal consolidation	
Growth	Demand led growth
	Export led growth
Implementation of acquis communautaire	
Investment	Foreign direct investment
	Domestic investment
Structural reforms	Education
	Financial sector
	Front loaded structural reforms
	Labour market
	Product market
	Social protection

The nature of the policy recommendations enshrined in the EAP's is relevant for another reason as well, as VOC literature suggests that a country's ability to legislate and implement structural reforms depends crucially on the proximity between the suggested structural reforms and the pre-existing institutional set up of the country in question. The Varieties of Capitalism approach suggests that the particular model of governance of the European Union was not equally suitable to all member states.[214] Amable's framework highlights the difference between the Southern European and the market based VOC, which often find themselves at polar opposites of the spectrum in his typology.[215] Thus, the identification of supply-side reforms as the dominant policy paradigm in the EAPs would explain the greater difficulty facing Greece in implementing the reforms successfully.

In the context of this analysis, supply side economic measures are defined as measures which seek to improve the budgetary position primarily through expenditure cuts. Supply side policies seek to achieve this reduction of government expenditure through reducing the role of the state in the

[214] Kevin Featherstone, Professor, interviewed by Benjamin Klos, 2015
[215] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 102-103

economy. Demand side policies are defined here as measures which seek to improve government revenue. Here, measures to invest in domestic infrastructure and to stimulate consumer demand are the chief policy tools. The third category features measures which are not associated with a specific economic school of thought, such as administrative reform, improved budgetary oversight and measures to curb corruption and waste.

The Variety of Capitalism approach used in this dissertation explicitly rejects the assumption that a uniform set of reforms is suitable for different countries.[216] The pre-existing institutional set up of the country in question should therefore have a bearing on the nature of the structural reforms implemented. This view is shared by Bruno Amable, who asserts that 'one of the conclusions of the institutional-complementarities approaches is that there is no such thing as a 'one best way' for achieving superior economic performance'.[217]

Additionally, this chapter will support and supplement the findings of the five chapters comparing the institutional areas of Greece and Ireland in their claim that the benefits of introducing the structural reforms are greatly diminished by the fact that while the Economic Adjustment Programmes place great emphasis on the removal of core components of the previous model through liberalisation, they make little or no provision for positive institution building to provide support for the envisioned new economic model of Greece, thus confirming Frits Scharpf's assertion that 'Regardless how it is attained, from a neoliberal point of view most legitimate aspirations of economic integration are realised with the completion of the common market, and further moves toward positive integration are generally considered unnecessary and dangerous'.[218]

The previous chapter on theoretical approaches already indicated that the addition of Streeck and Thelen's analytical insights to Bruno Amable's framework proves enormously fruitful.[219] The chapter demonstrated that one crucial shortcoming of the Varieties of Capitalism literature is its emphasis on continuity rather than change. Here, Streeck and Thelen offer an interesting matrix of change. Although the focus of their research is centred on incremental change, their matrix can be utilised for the purposes of this research project. In cases of exogenously driven large economic shocks to the national economy, for which the crises in Ireland and Greece undoubtedly qualify, their model suggests that the national economy is faced with two choices: it can seek to weather the storms by making minimal concessions to ensure the survival of the pre-existing model and revert back to it fully once the crisis has passed. Streeck and Thelen fittingly labelled this option 'survival and return'. The alternative is 'breakdown and replacement', by which they mean the introduction of an entirely new economic model.[220]

Another important feature of this chapter is the provision of an in-depth, structured analysis of the exact nature of the structural reforms that are identified with unwavering consistency by European policy makers as the cornerstone of the programme.[221] It is noteworthy that the nature of the reforms seems to have been determined at an early stage in the design phase, and alternatives seem to never have been seriously discussed at all, as Marietta Giannakou remembers: 'They [the European partners] decided not to discuss it'.[222] The refusal to even discuss alternative reform

[216] P. Hall and D. Soskice, *Varieties of Capitalism. The Institutional foundations of comparative advantage,* Oxford University Press, Oxford, 2010, pp. 63-64
[217] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 23
[218] F. Scamableharpf, *Governing in Europe. Effective and democratic?,* Oxford University Press, Oxford, 1999, p. 49
[219] W. Streeck and K. Thelen, *Beyond Continuity. Institutional change in advanced political economies*, Oxford University Press, Oxford, 2010
[220] W. Streeck and K. Thelen, *Beyond Continuity. Institutional change in advanced political economies*, Oxford University Press, Oxford, 2010, p. 9
[221] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, May, 2010, p.10
[222] Marietta Giannakou, Former Greek Minister, interviewed by Benjamin Klos, 2015

paths is significant as it illustrates a fundamental clash between the mission's quest for a conversion towards an 'international best practice' model, which closely resembles a market based VOC model and the assumption underlying VOC approaches that there are multiple ways to achieve 'superior economic performance'.[223]

The implementation of structural reforms is the principal instrument of the Troika to 'alter the economy's structure towards a more investment- and export-led growth model'.[224] At a first glance, the term 'structural reform' appears to be a neutral one, as '"structural reforms" mean a lot of things to a lot of people because in the broadest sense "structural reforms" simply mean changes to the economic-governmental structure'.[225]

However, this is not the interpretation underlying the mission's usage of the term. On the website of the European Commission the term is defined as follows: 'Structural reforms tackle obstacles to the fundamental drivers of growth by liberalising labour, product and service markets, thereby encouraging job creation and investment and improving productivity'.[226] The website goes on to outline 'typical' structural reforms: 'typical structural reforms include policies that: •make labour markets more adaptable and responsive. •liberalise service sectors'.[227] Thus, far from being neutral in terms of specific policies, the mission's usage of the term carries very specific connotations regarding what constitutes a structural reform.

Additionally, there is a strong rhetorical emphasis on the importance of structural reforms for the overall success of the Economic Adjustment Programmes by European and national politicians. Hence, the analysis conducted in this chapter will assert quantitatively and qualitatively how much emphasis is placed on structural reforms compared to other, austerity driven policy recommendations. The analysis will thus allow a closer examination of the structural reforms themselves, in order to verify whether they are just austerity measures 'dressed up' as structural reforms in order to make them more socially and politically acceptable, as one national policy maker has claimed.[228] Such measures would be plausible, as austerity measures and the costs they inflict on society are unevenly distributed.[229]

Evidence supporting this hypothesis can be obtained by juxtaposing the number of instances where austerity related measures are mentioned in conjuncture with structural reforms. In this manner, the analysis can potentially support another proposition, namely, that the driving forces behind the reform agenda are a mixture of neo-liberal, supply side economics and an ordo-liberal framework,[230] wherein austerity related measures take precedence over ordo-liberal emphasis on rules based governance.

If the assumption of an EAP driven by a melange of ordo-liberal and neo-liberal ideas were to prove correct, we would expect to find the aforementioned supply side bias in combination with a strong drive to implement European policies in a top-down manner, i.e. by enforcing the implementation of EU Directives and other components of the *acquis communautaire*. At the sharp

[223] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 23
[224] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, May, 2010, p.10
[225] J. Asis, 'What are structural reforms?', *Pieria Website,* accessed 5. 08. 2016, <http://www.pieria.co.uk/articles/what_are_structural_reforms>
[226] European Commission website accessed 05.08.2016, <http://ec.europa.eu/economy_finance/structural_reforms/index_en.htm>
[227] European Commission website accessed 05.08.2016, <http://ec.europa.eu/economy_finance/structural_reforms/index_en.htm>
[228] Former Greek Minister Marietta Giannakou, interviewed by Benjamin Klos, 2015
[229] M. Matthijs and M. Blyth, *The Future of the Euro*, Oxford University Press, Oxford, 2015, p. 176
[230] Kevin Featherstone, Professor, interviewed by Benjamin Klos, 2015

end of this vision for the future functioning of the EU is Wolfgang Schäuble's suggestion to 'go further and introduce a formal veto right over euro-area national budgets'.[231] The motivation of Germany for doing so should be framed in terms of creating and maintaining a large and stable market for its products, as well as and not in terms of replicating its own political system.

Methodologically, the Nvivo analytical software is used, which allows the coherent structuring and evaluation of large sets of data in order to conduct a thorough examination of the progress reports on the Economic Adjustment Programmes in Greece and Ireland, which serve as primary sources for this analysis. Progress reports have been coded in their entirety with the exception of the sections 'macro-economic developments' and 'macro-economic outlook', as they are exclusively descriptive and predictive respectively.[232]

The analytical focus of this chapter is on the precise policy recommendations made by the Troika and the aforementioned sections are therefore unhelpful. The unit of analysis for the coding is usually the paragraph, and the analysis only deviates from this unit where bullet points and lists are employed, as they are, despite their brevity, independent policy recommendations. The coding methodology is not exclusive, so that one paragraph can be coded multiple times. This is essential to allow the juxtaposition of different concepts appearing together.

As previously intimated, the coding system itself relies on three broad categories for a first approximation, both for reasons of analytical clarity and parsimony. The categories are labelled supply side terminology,[233] demand side terminology [234] and neutral terminology. Contained within each of the first two are concepts and policy recommendations that are generally associated with supply side economic or demand side economic approaches respectively. The key concepts within the demand side terminology are active employment policies, state investment in infrastructure, measures to boost labour productivity and measures relating to improved revenues through taxation.[235] The crucial supply side concepts are measures relating to the reduction of state spending, deregulation, privatisation and thus the removal of state influence from the economy and lastly the liberalisation of labour and product markets.[236] The two primary tools for this liberalisation are privatisation and deregulation.

The third category is called neutral terminology and contains concepts that cannot clearly be subcategorised in either of the other two categories. The most important concepts in this category are administrative reform, implementation of European level policies and structural reforms. Some concepts, like investment, growth and fiscal consolidation, are neutral only at first glance as fiscal consolidation for instance can be brought about either through rigorous budget cuts or increased revenue through taxation and other means. Hence, the full implication of these concepts becomes only apparent when seen in conjuncture with other concepts used in the argument. This is also true for investment and growth, whereby the latter can be export led or demand led and investment can mean either foreign direct investment or domestic, state funded investment.

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[231] J. Pisani-Ferry, *The Euro Crisis and its Aftermath*, Oxford University Press, Oxford, 2011, p. 111

[232] R. Boyatsis, *Transforming Qualitative Information. Thematic Analysis and Code Development,* Sage Publications, New York 1998

[233] Website Cato Institute, accessed 08.08.2016, <http://object.cato.org/sites/cato.org/files/serials/files/cato-journal/1983/1/cj2n3-10.pdf>

[234] T. Palley, 'Keynesian Macroeconomics and the Theory of Economic Growth: Putting Aggregate Demand Back in the Picture', in M. Setterfield (ed.), *The Economics of Demand-Led Growth. Challenging the Supply-side Vision of the Long Run,* Edward Edgar Publishing, Cheltenham, 2002, pp. 19-40

[235] IMF website, accessed 08.08.2016, <http://www.imf.org/external/pubs/ft/fandd/2014/09/basics.htm>

[236] Economics help website, accessed 08.08.2016, < http://www.economicsonline.co.uk/Global_economics/Supply-side_policies.html>

Summary Hypothesis

By way of testing the hypotheses proposed here, we should find a number of features in the progress reports of the Economic Adjustment Programme: Firstly, in order to test for the stipulated supply side economic bias in the programme, we should find the balance of usage of supply and demand side terminology heavily tilted in favour of the former in purely numeric terms.

Secondly, if there is an absence of positive institution building within the programme, we should find a low volume of structural reforms in education and the financial sector in both countries. The focus on the institutional areas of education and financial services is due to the fact that financial services and education are the only two areas where positive institution building would be necessary in order to establish a new economic model which would closely resemble the ideal typical market based VOC model. Another feature of importance in this regard is the existence or absence of lifelong learning provisions. If present, these policies should be displayed through a heavy emphasis on active employment policies for the long term unemployed. It is crucial that these measures are structural and not temporal in nature, as they would otherwise not constitute a permanent alteration of the economic model, but merely an emergency measure.

Thirdly, in order to test the hypothesis that the overall reform effort is substantially higher for Greece than for Ireland, we should find that the number of structural reforms in the Greek EAP is significantly higher than in Ireland, as the Irish model is assumed to be closer to the desired reform outcome than the Greek model.

Fourthly, the analysis conducted in this chapter will shed light on the exact nature of the structural reforms, to analyse whether structural reforms are expenditure cuts in disguise. This can be achieved through an examination of how frequently the concepts 'structural reforms' and concepts relating to budget cuts are used together. Should they appear frequently together, we can deduce that structural reforms with a positive budgetary impact are prioritised.

Lastly, this analysis will examine whether there is any evidence to support the hypothesis that the EAPs in both countries also reflect an element of an ordo-liberal agenda, which centres on the introduction and consequent enforcement of rules at the national level. According to scholars in the field, while the emphasis on rules based governance has been present at the European level for some time, their enforcement or even monitoring had previously been neglected.[237] This element should manifest itself in the primary sources through a strong element of forced top-down implementation of EU level policies, Directives and Regulations. In the analysis, such instances are referred to as 'implementation of *acquis communitaire*'.

Analysis

In juxtaposing the options outlined by Streeck and Thelen with the theoretical insights derived from Amable's framework, it becomes abundantly clear that the proximity of the structural reforms prescribed by the Troika to the pre-existing economic model matters greatly. The findings of the five institutional area comparative chapters will indicate that Ireland already displayed many of the economic and institutional features the Troika sought to introduce in both countries. This is exemplified in its fairly deregulated labour and product markets, which are core components for the functioning of the internal market. By contrast, Greece finds itself at the polar opposite of the spectrum in most of the five institutional areas, as represented in *Figure 1* (see page 14).[238]

[237] Kevin Featherstone, Professor, interviewed by Benjamin Klos, 2015
[238] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 173

The implication of this is that, in terms of a cost benefit evaluation, the cost of compliance with the Troika's reform agenda is significantly higher for Greece, which would indeed have to reinvent its entire political economic model under extremely adverse macroeconomic conditions, whereas Ireland finds itself in a position where it can focus its reform efforts on what by comparison can only be termed 'minor amendments'. Adding to the difficulty of implementing the reform agenda in Greece are the much discussed weakness of the state administration,[239] and reform adverse incentives within the political system.[240]

Figure 5: Frequency of terminology usage

	Neutral Terminology	Supply Side Terminology	Demand Side Terminology
Number of mentions	1160	867	320

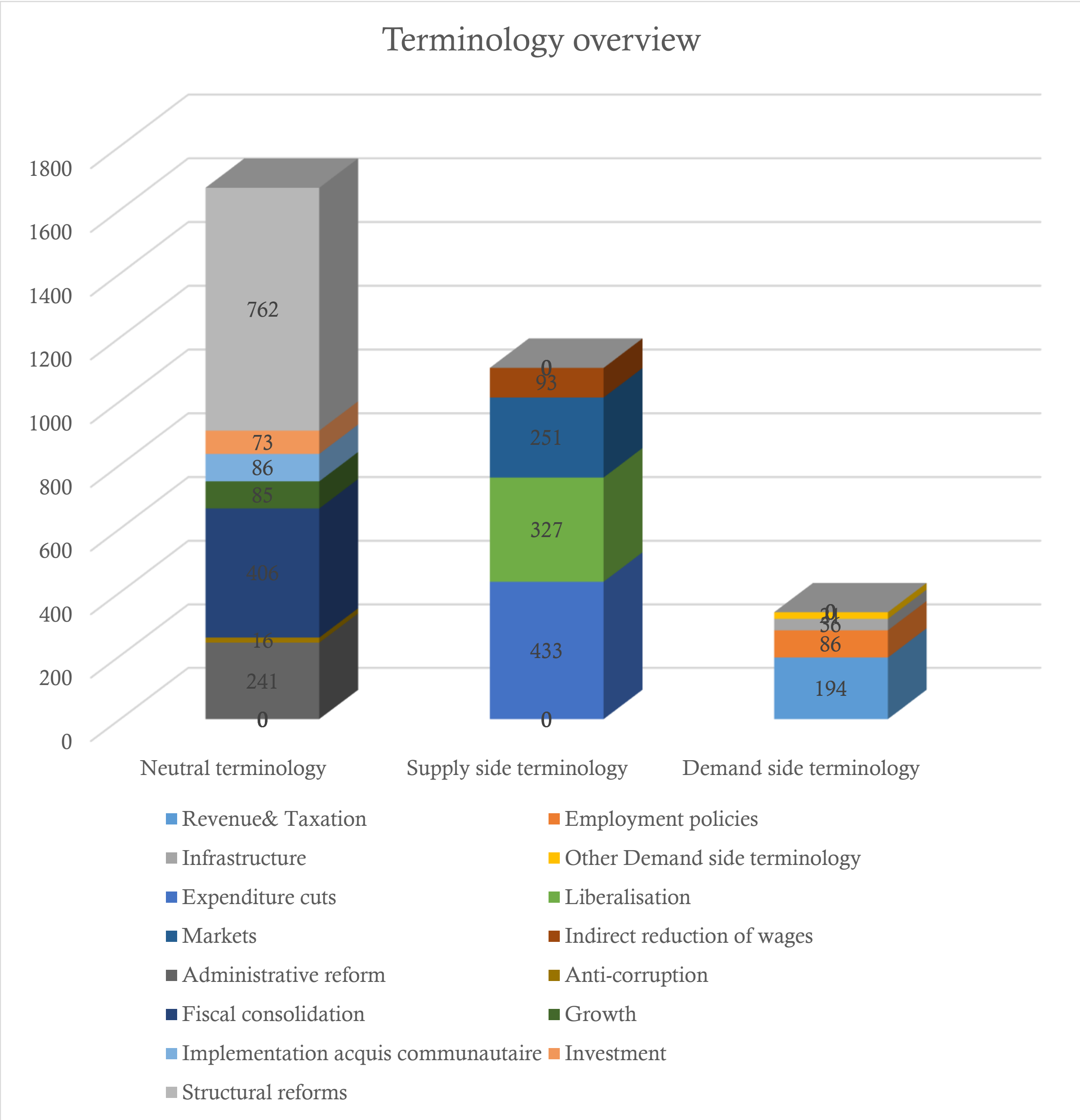
A first glance at the data gathered displays the overall distribution across the three categories, see *Figure 5* above. Here, we find that neutral terminology is the most frequently employed with 1160 mentions or 49.6% of coded references. Supply side terminology is used 867 times which equals 36.9% and demand side terminology is used least frequently with 320 times or 13.6%. A closer examination of these broad categories reveals the core elements in the composition: Within the demand side terminology category, the most important categories are revenue and taxation with 194 mentions, and employment policies with 86.

In the supply side category, the subcategory 'cuts' which contains all forms of government spending reductions, features most prominently with 433 mentions, followed by liberalisation with 327, *see Figure 6* below. The subcategory liberalisation is further divided into privatisation and deregulation, which will be discussed in greater detail later in this analysis. The last big subcategory is 'markets', which comprises 251 mentions and contains within it the subcategories of 'business environment', 'market confidence' and 'competitiveness'.

In the category 'neutral terminology', the largest subcategory by a wide margin is 'structural reforms' which is mentioned 762 times, followed by 406 mentions of 'fiscal consolidation' and 'administrative reform' with 241. The concept of 'fiscal consolidation' is ambiguous with regard to its exact implications. The FT lexicon states that 'Fiscal consolidation is a reduction in the underlying fiscal deficit. It is not aimed at eliminating fiscal debt.'[241] Apart from the important qualification that it has no direct relevance for debt reduction, this definition is also instructive in that it does not specify the means of deficit reduction, whether by revenue increase or spending reductions. Hence, the context in which this concept is used matter greatly here.

[239] M. Mitsopoulos and T. Pelagidis, *Understanding the Crisis in Greece. From Boom to Bust*, Palgrave Macmillan, London, 2012, p. 7
[240] R. Gerodimos and G. Karyotis, 'Austerity Politics and Crisis Governance: Lessons from Greece', in G. Karyotis and R. Gerodimos (eds.), *The Politics of Extreme Austerity. Greece in the Eurozone Crisis*, Palgrave Macmillan, London, 2015, pp. 267-268
[241] Source: Financial Times, extracted 5.11.2015, <http://lexicon.ft.com/Term?term=fiscal-consolidation>

Figure 6: Terminology breakdown



An Nvivo matrix query clearly demonstrates that out of the 406 times 'fiscal consolidation' is mentioned at all, it appears 346 times in connection with either demand side terminology or supply side terminology. It appears 86 times in conjuncture with demand side terminology, and 71 times specifically with 'taxation and revenue increasing measures'. By comparison, 'fiscal consolidation' appears 260 times with supply side concepts in general and 191 times with 'cuts' specifically. The previously identified supply side bias in the EAP progress reports is thus even more pronounced than a superficial glance at the data would suggest.

The use of discretionary spending in the context of the EAP is an important caveat in the balance between revenue increasing measures and spending reductions. To illustrate the point, it is worth examining the 2014 fiscal consolidation measures for 2014: Discretionary measures refer to measures that are activated if fiscal targets are missed or in acute danger of being missed. For the Irish budget for 2014, these amount to 2.48 billion euro, out of which 0.88 billion euro are revenue based, whereas 1.50 billion are expenditure cuts.[242] It follows from this that in cases where budgetary targets are missed, the discretionary spending provisions further augment the supply side bias in the EAPs.

The second hypothesis put forward in this chapter relates to the absence of positive institution building in the EAP, which the VOC literature suggests would be instrumental for the transition from one economic model to another. A crucial indicator of the accuracy of this is the nature and composition of the structural reform packages in both countries, where we would expect to find a low number of reforms in education and financial services in both countries. In Greece, as *Figure 7* suggests, we find the expected pattern, namely that out of 452 'structural reform' mentions, 'education' appears only 15 times and structural reforms of the financial sector appear only 57 times, which makes them the two least frequently mentioned categories of structural reform in Greece, thus matching the expected pattern.

Figure 7: Structural reforms by institutional area and country

	Structural reforms	Education	Financial Services	Labour market	Product markets	Social Protection
Greece	452	15	57	114	138	131
Ireland	310	2	133	83	58	70

In the Greek context, a closer examination of the specific mentions of educational structural reform reveals that there is virtually no genuine structural reform in this area. Out of the 15 mentions, 4 were in conjuncture with administrative reform, which can be explained through the implementation of the so called Kallikratis plan[243] for restructuring regional governance, which had some spill-over effect on the administration of primary and secondary level education through the merging and closure of several institutions. Additionally, the term appears 14 times, and hence every time with one exception, in conjuncture with 'cuts'. This strong link suggests that the so called structural reforms are primarily driven by considerations of expenditure reduction, rather than a desire to build vital institutions for a new economic model in Greece.

In Ireland, by contrast, the anticipated distributional pattern is only partly fulfilled: While education barely features with only two mentions in the entire Irish EAP, structural reform of the financial services sector features very heavily and constitutes the most frequently mentioned category with 133 by some margin. It should be noted here that measures relating only to individual banks or insurance companies were not coded as structural, as they have no system altering impact relating to the overall rules within which these banks operate. So then, how can one explain this stark discrepancy between expected and actual values?

One obvious explanation lies in the different genesis of the crises, whereby the Irish crisis was a banking crisis first which turned into a sovereign debt crisis through the issuance of a state guarantee, whereas the Greek crisis was a sovereign debt crisis first, which then gradually spilled over in the Greek financial sector, as Mark Blyth outlines: 'The current mess is not a sovereign

[242] European Commission, [Occasional Papers 167] *The Economic Adjustment Programme for Ireland*, December, 2013, p. 23

[243] N.K. Hlepas and Getimis P., 'Impacts of Local Government Reforms in Greece: An Interim Assessment', *Local Government Studies*, vol. 37, no. 5, pp. 517-532

debt crisis for anyone except the Greeks'.[244] Following this reasoning, it would seem logical that a key focus of the structural reform agenda is on the Irish banking system.

The category 'markets' can be further broken down into 'competitiveness', 'business environment' and 'market confidence'. Out of these three, the last sub category of 'market confidence' is clearly the crucial one here. Out of the aforementioned 120 instances where fiscal sector structural reforms and markets or acquis or both appear together, 87 can be attributed to markets and 38 to 'Implementation of acquis', thus supporting the assumption that both reassurance of international financial markets and the harmonisation of banking systems among EU member states was a crucial motivation for measures in this institutional area.

There are several implications that emerge from this very pronounced link. Firstly, it becomes very obvious that much of the reform seal in the banking sector in Ireland stemmed from concern over the market sentiment vis-à-vis the Irish financial sector and the sustainability of the Irish state finances, which is underscored by the simultaneous mention of 'market sentiment' and 'structural reform' of the 'financial sector' in more than half the cases. A qualitative assessment of all instances of fiscal sector structural reform further reveals that many of the measures classified as structural reform by the Troika were only temporary in nature, as they were reversed at a later stage in the programme.[245]

A case in point is the deposit-to-loan ratio, the increase of which was initially lauded as a cornerstone of a more stable Irish banking system, apt to make the entire Irish fiscal sector more resilient in case of a future crisis. However, as time passed and the worst economic turmoil had ended, the threshold was quietly lowered again for fear of choking off the economic recovery. The reasoning given in the reports themselves is that 'the emphasis on loan-to-deposit ratio (LDR) metrics to benchmark the deleveraging causes unintended adverse consequences for the financial system and the economy as a whole'.[246] Hence, the net result of the entire exercise is fairly minimal.

The second link, that between structural reform of the financial sector and 'implementation of the acquis communautaire' is perhaps the more significant and its impact more lasting. This link indicates that in the period of the Irish EAP, the EU institutions launched a number of measures and initiatives to harmonise and ultimately centralise banking supervision and resolution. Therefore, many of the more permanent structural reforms of the banking sector were driven by a need to adopt 'European best practice' in banking supervision, which is underlined by a co-appearance of 38 instances.

Overall, the above analysis has demonstrated the almost complete absence of positive institution building in the institutional area of education for both countries and for the financial sector of Greece. The financial sector of Ireland is a noticeable exception in this respect, as the analysis suggests that it was the most active are of structural reform in Ireland. However, at closer examination, two possible explanations for this pattern have emerged, so that this apparent exception has, at the very least, to be heavily qualified.

One other area where VOC suggests institution building should take place is the area of lifelong learning. This is difficult to trace precisely as a concept as lifelong learning may take a sheer endless number of forms. A further complication is that in most market based VOCs, which would be closest to a pure neo-liberal model, most lifelong learning is driven by market forces rather than state sponsoring. However, given the dire employment situation in both countries during the crisis,

[244] M. Blyth , *Austerity. The history of a dangerous idea*, Oxford University Press, Oxford, 2013, p. 5
[245] European Commission, [Occasional Papers 93] *The Economic Adjustment Programme for Ireland*, March, 2012, p. 21
[246] Ibid.

it is reasonable to assume that some degree of re training of the large and growing pool of long term unemployed would take place.

In both countries taken together, measures to re-train the long term unemployed warrant 34 mentions in 12 reports, which is a comparatively high number of sources for relatively few mentions. If broken down according to which precise report they emerge in, an interesting pattern emerges: Only one single mention occurs in the first EAP of Greece, whereas the second mentions re-training the long term unemployed 17 times and the Irish EAP 16. This is interesting in the sense that there appears to be a shift of focus within one country over time.

There are two possible explanations for the stipulation of re-training of the long term unemployed: Firstly, it could be an instance of positive institution building, in which case the measures taken would be envisaged to be permanent. Secondly, the measures could be taken in a temporary but much needed effort to reduce overall unemployment. In this case, there should be a strong link between measures to combat youth unemployment and measures for retraining the long term unemployed, as these two groups represent a very large share of unemployment overall.

A closer examination of the data reveals that measures to combat youth unemployment and measures to combat long term unemployment occur together in 11 instances, which is just under a third. This is not conclusive by itself, but the fact that these measures are being contemplated almost exclusively in the second programme for Greece suggest that the alarmingly high unemployment rate might have been a crucial factor in the decision. However, we also encounter a natural limitation of this methodology. A closer case by case examination in the relevant comparative chapters of this dissertation will detail the discord between the Irish administration and the Troika on the subject.[247]

Ireland was strongly discouraged from executing community work schemes intended to reintroduce the long term unemployed in the labour market in a first step and to supply them with new and essential skills. The Irish government was only able to pursue this scheme further because the fiscal performance exceeded expectations and there was thus discretionary spending available. In both countries, active employment policies never exceeded the scope and impact of pilot schemes. Hence, overall there is very little evidence to suggest that the Troika actively promoted lifelong learning or any other form of positive institution building in the two countries. The VOC literature stipulates that the continual improvement of relevant skills is vital for employees, particularly in the absence of significant employment protection and social protection. Thus, this failure to promote institutional reform will have a detrimental effect on the overall quality of the workforce in the medium to very long term.

The second hypothesis of this chapter related to evidence of positive institution building in the financial and education sectors. Here, the evidence found is inconclusive. For the institutional area of education, structural reforms are almost entirely absent, with only two featuring in the Irish EAP and 15 in Greece. This is a strong indication of the absence of conscientious institution building. In the financial sector, we find structural reforms, but these might have been driven by a desire to 'reassure markets'.

The third hypothesis put forward in this chapter was to assume the overall volume of structural reforms in Greece to be recognisably higher due to the greater distance between the pre-crisis economic and institutional model and the desired outcome of the EAP. The data on structural reforms in both countries strongly supports this hypothesis, as *Figure 7* reveals, with a total of 452 structural reform mentions in Greece compared to 310 in Ireland. Yet, this in itself is insufficient evidence to support the hypothesis, as the discrepancy can be explained in a number of different

[247] European Commission, [Occasional Papers 131] *The Economic Adjustment Programme for Ireland*, April, 2013, p. 27

ways as well: the length of the programme and the severity of the crisis would be examples of alternative explanations. Therefore, the greater overall reform volume alone is not sufficient proof. The composition of reforms should also reflect the areas where the distance between pre-existing model and desired outcome is the widest.

In the Irish case, we would expect the majority of the reform activity to take place in the labour market, as the country operated a model of social partnership and therefore a mode of wage setting mechanism which does not match the ideal typical market based model.[248] Education is another area where a large reform volume is expected as the Irish state was still the main provider of education at all levels with the exception of pre-school. In other areas, like social protection and the financial sector, we would expect very little reform activity as the institutions in these sectors already strongly resemble the 'new economic model' mentioned in the progress reports. The institutional area of product markets is a somewhat ambiguous case, as it is fairly close to the ideal typical model outcome, but with some important particularities in certain areas, such as the sheltered services sector for instance.

The product market is a rather ambiguous case, as it is fairly deregulated on the whole, but with some important niche sectors that maintained high levels of protection from external competition, usually through regulatory restrictions such as licencing. The share of product market reforms in Ireland is higher than expected, given that it was fairly deregulated prior to the crisis, at 18.7%, see *Figure 9* below. Of the 58 mentions of structural reforms in the Irish product market, 20 appear in conjuncture with deregulation, 4 with the implementation of EU level legislation and 12 with privatisation. This link is suggestive of a desire to harmonise the Irish product market with the rest of the EU through the vehicle of the EAP.

The Irish institutional area of social protection accounts for 22.6% of structural reforms, which is also more than expected based on the proposed hypothesis. The percentage of 22.6% represents 70 mentions in absolute terms, of which 46 appear in conjuncture with public expenditure cuts and a further 24 with fiscal consolidation. The public expenditure reduction can be further broken down into 30 relating to the provision of healthcare, 8 to pensions and 5 to unemployment benefits. As fiscal consolidation and the reduction of public expenditure are highly related concepts, it emerges that virtually all structural reform mentions in social protection are fiscally motivated or at the very least closely connected to it. This link will be picked up again later in this chapter.

The Greek case is in some respects much more straight-forward than the Irish one, as Greece was on the diametrically opposed end of the scale from the assumed goal in every institutional area. However, three clear focal points of structural reforms emerge: Labour market reform accounting for 25.2%, product market reform at 30.5% and social protection at 28%, see *Figure 8* below. Taken together, these three institutional areas account for 83.7% of the overall mentions of structural reforms. These three institutional areas are also the ones where the VOC literature suggests the main reform effort would focus on.

In conclusion of the evaluation of this hypothesis, it can be stated that the hypothesis is highly accurate with regard to the overall volume of structural reforms in both countries, although as indicated already, a number of other explanations could be utilised here as well. The specific structural reforms in Greece do indeed predominantly occur in the anticipated institutional areas of labour market, product market and social protection. The findings support the assumption that the amount of reform policies should be higher in Greece compared to Ireland.

[248] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 174-176

Figure 8: Structural reforms in Greece

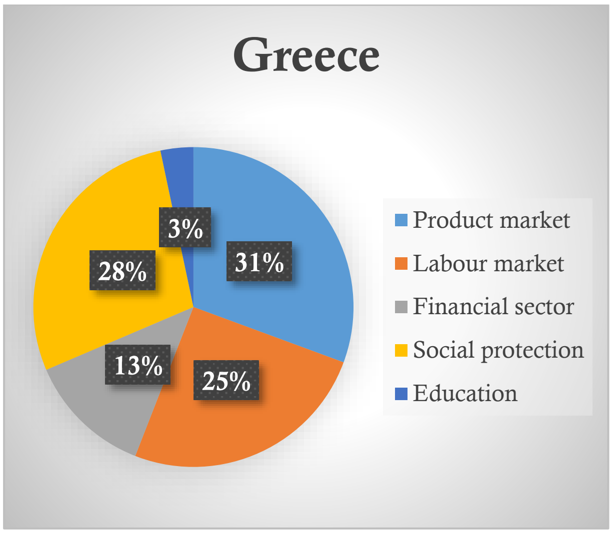
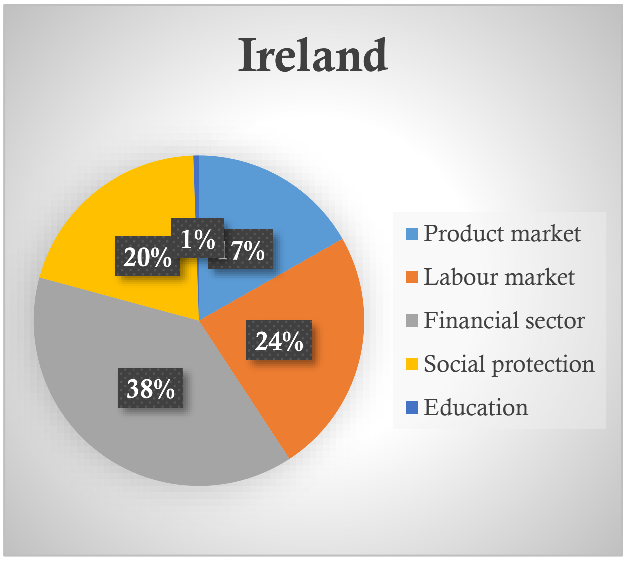


Figure 9: Structural reform in Ireland



The Irish case is more ambiguous as by far largest institutional area, the financial sector with 42.9%, is not expected to feature heavily in the structural reform agenda at all. Here, the data suggests that other causes and links, such as the desire to harmonise financial sectors across the EU and a need to calm international financial markets seem to be predominant. In the institutional area of social protection as well there is a stronger focus than the pre-existing Irish model would suggest. Here, one possible explanation is that the reforms in this sector are primarily driven by considerations of fiscal austerity.

In order to further explore this possible explanation and to test the fourth hypothesis of this chapter-that the "structural reforms" could be used as a smokescreen to cover even more austerity measures- the textual data needs to be examined in detail with regard to the connection between a particular structural reform area and budget cuts in this area.

Structural reforms in the area of social protection warrant 201 references in the Economic Adjustment Programme reports of both countries, whereby the Greek share in both its programmes is 131 and the Irish 70. Out of the 201, 149 are mentioned in the same coding unit as 'Cuts': This can be further broken down into 13 in the category 'Indirect reduction of private sector wages'. This category contains measures which do not have direct financial impact on the employee, but nevertheless indirectly occur costs. One example would be the tightening of eligibility for free health care provisions. By excluding a large number of employees from the service, they are effectively forced to make private sector healthcare arrangements or to pay cash when they are in need of healthcare, with both options reducing net income. In addition to these 13, the other 136 mentions directly relate to expenditure reduction by the state.

The 136 cuts in the area of social protection are composed as follows: 86 were on healthcare, 36 on pension reductions and 12 on unemployment benefits, with the remaining two being unspecified expenditure cuts in the area of social protection. Based on this strong link in the area of social protection, it can be concluded that almost 75% of structural reforms in this area are driven by concerns over the reduction of state spending. In addition, the link between structural reforms and financial considerations is further underlined by 81 instances where 'fiscal consolidation' and 'structural reform in social protection' appear simultaneously.

In the institutional area of education, the link between structural reforms is equally pronounced, even though the overall volume of references is quite low. Out of a total of 17 structural reforms, 13 are related to the reduction of government expenditure on education. In this area, the analysis is simplified by the fact that there are only two parameters to consider, policy measures in education and spending cuts to education.

Product market structural reforms are more difficult to assess as many of the measures do not have a direct fiscal impact because they are regulatory or deregulatory in nature. One obvious link with a budgetary impact is the privatisation of state owned assets. Here, it emerges that out of 196 mentions of structural reforms in the product markets, 36 are connected to privatisation measures. A further 58 are related to competitiveness and 26 to the improvement of the business environment. By far the strongest connection in this area exists with deregulation, which appears 107 times in conjuncture with structural reforms. Therefore, it appears that in the structural reform of the product markets, the deregulation thereof took precedence over fiscal considerations. Yet, this is difficult to say with certainty as the state is usually less actively involved in this institutional area than in others and it might alas be the case that there is simply lower potential for savings.

In the area of financial services, no relationship between the structural reform of the banking sectors in both countries and fiscal consolidation could be found. This is not to claim that there is no interaction between both concepts, but to say that the connection is primarily on the macroeconomic level between the national banking systems and the ECB.

In the area of structural reforms of the labour market, only 11 of the 197 structural reforms had a direct budgetary impact through fiscal consolidation. However, as in product markets, there is a strong link to deregulation, with 75 simultaneous mentions. A further 63 of the structural reforms mention measures to indirectly lower private sector wages. This link is hardly surprising, given the Troika's stated goal to promote internal devaluation, as Matthijs and Blyth emphasise: 'The choice for internal devaluation and fiscal austerity as the main response to southern Europe's crisis has marked political and social consequences for the debtor countries'.[249]

[249] M. Matthijs and M. Blyth, *The Future of the Eur*o, Oxford University Press, Oxford, 2015, p. 177

In conclusion of the analysis for the fourth hypothesis, we find that although there is a strong link between budgetary considerations and structural reforms, the strength of this connection varies greatly between various institutional areas. As indicated above, this discrepancy is caused by the degree of direct state involvement, which in turn determines the level of potential savings. In education and social protection, this level is high and the link between fiscal consolidation and social protection is correspondingly strong.

These findings are also instructive in another sense: A VOC examination of both countries shows that neither one of them has a particularly excessive welfare state model, with the possible partial exception of the Greek pension system.[250] Hence, it is all the more surprising that social protection should be such a focal point for budgetary cuts. This raises an interesting question about the EAP priorities in both countries: Are genuine structural reforms really as central to the EAP as is frequently stated? The available data seems to suggest that when in conflict, budgetary concerns are always prioritised over structural reforms, which, by the Troika's own assessment, are vital for the long term growth prospects in both countries: 'Structural reforms that boost the economy's capacity to produce, to save and to export are critical for the success of the programme and recovery of the economy'.[251]

To illustrate this point, a closer look at the administrations in both countries is quite instructive. The public sector in Greece is frequently cited as one of the underlying causes of the economic crisis in Greece[252] and while this analysis is not unchallenged, it seems understandable that the Troika would aim to reform the public administration, particularly as the volume and gravity of the policy changes demanded in the EAP would be challenging even for a highly efficient state administration. Yet, the way in which this supposed 'reform' was planned and conducted, underlines the priority of austerity over genuine structural improvement.

As Kevin Featherstone points out, the figure for the mandatory reduction of Greek civil servants appeared to be entirely random and could henceforth not be justified on substantial grounds by Troika officials.[253] This suggests that the primary concern was the achievement of austerity fiscal targets rather than improvement of the functioning of the civil service. The data gathered and analysed suggests that there were 35 mentions of public sector cut backs, either administrative or in personnel employed, in the Irish EAP. A further 50 mentions relate to proposed administrative reforms in Ireland.

The prevalence of austerity over structural reform is even more clearly apparent in the case of Ireland, where the reduction of the civil service staff is pursued with similar seal, despite the fact that nobody ever claimed that an overstaffed Irish state administration contributed to the economic difficulties of the country. Quite the opposite is true in fact: Many scholars have argued that the lack of regulation and oversight of the Irish banking sector by the government was a driving force behind the emergence of the housing bubble.[254] Therefore, it appears highly counter intuitive that the mission should demand cut backs in this area, as the Irish civil service was already rather lean

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[250] J. Lynch, *Age in the Welfare State: The Origins of Social Spending on Pensioners, Workers and Children*, Cambridge University Press, Cambridge, 2006

[251] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, May, 2010, p. 10

[252] C. Spanou, 'The Quandary of Administrative Reform: Institutional and Performance Modernisation' in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst, London, 2012

[253] K. Featherstone, Professor, interviewed by Benjamin Klos, 2015

[254] P. Kirby, *Celtic Tiger in Collapse. Explaining the Weaknesses of the Irish Model*, 2nd edn., Palgrave Macmillan, London, 2010, pp. 142-143

and small in size at the onset of the crisis. This can therefore only be explained through the fiscal savings potentially to be achieved by such measures.

The last hypothesis to be tested suggests that the EAPs in both countries could be an important means of enforcing EU level legislation and to harmonise many institutional areas across the Eurozone that were previously the exclusive domain of national policy making. Such an attempt at harmonisation could be understood as a counter-measure to the greater socio-economic differentiation between member states that occurred during the economic crisis in the Eurozone.[255] In this potential alternative or complementary explanation of the EAPs, negative integration plays a key role. Negative integration refers to a process of reduction of barriers to intra-European trade and other economic activity. If this is indeed the case, there should be a clear connection between the promotion of structural reforms and measures aiming at deregulation of various institutional areas. Labour market and product market reforms should feature heavily among the five institutional areas, as they are the most relevant for the functioning of the internal market.

When this connection is explored further, the data shows that there are 162 co-appearances with deregulation and 53 with the implementation of the acquis. Given that the overall number of structural reforms is 762, this connection does not appear overwhelmingly strong, equalling 28.2% if both implementations of acquis and deregulation are seen in conjuncture. Seen individually, deregulatory policies occur together with structural reforms in 21.3% of the cases where structural reforms are mentioned and in 6.95 % of the cases for implementation of acquis communautaire. This last link is not very explicit, but perhaps stronger than it seems at first glance, as the overall number of this concept is 86 and therefore the fact that 53 of those coincide with structural reforms appears more significant.

However, a significant detail is the distribution among the five institutional areas. Here, it becomes abundantly clear that the focus of the Troika in terms of deregulatory activity is on the labour market, which coincides with deregulation 75 times or 46%. This amounts to 107 times or 66% in the area of product markets. When looked at from a country specific perspective, it appears that in Greece, the focus of the structural reform agenda is indeed more centred on deregulation and privatisation than in Ireland. In Greece, 53.3% of structural labour market reforms are concerned with deregulation, whereas in Ireland that link is only 16.87%. In the product market area, Ireland shows a link between structural product market reform on the one side and deregulation and privatisation on the other of 55.2%, whereas Greece shows 80.4%.

When we examine the data made available here and juxtapose the findings with the insights gained from the comparative chapters, two things emerge quite clearly: Greece has indeed been commanded to transform its two institutional areas of labour market and product market more fundamentally than Ireland, which on a side note supports the third hypothesis in this chapter to the same effect.

Here, the explanation that the EAP programme is utilised to promote deregulation and liberalisation of labour and product markets within the Eurozone, appears fitting. According to liberal economic theory, the removal of obstacles to trade and labour flexibility are core components for the efficient functioning of the internal market. However, this insight should be complemented by the fact that Greece faces a more substantial reform burden, particularly in the labour market, where within the pre-crisis model high levels of employment protection in the core workforce and relatively generous pensions compensated for overall low levels of social protection.

[255] C. Schweiger and J. Magone, 'Differentiated Integration and Cleavage in the EU under Crisis Conditions', *Perspectives on European Politics and Society*, vol. 15, no. 3, 2014

Conclusion

In conclusion, regarding hypothesis 1, the data provided here clearly demonstrates that the Economic Adjustment Programme is characterised by a strong supply side economic bias. While this hardly constitutes a surprising revelation, it is highly significant in light of insights gained through VOC literature. A strong reliance on supply side economic policies in the EAPs is expected and might in fact be a necessary requisite for the introduction of a market based VOC, which is the most economically liberal of the five VOCs identified in Amable's typology.

The second hypothesis proposed in this chapter concerns evidence of positive institution building. Based on an application of Bruno Amable's VOC framework, and in light of the Troika's self-proclaimed goal of introducing a new 'economic model',[256] VOC literature suggests that such a shift, while always difficult, can only be successful if new institutional settings are introduced in support of the aimed for new economic model. However, the data under examination here suggests that such attempts are absent from the reform agenda. This is less problematic in the case of Ireland, as the country is much closer to the ideal typical outcome of the supply side driven EAP than Greece. This appears to be a potentially fatal shortcoming in the design of the EAP.

The third hypothesis held that the overall volume of reform should be much larger in Greece than in Ireland, as the VOC literature and indeed common sense suggest that Greece should have more steps to take on the path to its designated economic model than Ireland. This claim in itself was quickly and quite decisively confirmed, with about one third more structural reforms taking place in Greece than in Ireland, with 452 and 310 respectively. Yet, this in itself is not conclusive. One might argue that the severity of the crisis in Greece necessitated a higher number of policy recommendations by the Troika.

When the five institutional areas are examined individually, we find that the reform focus in largely the expected areas. However, there are important and interesting deviations. The volume of reforms in the Irish financial sector can clearly not be explained through the VOC literature alone. Similarly, the focus on social protection, which in Ireland is not excessively generous, does not match the predictions derived from VOC literature.

The divergence in the financial and social protection sectors in Ireland must be explained in a different manner. In the case of the financial system of Ireland, which triggered the crisis in the country as a whole and remained a risk for contagion throughout the Eurozone for long periods during the crisis, the motivation is fairly clear cut in the stabilisation of the Irish banking system, if not for structural reasons then at least to prevent negative spill over into other Member States.

The fourth hypothesis suggests that structural reforms might be a convenient camouflage for ever more austerity driven policies. Here, the focus on social protection in the Irish EAP appears logical as social protection is traditionally one of the largest expenditure positions in a modern democracy with a welfare state. Indeed, the findings suggest a strong link between austerity measures and structural reforms. Furthermore, this explanation can also be applied to austerity measures outside the scope of Amable's institutional framework, such as the cut backs in the Irish civil service.

The prevalence of austerity considerations is a second fundamental weakness in the overall design of the EAPs in Greece and Ireland. As demonstrated, the fact that austerity policies are prioritised over structural reform weakens the programs in the long run, as structural reforms can, even in the best case scenario, only be expected to bear fruit in the long run, so that any delay in their effective commencement and follow through can be potentially detrimental to programme success.

[256] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, May, 2010, p.10

The last hypothesis proposed in this chapter sought to examine whether the concept of top down negative integration can be a useful concept to explain the structure and focus of the EAPs. Indeed, there seems to be strong evidence that the EAP was deliberately used to promote the functioning of the internal market through the removal of barriers to trade and the free movement of labour. The evidence in support of this assessment is twofold: Firstly, there is a high number of instances where the adaptation of a directive is woven into the conditionality based EAP. Secondly, the instances where top down harmonisation was promoted tend to cluster around the institutional areas of labour and product market, which are of vital importance for the functioning of the optimum currency area.

Overall, the Nvivo analysis has thus revealed major short-comings in the design of the EAPs, such as the absence of positive institution building and the prevalence of fiscal austerity over structural reforms. From a country case perspective, the supply side bias traced in the EAP has severe ramifications as well, namely that it makes compliance more difficult for Greece than for Ireland. There is also an interesting alternative reading of the data provided in relation to the overall volume of structural reform measures in Greece and Ireland. The coding system as currently devised does not allow for the identification of individual measures and how often they are repeated until their ultimate completion. It is thus possible that the absolute number of policy measures is far more similar than the data currently suggests.

By contrast, the greater volume in mentions could be explained through more frequent repetition of the same demand for specific policies. This would in turn raise interesting questions about the preferences of successive Greek governments, which in Streeck and Thelen's terminology might have chosen to survive and return to the previous model, albeit with some amendments. This view is supported by the aforementioned supply side bias in the EAP as well as in the nature of the top down harmonisation policies demanded by the Troika. These would make the compliance costs for Greece even greater.

Administrative capacity is also a vital component in explaining the Greek predicament, especially as valuable opportunities and time was wasted in failing to reform the administration with a view to enhance efficiency at the onset of the first programme in Greece. There is also fairly new empirical evidence supporting the survival and return theory, namely the roll back of institutional reforms in the education sector of Greece, where the Tsipras administration promotes higher taxation for private education institutions.[257] While this step in itself is crucial, it could point in the direction of policy reversal as a viable option in the future.

Further research in the nature of individual structural policies in Greece and their rate of repetition would be a highly instructive. Unfortunately, the limitations of the current coding system do not permit such deductions, which is not to say they would not be instrumental to further our understanding of the crisis.

The picture emerging from this chapter looks bleak for Greece's prospects of remaining within the Eurozone, as it becomes abundantly clear that the country faces a choice between retaining its current economic model and continued membership of the Eurozone. The conclusion of this chapter thus concurs with theoretical concerns over model compatibility and harmonisation in the EU already raised by Hall and Soskice.[258]

[257] 'Greece reconsiders a tax on private education', 30 October 2015, *The Economist*, accessed on 9.11.2015, < http://goo.gl/G5e4DE>

[258] P. Hall and D. Soskice, *Varieties of Capitalism. The Institutional foundations of comparative advantage,* Oxford University Press, Oxford, 2010, p. 65

Chapter 4

Product markets in Greece and Ireland-
Conditional Freedom from the top down

Introduction

Product market is the first of the five institutional areas which will be discussed individually in this dissertation. The separate analysis of the five institutional areas of Bruno Amable's analytical framework will then be complemented by a chapter which focuses on the reciprocal influences these institutional areas have on one another. One advantage of this structure is that it allows for a direct juxtaposition of the Irish and Greek product markets and their reforms, as outlined in the Economic Adjustment Programmes.

This chapter will commence by a separate discussion of the key features of the product market in each country. Here, the period of examination is not limited to the EAP implementation, but rather this chapter traces important features to their origin. The chapter analyses the success or failure of individual measures in subsections of the national product market, see *Figure 10* below. However, it will not be restricted to the assertion that there was 'resistance from vested interests' at the domestic level. Instead, it sets out to understand the source of this resistance through the lens of the VOC approach. The chapter will conclude with a comparative section which highlights similarities and differences in both programmes and examines causes of apparent success or failure of the EAP in the product market in both countries.

<u>Figure 10: Bruno Amable's analytical framework of the product market</u>

Policies	Category	Summary indicator	Detailed indicators
Inward-oriented policies	State control	Public ownership	Scope of public enterprises
			Size of public-enterprise sector
			Special voting rights
			Control of public enterprises by legislative bodies
		Involvement in business operation	Use of command and control regulation

			Price controls
	Barriers to entrepreneurship	Regulatory and administrative opacity	Licence and permit systems
			Communication and simplification of rules and procedures
		Administrative burdens on start ups	Administrative burdens for corporations
			Administrative burdens for sole proprietor firms
			Sector specific administrative burdens
		Barriers to competition	Legal barriers to entry
			Antitrust exemptions
Outward-oriented policies	Explicit barriers to trade and investment		Ownership barriers
			Tariffs
	Other barriers		Discriminatory procedures
			Regulatory barriers

Bruno Amable identifies Ireland's product market as belonging to a group consisting of the UK, the US and Australia in his cluster analysis. In his typology, the key feature in this group is a very low level of regulation, which entails few administrative burdens, low levels of public ownership and direct or indirect state control.[259] In fact this group is distinguished by having the lowest levels

[259] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p.121

of overall regulation of all OECD countries in Bruno Amable's sample. He asserts that coordination within this area is primarily done through price competition and market signals. The Irish case is a particularly interesting one, as it features a product market which displays all the characteristics of a market based VOC model, despite belonging to the continental VOC model, according to Amable. Greece's product market on the other hand is a fairly clear cut case of a Southern European VOC.

In this context, the analytical matrix[260] outlined by Amable provides only a template of important institutional areas for discussion and is not applied rigidly here, but rather adjusted to the specific circumstances. In this chapter, indicators relating to the degree of state involvement in the economy, are awarded special importance. This is due to the crucial role these indicators play in delineating crucial differences between the two models of organising and regulating the product market in Greece and Ireland. Additionally, these indicators are also indispensable to understanding the main direction of the EAP reforms, which is to reduce the influence of the state on the product market and ultimately the economy as a whole. As an overarching theme, this effort by the mission transcend the individual reform measures which are discussed in this chapter.

The Irish Product Market

Pre-crisis

The introduction of this chapter already indicated that Amable's typology places Ireland firmly in the 'liberal' cluster of countries, which is 'characterised by less product-markets regulation than all the other countries of our sample'.[261] However, this was not always the case. In fact, most core features of the Irish product market identified by Amable can be traced to paradigm shift decades before he was to conduct his analysis.

Ireland's product markets changed drastically at the end of the 1950's and beginning of the 1960's and have been on a deregulatory trajectory ever since. A crucial moment in post war Irish history was the introduction of the *First Programme for Economic Expansion,* which delineated a set of economic reforms in the period of 1959-63. This programme was the brain child of T.K. Whitaker, a renowned economist and then secretary of the Finance Department.[262] The programme regarded continued protectionism as the key cause of Ireland's lack of growth and demanded a departure from this policy in no uncertain terms: 'Sooner or later, protection will have to go and the challenge of free trade accepted'.[263]

Crucially, the Whitaker economic programme contained certain key features that would persist in the Irish political economy till the present day: Firstly, it stipulated the dismantling of existing tariffs and other impediments to trade, which would expose Irish companies to more competition. Secondly, the report warned against the introduction of high taxes, which could deter foreign capital investment.[264] Overall, the programme rested on three pillars: 'the use of grants and tax

[260] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p.117
[261] Ibid, p. 121
[262] A. Chambers, *T.K. Whitaker. Portrait of a Patriot,* Doubleday Ireland, London, 2014, pp.148-151
[263] Department of Finance, *Economic Development,* Dublin, Stationery Office, 1958, p. 2
[264] J. Haughton, 'The Historical Background', in J. W. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and sectoral policy issues*, 11th edn., Gill and Macmillan, Dublin, 2011, p. 21

concessions to encourage export-oriented production, the attraction of foreign manufacturing firms and dismantling protection so as to gain greater access to markets abroad'.[265]

While state-owned enterprises had historically played an important role in the Irish economy,[266] they became increasingly incompatible with the economic strategy laid down in the *First Programme for Economic Expansion.* Phillip Lane indicates that the rationale for state owned enterprises was 'the pursuit of social goals such as access to cheap services and regionalisation' as well as the difficulty of private companies in raising capital for investment due to underdeveloped capital markets.[267] Thus, the increasing sophistication and expansion of the Irish financial sector, which will be discussed in some detail in chapter 6, made state ownership less attractive as a policy instrument to promote investment.

The process of privatisation which gathered pace from the 1980's onwards[268] can be understood in terms of a shift towards a more liberal, market based VOC model commenced by the publication of the so-called Whitaker paper. Through this paradigm shift, FDI increasingly replaced the state as a source of investment. Furthermore, the level of state intervention in the economy associated with state owned enterprises would be incompatible with the market based VOC model which Celtic Tiger Ireland increasingly resembled.[269]

On an institutional level, the Industrial Development Authority (IDA) played a crucial role in attracting foreign direct investment. Its status was semi-state run, and it acted as 'hunter and gatherer of foreign firms'.[270] The establishment of the new institution allowed the Irish state to redirect some of its economic interventionism towards the IDA, which used its mandate with great success. The emergence and increasing importance of IDA can be firmly traced to this shift in policy in the late 1950's. Hence, the *First Programme for Economic Expansion* set Ireland on the trajectory towards free trade, the promotion of foreign direct investment and eventual membership of the EU.

This was accomplished in 1973, when Ireland joined the EEC and it is indeed hard to imagine how this step would have been possible if the old protectionist policies had been maintained. In a way membership of the European Union, and even the prospect of EU membership served to lock in the economic policies pursued in the *First Programme for Economic Expansion.* Seen in terms of Amable's typology, it is striking how a similar policy input, caused by membership of what was to become the EU, can triggered national responses as diverse as those of Ireland and Greece. These variations in national responses to the Single European Market has been discussed in great detail by Georg Mens.[271]

The Greek response will be outlined in the corresponding section of this chapter, but it can be summarised as increasing reliance on product regulation as a policy tool for shielding domestic companies from EU competition. In Ireland by contrast, product market regulation was lowered to provide a more attractive environment for the international companies the country sought to

[265] P. Kirby, *Celtic Tiger in Collapse. Explaining the Weaknesses of the Irish Model*, 2nd edn., Palgrave Macmillan, London, 2010, p. 20
[266] P. Lane, 'Role of Government: Rationale and Issues' in J. W. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and sectoral policy issues,* 11th edn., Gill and Macmillan, Dublin, 2011, p. 74
[267] Ibid.
[268] Ibid., p. 75
[269] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 121
[270] P. Kirby, *Celtic Tiger in Collapse. Explaining the Weaknesses of the Irish Model*, 2nd edn., Palgrave Macmillan, London, 2010, p. 20
[271] G. Mens, *Varieties of Capitalism and Europeanisation. National Response Strategies to the Single European Market*, Oxford University Press, Oxford, 2005

attract. The logic of diverging VOCs and their complementarities set both countries on diverging paths.[272]

The overall effect of EU membership on Irish product markets was one of deregulation, particularly after the Single European Act (SEA). In this context, the role of Ireland's membership of the European Union had a dual impact on regulation: Firstly, the European Union provided an export market for Irish goods and services which boosted what Barry terms 'outward orientation'[273], and secondly deregulation and liberalisation of product markets was actively promoted by European institutions. The culmination of both factors meant that 'Ireland's approach to market regulation, and the relationship between market, state and society, has been significantly reshaped by membership of the EU'.[274]

The path towards deregulation taken by Ireland since the 1990's was strikingly demonstrated by subsequent Doing Business reports, published by the World Bank: While unfortunately there is no data available for Ireland for the overall ease of doing business before 2014, Ireland occupied the 17th rank globally and climbed even further to the 13th in 2015.[275] Deregulation of product markets was an integral part of the transformation of the Irish economy towards a more liberal VOC model, where market signals effectively replace regulation as the principal tool of economic coordination.[276]

The Economic Adjustment Programme in the Irish product market

The reform agenda for the Irish product market was outlined very explicitly in the EAP progress reports. In order to realise its overarching goal of an export-led recovery in Ireland,[277] the Troika identified a number of key policies for the Irish product market. The measures stipulated in the reports can be understood to promote competitiveness of the Irish product market and to integrate said product market more fully in the European Single Market. From the mission's point of view, both goals could be achieved simultaneously through extensive negative integration,[278] which the EU Commission had already practiced extensively since the Barroso commission.[279]

A progress report indicated that the nature of the economic crisis which Ireland faced, necessitated a shift of priority away from the expansive but severely crisis hit construction sector by 'pursuing efforts to enhance competition in specific product markets [which] could help encourage export-led growth'.[280] The goal of this shift in priorities was to rebalance the economy, which at the onset of the crisis was heavily dependent on the financial and construction sectors, with the construction sector in particular heavily dependent on domestic demand. This made this sector problematic for an Irish recovery which was designated to be export driven.[281]

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[272] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 93-95
[273] F. Barry, *Understanding Ireland's Economic Growth*, Palgrave Macmillan, London, 1999
[274] P. Kirby, *Celtic Tiger in Collapse. Explaining the Weaknesses of the Irish Model*, 2nd edn., Palgrave Macmillan, London, 2010, p. 102
[275] Doing Business Report 2004-2015, <http://www.doingbusiness.org/Custom-Query/ireland#hReprtpreview>
[276] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 108
[277] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 19
[278] F. Scharpf, *Governing in Europe. Effective and Democratic?,* Oxford University Press, Oxford, 1999, p. 49
[279] C. Schweiger, *The EU and the Global Financial Crisis. New Varieties of Capitalism*, Edward Elgar, Cheltenham, 2014, p. 12
[280] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 34
[281] Brian Hayes, MEP, interviewed by Benjamin Klos, 2016

In the VOC literature, export-led growth strategies are associated with, in Hall and Soskice's terminology, coordinated market economies.[282] Peter Hall highlights the link between export-led growth strategies and VOC.[283] Using OECD data, he shows that all coordinated market economies feature an export surplus, whereas all liberal market economies with the exception of Canada have a trade deficit. Ireland, classified as a mixed economy in this typology, is the only country in this category which features a trade surplus.[284] From a VOC perspective, the Irish pursuit of an export-led growth strategy is thus the exception rather than the norm.

Theoretically, Hall explains the link between export-led growth and coordinated market economies (CMEs) through their ability to restrain wage growth: 'Wage coordination restrained the rate of growth of unit labour costs, and para-public systems of skill formation were deployed to encourage high value-added production'.[285] In the case of Ireland, this restraint of wage growth was achieved through the social partnership model, which constituted a bargaining system in which lower wage growth is traded off for tax concessions, a number of social policies and workers' rights.[286]

The following chapter on labour markets, chapter 5, will analyse the dismantling of this social partnership model which preceded and accompanied the EAP in Ireland. VOC literature thus highlights a crucial potential flaw in the Irish economic recovery which might manifest itself in the medium to long-term, namely the fact that structural reforms in Ireland jettisoned the source of its success in pursuing an export-led growth strategy prior to the crisis, the social partnership model.

In Bruno Amable's typology, low levels of state control in the product market, whether through outright state ownership or regulation, characterises the liberal, market based cluster, to which Ireland belongs.[287] Based on Amable's typology we would therefore expect the EAP to further lower the degree of state ownership by way of privatisation, although it also raises questions about the potential scope of such measures, as state ownership was already fairly low at the onset of the crisis.[288] Unsurprisingly therefore, the privatisation of state owned companies and real estate, the opening of the so called 'closed professions' in the 'sheltered service sector',[289] strengthening of competition legislation, and extensive deregulation of product markets are the cornerstones of product market reforms in the Irish EAP, deemed to be essential to achieve the overall objectives of the EAP.

The first progress report of the Irish EAP recognised that Ireland has a generally very open product market, but pointed to specific areas, where the Troika still saw room for improvement. The mission focused in particular on the energy market and other so called network industries.[290] Due to the relatively small size of Ireland and the nature of these industries, there exist natural monopolies in some of them. The report further indicated how this lack of competition could be remedied: 'To increase competition in network industries, particularly gas and electricity,

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[282] P. Hall and D. Soskice, *Varieties of Capitalism. The Institutional foundations of comparative advantage*, Oxford University Press, Oxford, 2010
[283] P. Hall, 'Varieties of Capitalism and the Euro Crisis', *West European Politics*, vol. 37, no. 6, 2014, pp. 1223–1243
[284] Ibid., p. 1227
[285] Ibid.
[286] J. Wickham, 'After the party's over: the Irish employment model and the paradoxes of non-learning', in S. Lehndorff (ed.), *A triumph of failed ideas – European models of capitalism in the crisis*, European Trade Union Institute, Brussels, 2012, p. 74
[287] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 121
[288] P. Lane, 'Role of Government: Rationale and Issues', in *J. W. O'Hagan and C. Newman (eds.), The Economy of Ireland. National and sectoral policy issues,* 11th edn., Gill and Macmillan, Dublin, 2011, p. 75
[289] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 19
[290] Ibid., p. 35

privatisation or revised corporate governance frameworks to encourage performance will be contemplated in these sectors, as it could be for other state-owned assets'.[291]

The Irish government managed to renegotiate and obtain substantial concessions with regard of the utilisation of privatisation proceeds, as MEP Brian Hayes pointed out.[292] After a change in government in 2011, the incoming Fine Gael- Labour coalition renegotiated the allocation of proceeds from privatisation. Whereas previously 100% of revenue was dedicated to debt write down, the new deal included a 50/50 split between debt write down and a structural investment fund. However, this view is not universally held and Professor Mark Boyle stressed that concessions obtained 'were not at all significant'.[293]

The mere fact that the mission was willing to renegotiate a point which clearly constituted one of the core elements of the EAP for product markets was remarkable. As Brian Hayes indicated, this concession was closely related to relative success in the overall programme implementation, giving Ireland some leverage to renegotiate individual points of the EAP.[294] In addition, Hayes also pointed to the political dimension of the EAP, by stressing that the Commission in particular 'needed a win',[295] which might have made it more receptive to feedback from the Irish government, if the Commission thought it would increase the chances of successful programme implementation in this manner.

Subsequently, a progress report identified the end of 2011 as the deadline for identification of state assets suitable for sale. This list of assets which were to be sold was based on a comprehensive review of state assets, which had been undertaken earlier by the Irish government.[296] Report No. 88 announced the establishment of 'NewERA', an agency specifically for the privatisation of the identified state assets.[297] In the words of the report, the agency served a dual purpose: 'NewERA, which is intended to facilitate the exercise of the state's shareholder rights in a centralised manner, as well as advising the government on the disposal process'.[298]

With the benefit of hindsight and in light of the poor revenue creation from privatisation, the mission might well have considered that additional incentives for privatisation might be needful. Subsequent reports remained vague on the nature of the investment of privatisation proceeds, but indicated that these investments would be conducted in the form of public-private partnership projects in infrastructure.[299] Such projects could include roads, health care centres and schools, although the authors admitted that the employment impact of such projects for 2013 would be 'very limited'.[300]

From a VOC point of view, Amable's typology identifies the market based VOC, which the Irish product market belongs to, as distinct from all other VOCs by having the lowest level of state ownership.[301] Thus, we can assume that those assets under direct state ownership are deemed of strategic importance which the Irish government would be reluctant to relinquish. This is supported by evidence from intended sale of Bord Gais, a major energy provider: 'The Sale of Bord Gais Energy was unexpectedly cancelled at the end of November. While final bids had been

[291] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p.35
[292] Brian Hayes, MEP, interviewed by Benjamin Klos, 2016
[293] Mark Boyle, Professor, interviewed by Benjamin Klos, 2016
[294] Brian Hayes, MEP, interviewed by Benjamin Klos, 2016
[295] Ibid.
[296] European Commission, [Occasional Papers 84] *The Economic Adjustment Programme for Ireland*, September 2011, p. 21
[297] European Commission, [Occasional Papers 88] *The Economic Adjustment Programme for Ireland*, December 2011, p. 33
[298] Ibid., pp. 33-34
[299] European Commission, [Occasional Papers 154] *The Economic Adjustment Programme for Ireland*, July 2013, pp. 30-31
[300] Ibid., p. 31
[301] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 122

received from a broad range of international players in the energy market, the authorities determined that none of them were at an acceptable value'.[302]

While the cancellation of the privatisation, which had proceeded sluggishly up to this point, was clearly significant in its own right, the justification was even more revealing. The privatisation of state owned assets in times of severe economic crisis was bound to produce limited proceeds, so the Irish refusal on the grounds of insufficient offers was never convincing. However, the cancellation and its justification also raised interesting questions about the usefulness of privatisation as an instrument of fiscal consolidation, as similar experiences in Greece suggested.

Overall, privatisation progressed much slower than anticipated and the proceeds of privatisation proved to be disappointing. In the post-programme period, namely spring 2014, one of the few successful projects drew to a close, when the last available report noted that the two previously mentioned overseas plants in the UK had now been sold, and the proceeds of the sale are specified at about 200 million euro. The sale of two domestic peat-fired plants was expected to raise roughly the same amount again.[303]

While the reports continuously stressed that the privatisation programme was ongoing, the cancellation of the sale of Bord Gais Energy indicated that there was strong domestic opposition to broad privatisation which made its realisation highly unlikely. Overall, and in particular contrast to successes in other areas of reform in Ireland, privatisation failed to achieve any of the objectives it sought to accomplish at the onset of the programme. It is also a striking example of the mission's approach to the EAP in Ireland, which Mark Boyle called 'a neoliberal solution to a neoliberal problem'.[304] VOC based analysis would add to this assessment that, rather than being motivated by the meagre financial revenue privatisation in Ireland created, pursued privatisation as a way to 'lock-in' the liberal reform agenda, as privatisation is near impossible to reverse.

The second category in Bruno Amable's framework for product markets is termed 'Barriers to entrepreneurship', which contains detailed indicators for licensing and permit systems.[305] In this area, the mission undertook efforts to liberalise professions which were subject to licensing requirements, the 'closed professions' in mission parlance, such as doctors and lawyers. The very first report of the economic adjustment programme, published in February 2011, stated under the programme objectives: 'Product market reforms will include the opening up of sheltered service sectors'.[306] This is congruent with a further shift of the Irish product market towards an ideal typical market based VOC,[307] although it is worth pointing out that licensing requirement where neither extensive nor overly restrictive at the onset of the EAP.

This emphasis on service sectors is noteworthy in the context of attempts of the European Commission to promote the completion of the Single Market, where the integration process was hindered by selective and delayed implementation of measures: 'More than twenty years after the 1992 deadline, a single market still does not exist- indeed, it is shrinking in relative terms because of the growing importance of a services sector still largely regulated at the national level'.[308]

[302] European Commission, [Occasional Papers 167] *The Economic Adjustment Programme for Ireland*, December 2013, p. 35
[303] European Commission, [Occasional Papers 195] *The Economic Adjustment Programme for Ireland*, June 2014, p. 30
[304] Mark Boyle, Professor, interviewed by Benjamin Klos, 2016
[305] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 268
[306] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 19
[307] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 121
[308] G. Majone, *Rethinking the Union of Europe Post Crisis. Has Integration gone too far?,* Cambridge University Press, Cambridge, 2014, pp. 219-220

Therefore, the emphasis of the authors of the programme on this feature of the product market was highly significant as a means to promote and further integrate the Single Market.

The Irish government published the Legal Services Bill in early October 2011, which contained some important changes pertaining to the closed professions, among others the removal of self-regulatory bodies, a new complaints procedure a new disciplinary tribunal for the legal professions and a new office for the adjudicator of legal costs.[309] All these measures were clearly designed to decrease the cost of legal services, but they also removed the oversight over disputes from the sector itself, to be replaced by external agents.

Most of these measures were in line with a shift towards a more liberalised product market,[310] although the removal of self-regulatory bodies seems counterintuitive, as it would allow for greater political influence in these professions rather than less. The answer to this apparent conundrum lies in the vehement opposition to reform from the representative bodies of the 'closed professions', leading to the paradoxical outcome that the mission had to rely on greater state intervention to pursue its economic liberalisation agenda.

From the onset of the reform, progress was severely delayed by objections of various domestic actors involved in the process. The Irish parliament shared some of the reservations of the Bar Council and Irish Law Society, so that the draft law, initially submitted in late 2011, had to be amended. The appointment structure to the new Legal Services Regulatory Authority[311] proved to be particularly contentious, which caused the mission to restate the importance and justification for the proposed reform: 'Given the importance of this reform in relation to the high legal costs in Ireland, adequate progress should be achieved in a timely fashion'.[312] In the June 2012 report, the mission then reverted back to the issue of the independence of the disciplinary tribunal and indirectly admitted that there had been significant resistance on this point, as it stated that these 'issues'[313], had now been resolved through a compromise achieved through dialogue with the Irish Law Society and Bar Council.

The Irish authorities were further encouraged to check whether additional reforms in the legal system could be undertaken, again justified on grounds of procedural efficiency: 'To gain the full benefits of the bill and increase the efficiency of justice, the authorities are encouraged to pursue also reforms of the court systems, given that Ireland ranks below average as regards length and costs of contract enforcement in various international surveys'.[314] Thus, the reforms of Irish legal services reflected two core components of the overall EAP programme, the strengthening of competition legislation within the industry and the opening up of the sector through negative integration.[315]

Throughout the legislation procedure, a challenge to the reform stemmed from efforts to water down key provisions of the new law, as happened when the draft law reached the Committee stage in July 2013. Here, domestic law makers sought to narrow the application of the law by refuting the inclusion of new business models for law firms. The mission included alternative business models to reduce requirements for recognition of a law firm, thereby reducing barriers to entry in the sector. Opposition to these provisions was driven by concerns that this would lower the quality standards of the profession, effectively lowering the quality of services provided to clients. The

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[309] European Commission, [Occasional Papers 88] *The Economic Adjustment Programme for Ireland*, December 2011, p. 34
[310] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 268
[311] European Commission, [Occasional Papers 115] *The Economic Adjustment Programme for Ireland*, September 2012, p. 31
[312] European Commission, [Occasional Papers 131] *The Economic Adjustment Programme for Ireland*, April 2013, p. 30
[313] European Commission, [Occasional Papers 96] *The Economic Adjustment Programme for Ireland*, June 2012, p. 39
[314] Ibid., p. 40
[315] F. Scharpf, *Governing in Europe. Effective and Democratic?,* Oxford University Press, Oxford, 1999

removal of barriers to trade was expected from a VOC perspective, as it was in line with Ireland's pre-crisis approach as well as with liberalisation as part of the shift towards a clear-cut market based VOC.[316]

The final version of the law, still not passed at the end of the Irish EAP, maintained the self-regulatory bodies of the legal profession in Ireland, the Bar Council and the Irish Law Society, but made them answerable to an independent supervisory body, the Legal Services Regulatory Authority. The core points of contention were the composition of this independent body i.e. the balance between lay persons and legal professionals. [317]

The reform of legal services in Ireland was instructive for two primary reasons: Firstly, it could be understood as an attempt to promote the further deregulation of the Irish product market by removing areas which prior to the crisis enjoyed higher levels of regulation than most other industries in the product market. Secondly, the reform outcome represented a concession by the mission with regard to regulatory oversight, allowing the industry to continue to regulate itself, albeit with an independent regulatory body superimposed over the existing institutional arrangement.

In the category of 'Barriers to entrepreneurship', under which both the previous and the following section fall, the degree of regulation plays a vital part.[318] The market based VOC typically features a product market which is highly deregulated, as 'coordination [takes place] through market (price) signals',[319] thereby obviating, at least theoretically, the need for extensive regulation. Given the overall reform trajectory, deregulation of product markets is essential to the EAP also in terms of institutional complementarities, particularly with the areas of the labour market, social protection and the financial sector, all of which depend on deregulated and hence very flexible and adjustable product markets.[320]

The mission argued for further deregulation of the already fairly liberal product market of Ireland in terms of economic efficiency: 'making it [the Irish product market] the EU's second most expensive Member State'.[321] The reforms of the product market in Ireland were justified on economic grounds, where the reports projected that 1% reduction in mark-ups would translate into a 0.1% increase in employment as well as a 0.5% increase in GDP growth over a ten year period.[322] However, as Ireland belongs to a group that is 'characterised by less product market regulation than all other countries in our sample',[323] the mission appeared to encounter difficulty in identifying concrete measures.

The liberalisation of the retail sector appears to be of lesser importance than some of the other measures outlined in this section, as it was not explicitly mentioned in the first report outlining the reform agenda, but added later. The measures envisaged for the retail sector were primarily planning guidelines and aimed to 'increase the retail cap, streamline the planning process, reduce the power of incumbents, and be more sensitive to consumer interests'.[324] To this end, the Irish government was urged to ease planning caps on the size of retail premises.[325]

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[316] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 173
[317] European Commission, [Occasional Papers 195] *The Economic Adjustment Programme for Ireland*, June 2014, p. 31
[318] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 117
[319] Ibid., p. 104
[320] Ibid., p. 108
[321] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 37
[322] Ibid.
[323] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 121
[324] European Commission, [Occasional Papers 93] *The Economic Adjustment Programme for Ireland*, March 2012, p. 27
[325] European Commission, [Occasional Papers 84] *The Economic Adjustment Programme for Ireland*, September 2011, p. 21

Another area of reform identified by the mission is the 'general competition environment'.[326] This area of reform can be conceptualised in VOC terms as falling under the category of Barriers to entrepreneurship, specifically regarding 'legal barriers to entry' and 'Antitrust exemptions'.[327] Market based VOCs rely on strong competition legislation and its stringent enforcement as failure to do so would distort the operation of 'market signals',[328] and the rapid adjustment to these signals as the preferred method of coordination in these VOCs.

Anti-trust exemptions refer to legal provisions, which the authors of the reports believe encouraged anti-competitive behaviour. In the short term, the mission advised the Irish government to strengthen the enforcement of existing Irish and, perhaps more importantly, EU competition legislation 'including by ensuring the availability of effective sanctions for infringement of Irish and EU competition laws'.[329] The reports cited concerns over lowering product prices for consumers as the driving rationale behind this initiative, although the promotion of the single market was clearly as important, as the emphasis on the enforcement of EU competition legislation suggests.

The Competition (Amendment) Bill, which was then published in the autumn 2011, duly contained provisions to increase the sanctions available to the Competition Authority, in particular raising pecuniary and jail limits.[330] In procedural terms, the new law made it easier to sue a defendant once a court found that the defendant has indeed engaged in anti-competitive behaviour. Further, the report announced that the Irish government had committed to reviewing the staffing levels of the Competition Authority, recognising the complexity of cases. The willingness to consider staff increases in a period of severe reduction of public sector staffing levels is highly significant as it demonstrates the importance placed on the Competition Authority by the Troika.

The draft bill was subsequently altered in some important respects, particularly 'the authorities are seeking to introduce an additional amendment allowing agreements by an undertaking to the Competition Authority to be made a rule of court, having due regard to Ireland's constitutional framework'.[331] This would not only drastically enhance the power with which the Competition Authority is endowed, but it would also allow the Irish legal system to be bypassed in some crucial respects, raising important questions about the democratic legitimacy and accountability of the Competition Authority. These measures as well as willingness to hire additional civil servants in the area of competition law enforcement underline the importance the mission placed on this area and congruent with expected reforms derived from Amable's framework.[332]

Overall the reform volume in the Irish product market was modest. This was in large part due similarities between the product market desired by the mission and the Irish product market prior to the crisis, which meant that only limited reform was needed. Of these reforms, none were genuinely structural in that they did not alter the economic model. Such opposition to reform as there was seemed to be motivated by questions of jurisdiction, as in the case of the Irish 'closed professions', never by fundamental ideological or economic questions such as the desirability of extensive anti-trust regulation as a substitute for sector and product specific regulations. Hence, this seems to confirm the assertion of Professor Alan Barrett that the economic outlook of the

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326 European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 34
327 B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 117
328 Ibid., p. 174
329 European Commission, [Occasional Papers 78] *The Economic Adjustment Programme for Ireland*, May 2011, p. 20
330 European Commission, [Occasional Papers 88] *The Economic Adjustment Programme for Ireland*, December 2011, p. 35
331 European Commission, [Occasional Papers 93] *The Economic Adjustment Programme for Ireland*, March 2012, p. 27
332 B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 19-20

mission and the Irish government was fairly similar.[333] Hence, reform was rather limited in scope and impact, particularly in comparison to Greece, as the following section will show.

The Greek Product Market

Pre-crisis

This section of the chapter will follow broadly the same structure as the previous section on Ireland. From a VOC perspective, the single most important feature of the Greek product market is the high level of state involvement in the economy. This is due to the fact that in Amable's cluster analysis, 'most of the dispersion is thus linked with the forms of State controls'.[334] The involvement of the Greek state in the economy takes several forms, including outright state ownership of companies, unusually high levels of regulation of the domestic product markets, and the stringent regulation of professional services.

The exercise of state control in Greece often took the form of public enterprises, which, prior to the economic crisis, played a crucial role in the Greek economy. In 2009, the state had full ownership of 47 public enterprises, all of which ran a deficit.[335] In turn, this meant that 70% of all state subsidies had to be directed to these public enterprises. In 2008, the deficit accumulated in this manner amounted to € 1.5 Billion.[336] However their profitability is not and should not be the sole yardstick to measure them by, as some deficit might be accounted for through protective pricing regimes. However, Rapanos points to the lack of a comprehensive evaluation and assessment process by which the effectiveness of public enterprises could be assessed.[337]

The extent of outright state-ownership declined since the early 1990s and over 40 total or partial privatisations occurred since then.[338] Yet, this figure should be treated with some care as in many of these cases, the state kept sisable minority shares and voting rights, thereby sustaining a degree of political influence in these companies. In this sense, privatisation efforts in Greece from the 1990's onwards can be explained through the VOC approach as an attempt to adjust the Greek Mediterranean VOC to external pressure, in this case the global trend away from state owned enterprises,[339] whilst maintaining a high degree of state involvement, which is important to the functioning of the Southern European VOC.[340]

The proposal for privatisation made by the Greek government in June 2010 is very instructive, despite the fact that is was subsequently overtaken by events and never came to fruition. The proposal gave a clear indication of the scope and way in which privatisation in Greece was to be realised and highlighted continuities in levels of state influence: through the public private partnership model (PPP) which would have allowed to preserve influence in privatised companies. A 2005 OECD report lamented this feature of Greece's privatisation efforts: 'The benefits could

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333 Alan Barrett, Professor, interviewed by Benjamin Klos, 2016
334 B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 116
335 P. Petrakis, *The Greek Economy and the Crisis. Challenges and Responses*, Springer, Heidelberg, 2012, p. 208
336 Ibid., p. 211
337 V. Rapanos, 'Size and range activities of the public sector', *FEIR Working Paper*, Found. For Econ. and Ind. Res., 2009
338 P. Petrakis, *The Greek Economy and the Crisis. Challenges and Responses*, Springer, Heidelberg, 2012, p. 209
339 Ibid.
340 B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 117

have been larger if the state had relinquished its ability to control commercial policies and to have withdrawn completely from private sector activities. The government continues to have a large (though falling) stake in major public utilities, retaining the right to veto and block strategic decisions (such as asset sales) which it deems to be against the public interest'.[341]

This model of privatisation, which favoured so called public private partnerships (PPPs) was further impeded by a pronounced ebbing of reform seal after the accession to the European Monetary Union, as many of the privatisation efforts were seen as efforts at compliance with EMU rules, rather than as desirable in their own right.[342] This is supported by Kevin Featherstone, who emphasises the vital importance of economic integration within EMU for the Greek political elite: 'both[former Prime Minister of Greece] Constantine Karamanlis and [former Prime Minister of Greece] Costas Simitis defined the national mission as involving convergence with (western) Europe'.[343] Thus, limited privatisation should be regarded as a political concession, deemed necessary for participation in EMU rather than a sensible economic policy within the Greek VOC.[344]

Wide-spread usage of publicly owned enterprises as a form of intervention in the economy certainly contributed to the large share of public employment in the Greek economy. Ioakimidis notes in this respect: 'Over-employment in the public sector constituted one of the main traits of the state's gigantism. The number of public sector employees amounted in 1981 to 351,028 people, rising to 615,956 people in 1992, or 17 per cent of the total Greek population'.[345] In 2003, Greece had the second largest public sector as a percentage of expenditure of total GDP[346], with 9.5%. At the end of 2008, the total figure of public officials was 735,294, out of which 391,800 fell in the category 'central administration',[347] which indicates a high degree of centralisation. The degree of centralisation cannot be conceptualised within Bruno Amable's framework, as he fails to incorporate indicators for this.[348]

The outright ownership of companies is not the only way in which the Greek state sought to exercise influence over the economy in the decades prior to the crisis. High levels of regulation of the product markets also played a vital role in shaping the Mediterranean VOC model in Greece.[349] By shielding domestic companies from competitive pressure, extensive regulation was essential in promoting and sustaining employment stability. Additionally, regulations entrenched, in conjuncture with stable bank-industry relations, structural stability and increased the difficulty of implementing structural change,[350] as the EAP in Greece was to empirically confirm.

The level of regulation in Greece before the crisis constitutes another indicator essential to determining Greece's Variety of Capitalism in product markets. This indicator falls within the

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[341] OECD, 'Economic Surveys of Greece 2005', *Raising productivity*, OECD, Chapter 3, 2005, p. 83
[342] N. Christodoulakis, 'Market reforms in Greece, 1990-2008: external Constraints and Domestic Limitations', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 115
[343] K. Featherstone, *Introduction. Europe in Modern Greek History,* Hurst& Company, London, 2014, p. 4
[344] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 113
[345] P.C. Ioakimidis, 'Europeanisation of Greece: An overall assessment', *South European Society and Politics*, vol. 5, no. 2, 2000, p. 77
[346] OECD, 'Economic Surveys of Greece 2005', *Fiscal challenges*, OECD, Chapter 2, 2005, p. 51, figure 2.3
[347] P. Petrakis, *The Greek Economy and the Crisis. Challenges and Responses*, Springer, Heidelberg, 2012, p. 205
[348] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 268
[349] Ibid., pp. 104-105
[350] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 113

category of Barriers to entrepreneurship.[351] Ioakimidis remarks that 'Greece was viewed as the most tightly regulated country in the EU'.[352] A 2007 OECD study acknowledges that limited reform in this area throughout the decade prior to the crisis took place, but asserts that 'product market regulations which hinder competition remain stringent'.[353] According to Harry Theoharis, former Secretary General for tax revenues, this mode of political interference in the economy is made possible by intense politicisation of the public administration: 'You have a political system that wants to control the pain, but this is not only through natural means, such as laws and giving strategic influence, but even in day to day operations'.[354]

This desire to exercise political influence in the economy led to a variety of regulatory measures, among them the setting of specific price ceilings and profit margins. The setting of price levels is an important element of the category state control in Amable's framework. Here, the Mediterranean VOC typically displays the strongest degree of state involvement out of all five VOC models.[355] An OECD report from 2009 confirms the strong use of price controls by the Greek government, stressing that the practice is particularly widespread in the network industries such as the energy sector, where price controls are achieved via cross-subsidies by the state and preferential tariffs.[356] In the decade after the establishment of EMU, this has also contributed to the promotion and reinforcement of rent seeking behaviour by insiders, who profited from these pricing decisions in network industries.[357]

This led to an economic environment, where price competition is 'circumscribed by state regulation, administrative control of prices, the widespread operation of state-owned enterprises, and the tolerance of anti-competitive behaviour of firms'.[358] It is also noteworthy that this tendency towards price control by the state is not an isolated occurrence to correct a market imbalance, but rather a persistent feature of the Greek political economy, as an OECD policy brief underscores.[359]

Another characterising feature of product markets in Amable's typology relates to licensing and permit systems, which also falls within the category of barriers to entrepreneurship.[360] In Greece, licensing requirements featured heavily in many sectors of the Greek product market. Licensing requirements at the onset of the crisis were particularly extensive for the retail sector, transport and road freight.[361] Additionally, there were a number of areas in which licences are required, which were not applicable in most other OECD countries.[362]

With regard to the exact nature of these licenses, the world bank report produced some interesting insights: while Greece performed extremely poor in the overall ranking, which delineates the ease of doing business, where it occupied the 100th rank, it did significantly better in the dealing with

[351]B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 117
[352] P.C. Ioakimidis, 'Europeanisation of Greece: An overall assessment', *South European Society and Politics*, vol. 5, no. 2, 2000, p. 77
[353] OECD, 'Economic Surveys of Greece 2007', OECD, 2007, p. 10
[354] Harry Theoharis, Former Secretary General for Tax Revenue Ireland, interviewed by Benjamin Klos, 2016
[355] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 174
[356] OECD, 'Economic Surveys of Greece 2009', OECD, 2009, p. 48
[357] M. Mitsopoulos and T. Pelagidis, 'Vikings in Greece, Kleptocratic Interest Groups in a closed, rent-seeking Economy', *Cato Journal*, vol. 29, no. 3, 2009, p. 407
[358] OECD, 'Economic Surveys of Greece 2005', *Key Challenges in the short and medium term*, OECD, 2005, p. 23
[359] OECD, 'Economic Surveys of Greece 2007', OECD, 2007, p. 11
[360] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 117
[361] European Commission, [Occasional paper 72] *Economic Adjustment Programme for Greece*, Second Review, European Commission, December, 2010, p. 33
[362] World Bank, 'Doing Business in Greece 2008', *World Bank Publications*, 2008

licenses section, where it ranked 42nd, its second best ranking across all categories.[363] However, one of the particularities of the Greek economy seems to be the wide range of sectors and industries to which specific licensing regulations apply. This is not captured by the World Bank data, which examines only the construction sector. Other industries were subject to significantly higher levels of regulation than was common in most other OECD countries.[364] The overall level of regulation in Greece appears to be consistent over long periods, so that Greece's ranking for licensing requirements remained largely unchanged.[365]

Extensive use of sector specific licencing requirements is congruent with an ideal-typical Southern European VOC, where licensing requirements are an important institutional complementarity which enables the Southern European VOC to afford a high level of employment stability.[366] Licensing requirements became an important policy tool in shielding specific industries from competition from other EU member states, which explains the continuously stringent licensing requirements over time.

Overall, the Greek product market prior to the economic crisis displayed all the typical features of a Southern European VOC. Furthermore, this section also demonstrated how Greece managed to preserve core features of its product market VOC,[367] such as extensive state control, throughout changing economic circumstances, such as accession to the EMU. This section also demonstrated that the reason for this remarkable institutional stability lies in the complementarities it provides, particularly stable employment.

The Economic Adjustment Programme in Greece

Reform of the product market was assigned the highest priority level right from the onset of the programme. The very first document of the economic adjustment programme listed it under the main programme objectives: 'The medium-term programme objective is to improve competitiveness and alter the economy's structure towards a more investment and export-led growth model'.[368] This shift towards an export led growth model was to be achieved through deregulation, primarily of the product and labour markets: 'Reforms are, in particular, needed to modernise the public sector, to render product and labour markets more efficient and flexible, and create a more open and accessible business environment for domestic and foreign investors, including a reduction of the state's direct participation in domestic industries'.[369]

The progress report's reference to reducing state participation in the economy is instructive from a VOC perspective, as Amable asserts that 'the most significant variables concern which summary indicators under State control; i.e. the characteristics of the public sector and of its direct involvement in business operation'.[370] Here, Greece and Ireland emerge clearly as polar opposites, not within their clusters, but as individual countries. Ireland features, as discussed, very low levels

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[363] World Bank, 'Doing Business in Greece 2008', *World Bank Publications*, 2008, p. 2
[364] OECD, 'Economic Surveys of Greece 2009', OECD, 2009, p. 47
[365] World Bank, 'Doing Business in Greece 2008', *World Bank Publications*, 2008, p. 14
[366] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104
[367] Ibid., p. 123
[368] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, May, 2010, p.10
[369] Ibid.
[370] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 121

of state control. In fact only the UK and the US had lower levels of state control than Ireland, whereas Greece was only topped by Italy and Korea on the other end of the spectrum.[371] As the reform prescriptions in Greece and Ireland are remarkably similar, the assumption of reforms aimed at transforming the countries in market-based VOCs leads to the conclusion that Greece had a significantly more challenging reform path ahead at the beginning of the EAP.

While successive progress reports of the Greek EAP's stress the importance of structural measures, no understanding of Greek reform progress is complete without thorough consideration of the fiscal implications of each measure, as Georges Siotis points out: 'Irrespective of the rhetoric, the overall concern has been fiscal'.[372] This raises questions about possible conflicts between structural reforms and the goal of fiscal consolidation and which takes precedence should they be in conflict. To this practical issue, one can add the theoretical caveat already indicated in the Irish section of the chapter, namely that market-based VOCs are not particularly well-suited to the pursuit of an export-led growth strategy.[373]

Bruno Amable's typology identified the degree and nature of state control as a key distinction between the Southern European VOC, which Greece clearly belongs to, based on the analysis of the previous section, and the market based VOC,[374] which the country is presumed to transition towards according to the reform trajectory outlined in the EAP. Greece featured extensive public ownership prior to the crisis, whereas market based VOCs feature typically very low levels thereof, so that the VOC approach suggests that privatisation of state owned assets can be expected to be a priority of the EAP reform agenda in Greece. This focus should be further strengthened by the potential to create revenue for the state.

In line with VOC analysis, privatisation of state owned enterprises was one of the key points of reforms, not just for product markets, but on the overall agenda. This is unsurprising in light of the large budget deficits accumulated by these enterprises. With regard to the method of pursuing privatisation, a shift over time is observable: In the early stages of the privatisation programme, considerable scope was left for the Greek government regarding how it was to be conducted, specifying only target proceeds.[375] Over time and as targets were repeatedly missed, the mission became ever more prescriptive and intrusive.

Initially, plans for privatisation, as scheduled by the government provided for only partial privatisation, which would have enabled it to retain some degree of control: 'Privatisations are planned to be conducted mostly through concession agreements, with outright sales and IPOs playing a smaller role'.[376] The initial plan for privatisation was fairly limited on a quantitative scale, with targeted proceeds of € 3 billion over three years.[377] This initial model for privatisation with its heavy reliance on public-private partnership was chosen in an attempt to retain control over economic decisions taken in the companies in question. As discussed in the previous section, this

[371] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 120
[372] Georges Siotis, Senior Economic Advisor, Task Force for Greece, interviewed by Benjamin Klos, 2015
[373] P. Hall, 'Varieties of Capitalism and the Euro Crisis', *West European Politics*, vol. 37, no. 6, 2014, pp. 1223–1243
[374] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104
[375] European Commission, [Occasional paper 72] *Economic Adjustment Programme for Greece*, Second Review, European Commission, December, 2010, p.32
[376] European Commission, [Occasional paper 72] *Economic Adjustment Programme for Greece*, Second Review, European Commission, December, 2010, p.32
[377] European Commission, [Occasional paper 68] *Economic Adjustment Programme for Greece*, First Review, European Commission, August, 2010, p.54

government proposal suggests that retaining a degree of state influence in these enterprises was important to the Greek state. This view is supported by Amable's VOC approach, which highlights the importance of state control as a principal tool for economic coordination in a Mediterranean VOC.[378]

Unfortunately, the privatisation agenda became increasingly subject to negative spill over from reforms in other institutional areas. As reform progress stalled and fiscal targets were repeatedly missed, privatisation increasingly came to be seen as a kind of stop gap, which also explains the increasingly unrealistic revenue projections attached to the privatisation programme. From its initial goal of € 3 billion over a three-year period, it was eventually increased to € 50 billion by the end of the first programme.[379]

Although the target of € 50 billion can, in light of the rapidly deteriorating macro-economic situation and the corresponding implosion of real estate values, only be seen as unrealistic, the mission came to realise that privatisation projects were additionally hampered by insufficient administrative structures. This in turn led to the recommendation 'to set up an appropriate governance system to accelerate privatisation'.[380] This statement reflects the recognition of administrative shortcomings, but it also indicates growing scepticism about the Greek authorities' willingness to implement the privatisation agenda. This pessimism was confirmed by a former senior Greek minister, who, when discussing the timing of privatisation pointed out that privatisation would only be feasible during the crisis as the government would argue afterwards that it would be no longer necessary.[381]

The particularly vocal opposition to privatisation by the Greek government might be explained through the irreversibility of privatisations. Once completed, it would be near impossible for the Greek government to re-nationalise companies under the current EMU framework.[382] Hence, implementation of the privatisation constitutes a critical juncture in the institutional trajectory of the country. The reluctance of the Greek government to proceed with the privatisation agenda takes on greater significance when conceptualised using Streeck and Thelen's framework for institutional change. As discussed in chapter two, when faced with abrupt change, governments are faced with the choice to 'survive and return' or to pursue a 'breakdown and replacement'.[383]

In case the first option is pursued, the government aims to make the minimal concessions to the reform agenda possible, and intends to revert back to the original VOC model once the crisis has passed. The findings from Amable's VOC framework suggest that the reform path for Greece would be a very long and most likely very painful one, as the country finds itself at the polar opposite of the spectrum of what is desired by the mission in the area of product markets. This would make the 'survival and return' option more attractive to Greece than to Ireland.

The mission, most likely in recognition of the Greek government's reluctance to privatise, promoted the introduction of a single fund for privatisation, which would be explicitly outside

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[378] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 175
[379] European Commission, [Occasional paper 87] *Economic Adjustment Programme for Greece*, Fifth Review, European Commission, October, 2011, p. 32
[380] European Commission, [Occasional paper 77] *Economic Adjustment Programme for Greece*, Third Review, European Commission, February, 2011, p.25
[381] Former Greek Minister, interviewed by Benjamin Klos, asked to remain anonymous.
[382] D. Nicol, *The Constitutional Protection of Capitalism*, Hart Publishing, Oxford, 2011
[383] W. Streeck and K. Thelen, *Beyond Continuity. Institutional Change in Advanced Political Economies*, 2nd edn., Oxford Univerisity Press, Oxford, 2010, p. 9

government control, with a governance structure comprising ‘an independent and depoliticised board of directors and an advisory board to allow it to benefit from international experience and technical expertise. In order to enhance transparency, the board may include two observers nominated by the Commission and the euro group’.[384] Far from being simply aimed at enhancing transparency, this proposed structure effectively introduced direct EU oversight over the privatisation agenda.

Opposition of the Greek government to the privatisation agenda was soon mirrored in results: The fifth progress review in October 2011 went on to remark on severe delays in the establishment of the fund,[385] as well as the disappointing fiscal revenue produced by it, which by the end of 2011 amounted to only € 1.6 billion.[386] A former Greek cabinet minister referred to 2010 and 2011 as ‘lost years’ in terms of the privatisation process in Greece.[387] Later progress reports also supported the impression of privatisation being conducted against the Greek government, rather than with it. The review from December 2012 made this abundantly clear: 'unfortunately, it quickly emerged that the privatisation process was not sufficiently shielded from political hindrances and that political will to push the process ahead was lacking. A significant number of government actions required to enable the privatisation process was delayed'.[388] Despite a reshuffling of personnel at the fund itself, revenues remained dismal and a mere € 2.6 billion were collected by the end of 2012.[389]

By July 2013, the majority of state owned enterprises was transferred to the fund,[390] and thus effectively removed from government influence. However, by then the economic situation in Greece had worsened even further, providing a major deterrent to investment. This was aggravated even further by the continued uncertainty surrounding Greece’s continued membership of the European Union as former Commissioner Lazslo Andor pointed out.[391]

At the end of the second EAP, the fiscal impact of the privatisation measures was virtually non-existent. However, the overall goal of € 50 billion was maintained, whereby the implementation schedule has been drastically pushed backwards. Given the poor outcome of the privatisation agenda in Greece, the question why the goal of €50 billion over 3 years was given at all emerges. One plausible explanation would be that this was to ensure the continued participation of the IMF. IMF statutes mandate clearly that the IMF can only participate in economic adjustment programmes, if there is a realistic chance of timely and full repayment.[392]

A senior minister has confirmed in interviews conducted for this thesis, that while the benchmark of € 50 billion was never realistic in the short or even medium term, a partial success could have

[384] European Commission, [Occasional paper 82] *Economic Adjustment Programme for Greece*, Fourth Review, European Commission, July, 2011, p. 31
[385] European Commission, [Occasional paper 87] *Economic Adjustment Programme for Greece*, Fifth Review, European Commission, October, 2011, p. 32
[386] European Commission, [Occasional paper 94] *Second Economic Adjustment Programme for Greece*, European Commission, March, 2012, p. 31
[387] Former Greek Minister, interviewed by Benjamin Klos, asked to remain anonymous.
[388] European Commission, [Occasional paper 123] *Second Economic Adjustment Programme for Greece*, First review, European Commission, December, 2012, p. 33
[389] European Commission, [Occasional paper 123] *Second Economic Adjustment Programme for Greece*, First review, European Commission, December, 2012
[390] European Commission, [Occasional paper 159] *Second Economic Adjustment Programme for Greece*, Third review, European Commission, July, 2013, p. 24
[391] Lasslo Andor, former EU Commissioner, interviewed by Benjamin Klos, 2014
[392] IMF website, accessed 19. June 2016, <https://www.imf.org/external/about/lending.htm>

sent an important message to potential investors about Greece becoming more 'business friendly'.[393] Thus, the proclamation of overly optimistic privatisation targets can be regarded as compensation for the international partner's failure to restructure Greek debt to sustainable levels. This view is supported by former Greek PM Costas Simitis, who emphasises the insufficient scope of the so called 'haircut': 'The 50% cut did not guarantee such a result. As a consequence, the targets for reductions in expenditure and increases in revenue still remained very high. The restructuring of the debt was not the only measure to reverse Greece's fortunes; much was still expected of internal efforts'.[394]

The mission set out to drastically deregulate the Greek product market. The measures taken in the EAP reflect the belief that extensive deregulation will automatically increase price competition, thereby leading to a more competitive product market. Reforms aimed at reducing levels of regulations are hardly surprising from a VOC point of view, as the previous section outlined. Market based VOCs typically exhibit very low degrees of regulation, complemented by a strong competition authority.[395] The Greek system by contrast featured a highly complex, incoherent and rigid system of regulation.[396] The mission correctly pointed out that price competition is the principle mechanism for adjustment in a market based product market. However, VOC suggests that such a product market can only function fully if the entire economic model is shifted to the market based VOC, because 'the overall performance declines when one changes one institution, leaving the other unchanged'.[397]

Greece's product market was, according to the report, characterised by above EU average prices and high price inflation which 'is partly due to poorly functioning markets that result in higher mark-ups'.[398] The mission regarded the deregulation of the product market as a political as well as an economic issue so that 'the knowledge of the lack of political will from the side of successive Greek governments meant that the wording included in the Memorandum was very specific and that it allowed practically no wriggle room'.[399]

Regulation was tackled firstly in the energy sector, where in February 2011, some progress was beginning to materialise: 'The energy component of regulated tariffs is expected to be transformed gradually to reflect wholesale market prices'.[400] However, it notes that the process of increasing price competition through unbundling of the energy sector has been subject to delays.[401] Petrakis highlights that the energy sector in Greece showed a strong degree of sectoral concentration; data arrived at through the CR4 method suggests 86% in 2007, which is indicative of a narrow oligopoly.[402] Thus, the mere adjustment of regulated prices would be insufficient and not constitute

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[393] Former Greek Minister, interviewed by Benjamin Klos, asked to remain anonymous.
[394] C. Simitis, *The European debt crisis. The Greek case*, Manchester University Press, Manchester, 2012, p. 146
[395] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104
[396] Harry Theoharris, former Greek Top Tax Official, interviewed by Benjamin Klos, 2015
[397] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 63
[398] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, May, 2010, p.20
[399] M. Mitsopoulos and T. Pelagidis, *Understanding the Crisis in Greece. From Boom to Bust*, Revised Edition, Palgrave Macmillan, New York, 2012, p. 237
[400] European Commission, [Occasional paper 77] *Economic Adjustment Programme for Greece*, Third Review, European Commission, February, 2011, p.36
[401] Ibid., p.37
[402] P. Petrakis, *The Greek Economy and the Crisis. Challenges and Responses*, Springer, Heidelberg, 2012, p. 169

a structural change in the sense of changing Greece's energy sector towards one found in a typical market based VOC.[403]

Product markets and their deregulation gained even more prominence in the second economic adjustment programme, due to the fact that the authorities now acknowledged that Greece would not return to the markets within the next three years and therefore placed greater emphasis on structural reform efforts.[404] In December 2012, a report noted that 'output prices have not yet fallen commensurately'.[405] This was a serious set-back for the Business friendly Greece action plan, within which many of the detailed deregulation measures were bundled.[406] The mission expected deregulation to produce immediate benefits for consumers through falling prices. Eventually, the action plan was dropped altogether, without ever having reached the implementation stage.

In the second economic adjustment programme, the drive to deregulate the Greek product markets became more targeted and there was a strong emphasis on the retail sector for improving price competition. In this respect the report stated that 'for selected over-the-counter products, the authorities replaced the system of fixed margins with maximum margins',[407] in order to reduce regulations of prices and thus increase price competition. It should be noted here that the alteration of pre-determined profit margins by the mission is a statement of failure, at least in terms of conducting structural reforms that would eventually see the introduction of a market-based product market in Greece. In a market based VOC, this type of price regulation does not exist because demand and supply are expected to be the principal determinants of prices.[408]

The mission recognised reform progress in 'key areas' in spring 2014[409] and pointed to a number of measures to deregulate the product market which had been legislated shortly prior to the release of the last progress report. The focus on specific sectors is also indicative of a lack of success of the broader approach applied in the first programme, so that reporting in the second programme was more intent on citing specific positive examples: 'barriers to competition have been removed in the sectors of building material, food processing, retail trade and tourism. With the support of the OECD and the Hellenic Competition Commission, the Government uncovered over 300 provisions harmful to competition in these sectors'.[410]

The overall failure of the Greek product market reform is perhaps best captured in the last progress report from April 2014, in that 'uncovering' over 300 harmful regulations was considered a success. At the end of the second economic adjustment programme, a slight overall decrease in prices could be observed, although it is difficult to ascertain how much of this was the result of product market liberalisation and how much of the decrease in prices was the result of the severe economic crisis. From a VOC perspective, the mission's approach to some reforms in the area of product market

[403] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 121
[404] European Commission, [Occasional paper 94] *Second Economic Adjustment Programme for Greece*, European Commission, March, 2012, p. 1
[405] European Commission, [Occasional paper 123] *Second Economic Adjustment Programme for Greece*, First review, European Commission, December, 2012, p. 46
[406] Hellenic National Reform Programme 2012-2015
[407] European Commission, [Occasional paper 159] *Second Economic Adjustment Programme for Greece*, Third review, European Commission, July, 2013, p. 43
[408] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 14
[409] European Commission, [Occasional paper 192] *Second Economic Adjustment Programme for Greece*, Fourth Review, European Commission, April, 2014, p. 53
[410] Ibid., p. 52

regulation, namely to prescribe lower profit margins, is self-contradictory as market forces would be expected to determine prices in the Greek product market at this late stage in the EAP.[411]

Within the overall deregulatory agenda for Greek product market reform, the removal of licensing and permit requirements was given particular attention by the mission. Here, the mission was particularly critical of the 'large number of lengthy procedures to enforce contracts, to register property and to obtain licenses'.[412] This assessment is confirmed by Amable's own analysis,[413] which finds that licensing and permit systems form an important detailed indicator in the category of Barriers to entrepreneurship. This category provides one of the core distinctions between market-based VOC and Mediterranean VOC countries, as Amable's cluster analysis shows.[414] Thus, removal, reduction and streamlining of licensing requirements must form an important element in a structural reform agenda aimed at introducing a market based VOC.

Given this extensive use of licenses to regulate the economy, the reduction of licensing burdens featured in the very first economic adjustment report, where it was listed as a vital building block of the envisaged product market reforms.[415] Here, the mission asserted that 'in the area of product markets, one of the most salient features is the poor performance of Greece in indicators related to business start-ups, operations and licensing activities'.[416]

One important step towards liberalising the Greek licensing system was the demand by the mission to adopt the pre-existing EU Services Directive in its national legislation. As part of the implementation process of this Directive, a review of the institutional framework for the licensing of manufacturing companies was mandated and assigned a deadline for legislation of licensing requirements in this sector for December 2010.[417] The respective report then stated that Greek compliance with the conditionality regarding the implementation of the services Directive has been 'mixed'. It is noteworthy that the Services Directive was already due to be implemented before the programme and thus was not technically a new reform demand.

The two requirements in the Directive were firstly to provide a list of licenses and regulations that were 'unnecessary' and could potentially be abolished, including a list of so called closed professions to which they apply and secondly to devise and make operational a web portal for the completion of procedures for licensing online. This would have reduced the potential for corruption. The first requirement was partially met, meaning an incomplete list was offered to the 'Troika', whereas the second was missed altogether.[418]

Greece was given no more leeway than absolutely necessary for the implementation of the Directive, and provisions enter into force automatically if deadlines for implementation were missed. This constitutes a significant shift in the way the programme is implemented, on licensing requirements, but also in a broader sense. Whereas in the early stages of the programme, the Troika

[411] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 174-175
[412] European Commission, [Occasional paper 68] *Economic Adjustment Programme for Greece*, First Review, European Commission, August, 2010, p.43
[413] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 119
[414] Ibid., p. 118-119
[415] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, May, 2010, p. 22
[416] Ibid., p.23
[417] European Commission, [Occasional paper 68] *Economic Adjustment Programme for Greece*, First Review, European Commission, August, 2010, p. 44
[418] European Commission, [Occasional paper 72] *Economic Adjustment Programme for Greece*, Second Review, European Commission, December, 2010, p.34

was satisfied to outline the policy goals and leave the implementation to the Greek government, it became much more assertive about the way in which measures were to be implemented. The second economic adjustment programme saw the introduction of a definite timeframe for the implementation of legal provisions for licensing and permits.[419] Given that this deadline was brought forward in March 2012, the increased pressure for reform from Greece's international partners became clearly visible.

The last available report from April 2014 mentioned that 'with the support of the World Bank, the Government intends to adopt a framework law for investment licensing related to, among others, construction, installations operations public infrastructure and business parks'.[420] In this context, the initially envisaged comprehensive reform of the licensing requirements was broken down into a number of small, sector and profession specific reforms. However, these licensing reforms represented a mere fraction of the comprehensive reforms initially planned. The Greek government had, after major delays, presented a strategy for 'an evaluation of investment licensing procedures',[421] but comprehensively failed to pass legislation to streamline the system of investment licences[422] which would have included one stop shops for permits and licences and the possibility of certification by independent bodies.

An overall assessment of progress in the reform of licensing procedures is therefore rather negative, as at best piecemeal progress has been achieved. One question raised in this context was whether sufficient emphasis was placed on conducting genuine structural reforms or whether these were overshadowed by short term fiscal consolidation measures.[423] Additionally, the rather rigid application of a 'one size fits all' structural reform agenda might have blinded the mission to the specific economic features of Greece. This view is supported by former Minister of Education Marietta Gianakou who stated: 'I don't think our partners in Europe were very well informed, not about the numbers but about the weak productive basis in Greece'.[424]

Failure to account for specific national circumstances might have blinded the mission to the severe negative economic implications of removing licensing requirements, essential to shielding largely uncompetitive sectors from EU wide competition.[425] Furthermore, the Southern European VOC is also characterised by its difficulty in adjusting to rapid structural change.[426] Amable attributes this feature to the prevalence of stable, long term banking-industry relations and strong formal employment protection legislation.[427] The removal of these features without replacing them with positive complementarities from a market based VOC constitutes a crucial short-coming.

Luka Katselli, former Minister for Labour, emphasised that 'this has been one of the key points of discussion with the Troika in 2010 already, that you were not talking about an economy such as the Netherlands, Germany, Spain or even Ireland, which has large enterprises which can expand

[419] European Commission, [Occasional paper 94] *Second Economic Adjustment Programme for Greece*, European Commission, March, 2012, p. 43
[420] European Commission, [Occasional paper 192] *Second Economic Adjustment Programme for Greece*, Fourth Review, European Commission, April, 2014, p. 53
[421] European Commission, [Occasional paper 192] *Second Economic Adjustment Programme for Greece*, Fourth Review, European Commission, April, 2014, p. 109
[422] Ibid.
[423] Luka Katselli, former Greek Minister of Labour, interviewed by Benjamin Klos, 2015
[424] Marietta Giannakou, former Greek Minister of Education, interview by Benjamin Klos, 2015
[425] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 113
[426] Ibid., p. 175
[427] Ibid., p. 113

or restrict profits during the economic cycle. But the Greek economy is characterised by very small firms, even micro firms, so that the very rapid fiscal consolidation and very harsh austerity measures, by restricting demand, forces these companies to close down'.[428]

State involvement in the economy occurred not only through general or sector specific regulation of the product market, but also in the regulation of certain professions, which the Troika termed 'closed professions' through licensing requirements or regulations. Closed professions and their regulatory framework falls in the category of barriers to entrepreneurship in Amable's analytical framework, and here specifically under the detailed indicator of licence and permit systems.[429] In Greece, at the onset of the crisis, closed professions accounted for 7% of overall employment.[430] Amable's VOC typology suggests a complementarity between stringent regulatory frameworks and a high degree of EPL (Employment Protection Legislation).[431]

This interaction is illustrated quite clearly in the area of closed professions. Here, EPL has been particularly stringent, making these professions particularly desirable, which in turn led to exceptional high employment levels in these professions. To illustrate the point, Petrakis found that Greece had 3,250 notaries in 2009, which meant that the ratio of notary per citizen was 1 notary per 3,446 citizens. By comparison, the ratio for Austria was 17,936. The number of notaries is thus exceptionally high in Greece, even in comparison to other Southern European VOCs, as the respective figure for Portugal was 14,689 and 12,022 for Italy.[432] Thus, while closed professions seem to feature more prominently in Southern European VOCs, Greece nevertheless constituted an extreme case, even within this VOC.

The importance of closed professions for overall employment and the characteristics of interest mediation in Greece meant that these constituted 'sector-specific roadblocks',[433] according to an OECD report. In the Greek political system, these professional groups have acquired certain rights and privileges though clientelism and a well organised system of interest representation which has led to 'the favourable treatment of certain professional groups'.[434] According Marietta Giannakou, the specific interest representation that these groups enjoyed were embedded in the Greek political system through close affiliation of these groups with political parties.[435] The closed professions in Greece were not only significant quantitatively, but also in the scope of professions they extended to, with the mission identifying over 150 professions to which special regulations apply.[436]

Thus, the opposition to the implementation of the EU Services Directive, which would have removed many restrictions on access to and exercise of closed professions can be explained through the importance of these professions for the Greek economy. VOC literature indicates that the liberalisation of these licenses and regulations are essential if Greece is to implement a fully-fledged

[428] Luka Katselli, former Greek Minister of Labour, interviewed by Benjamin Klos, 2015
[429] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 117
[430] European Commission, [Occasional paper 72] *Economic Adjustment Programme for Greece*, Second Review, European Commission, December, 2010, p. 33
[431] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 175
[432] P. Petrakis, *The Greek Economy and the Crisis. Challenges and Responses*, Springer, Heidelberg, 2012, p. 217
[433] OECD, Economic Surveys of Greece 2013, OECD, 2013, p.21
[434] D. Sotiropoulos, 'The Paradox of Non-Reform in a Reform-Ripe Environment. Lessons from post Authoritarian Greece', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.)*, From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, *p. 26*
[435] Marietta Giannakou, former Greek Minister of Education, interview by Benjamin Klos, 2015
[436] European Commission, [Occasional paper 77] *Economic Adjustment Programme for Greece*, Third Review, European Commission, February, 2011, p. 34

market based VOC product.[437] However, the emphasis of the approach on existing complementarities could have given the mission an indication of the degree of opposition to such liberalisation efforts it was likely to encounter. The specific forms both on the popular and political level which such resistance to reform took have been outlined in numerous empirical accounts, one of the most succinct of which is by Ex-Prime Minister Costas Simitis.[438]

The delays accumulated in the legislation intended to introduce the EU Services Directive are in no small part due to continued alterations made to proposed legislation, which would lead to incomplete reforms and leave the door open for reversal of these reforms at a later stage. In several draft laws, the government failed to specify which professions a law would apply to,[439] leaving them open to interpretation by the government. This vagueness can be understood as a deliberate step by the Greek government to ease pressure on the Greek economy in the short term, by sheltering certain industries form competition in times of crisis and to enable it to re-establish its previous modus operandi at a later stage. This lends credence to the assertion that Greece might be pursuing a 'survival and return strategy', as conceptualised by Streeck and Thelen.[440]

Ultimately, the reform of the Greek product market under the EAP failed in some important respects. In striking similarity to the Irish case, the mission also prescribed export-led growth as the way out of the economic crisis. As in Ireland, this goal is not compatible with the nature of structural reforms undertaken in the EAP. This view is supported by Georges Siotis who asserts 'Very little thought, serious thought, was given to the growth model for Greece'.[441] This disregard for the implications of structural reforms on growth suggests that the motivation for reform implementation stemmed primarily from the mission's intention to promote the completion of the single market, which for services is still regulated to a large extent at the national level.[442] This is supported by the fact that the implementation of the EU Services Directive formed an integral part of the reform agenda.

Resulting from this 'ad hoc' growth model, the mission might have severely underestimated the amount and scope of reforms necessary to set Greece on a trajectory towards export led growth, as Georges Siotis remembers: 'What needs to be done is beyond recognition. I mean I know Greece, I have lived there for a few years, but I can say that 99% of my colleagues could not believe what they found when they reviewed the situation'.[443] The VOC analysis in the case of the Greek product market is quite revealing, as it permits the juxtaposition of VOC models with the aim of export led growth: Greece' product market was, at the onset of the crisis, a near ideal typical Southern European VOC. From the reform agenda, it can be deduced that Greece is intended to transition to a market-based VOC. However, as Hall makes abundantly clear in a paper, neither model is suited to the pursuit of an export led growth strategy.[444]

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[437] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104

[438] C. Simitis, *The European debt crisis. The Greek case*, Manchester University Press, Manchester, 2012, p. 139

[439] European Commission, [Occasional paper 72] *Economic Adjustment Programme for Greece*, Second Review, European Commission, December, 2010, p.34

[440] W. Streeck and K. Thelen, *Beyond Continuity. Institutional Change in Advanced Political Economies*, 2nd edn., Oxford University Press, Oxford, 2010, p. 9

[441] Georges Siotis, Senior Economic Advisor, Task Force for Greece, interviewed by Benjamin Klos, 2015

[442] G. Majone, *Rethinking the Union of Europe Post Crisis. Has Integration gone too far?,* Cambridge University Press, Cambridge, 2014, pp. 219-220

[443] Georges Siotis, Senior Economic Advisor, Task Force for Greece, interviewed by Benjamin Klos, 2015

[444] P. Hall, 'Varieties of Capitalism and the Euro Crisis', *West European Politics*, vol. 37, no. 6, 2014, pp. 1223–1243

The mission chose to focus heavily on the reduction of expenditure in the Greek EAP, which led to the collapse of domestic demand and an acceleration of the recession. However, economic data suggest that Greece suffered from a revenue creation problem as well. Looking at government spending/ revenue as a percentage of GDP, EU-27 spending was on average 46.4% from 2002-2008, whereas spending was 45.2% for the same period in Greece. Government revenue was on average 44.6% for the EU-27, whereas Greek revenue was only 40.0% for the same period. Thus, it appears that Greece spent slightly less than the average EU-27 revenue, but created significantly less revenue than its European peers. This is not the image portrayed in the progress reports, which in turn supports the assertion of a supply side bias in the mission's economic thinking.

Conclusion

The enormous differences in the institutional and regulatory settings of the two product markets can perhaps be understood through their historical trajectories as well as through the presence of complementarities emphasised by Bruno Amable. The experience of membership of the European Union had very divergent implications in both countries. Ireland locked in the sweeping reforms formulated in the First programme for economic expansion- commonly known as the Whitaker paper- through its application for EC membership. The Irish strategy of dismantling external tariffs, introducing a low tax regime and the active establishment of foreign companies through tax grants would not have been feasible without Irish membership of the EC and the possibilities for free trade this entailed. Additionally, the attractiveness of Ireland for foreign enterprises would have diminished, had it not guaranteed access to the European market.

The Greek experience in this regard was a very different one. As discussed previously in this chapter, membership of the EC and later EU was seen less as an economic enterprise and more as a question of identity. Recognising the difficulty faced by many sectors of the Greek economy in competing with their European neighbours, successive Greek governments reverted to extensive regulation of the product market as a way to shelter industries from foreign competition. Additionally, as Bruno Amable stresses, it was a necessary prerequisite to the introduction and maintenance of high levels of employment protection.

A comparison of product market reforms in Greece and Ireland reveals that core elements of the EAP agenda are noticeably similar. Privatisation featured prominently in both EAPs, despite the wide difference in the reliance on state ownership outlined in this chapter. Ireland witnessed privatisation efforts from the 1980's onwards. At the onset of the EAP, the mission set out to limit state ownership even further, although with very limited success. Concessions obtained regarding the utilisation of privatisation proceeds made little impact in this respect, as proceeds were negligible. In Greece, the role of state owned enterprises in the economy was more significant. The Greek authorities opposed the privatisation of state assets envisioned in the EAP in numerous ways. All attempts had the preservation of state influence in these companies at their core. Greek proposals at privatisation through public-private partnerships were indicative of this.

When conceptualised in Amable's VOC framework, the removal of state control through privatisation of state owned enterprises is a logical step towards a market based VOC. Therefore, the heavy emphasis placed on these reforms was expected in the Greek EAP. Here, VOC was also useful in explaining the strong and determined opposition to such measures, as these companies filled an important need for secure employment in a largely uncompetitive product market. However, the Irish case for privatisation was much less straight forward, as Ireland had already undergone privatisations of its state assets and featured a market based VOC product market even at the beginning of the EAP. It seems therefore reasonable to conclude that fiscal concerns played an important role in the privatisation plans of the two countries.

Other forms of state control, such as the setting of price ranges by the state did not feature in the Irish EAP. This was unnecessary as the setting of prices was not practiced in the Irish product market and is congruent with the Irish market based VOC where prices are assumed to be determined by supply and demand. In Greece the picture was very different. Here, pricing in certain areas was subject to state influence in some sectors, such as energy. Attempts to reduce this were only partially successful, and eventually the mission resorted to a much less ambitious scope of reform in this area. Revealingly, it eventually gave up removing price controls in the energy sector altogether, merely demanding that prescribed price ranges be aligned to actual market prices. In VOC terms, preserving the policy instrument of price control is contrary to the implementation of a market based VOC product market.

Licensing and permit systems was another area where the mission was keen to deregulate. In the EAPs of Greece and Ireland, the reduction and in some cases removal of licensing requirements was promoted through the EU Services Directive. This Directive also had ramifications for the so called 'closed professions', where access barriers were lowered. In both countries, the Directive was opposed domestically. This led to incomplete implementation after severe delays in both cases. From a VOC perspective, this is less problematic in the case of Ireland as the country already had a market based VOC product market prior to the EAP, so that the reforms were a 'rounding off' of this VOC.

With regard to product market regulations and the removal thereof, Ireland featured only a miniscule number of reforms, such as minor regulatory adjustments of the retail sector. Here too, Ireland conducted few reforms because from a VOC standpoint, few reforms were needed. In Greece, the task of deregulation was a momentous one, which the mission had severely underestimated, as an interview with a senior official of the task force for Greece makes abundantly clear. [445] The mission's approach to this task was to conduct most deregulatory measures simultaneously, in replication of the big bang approach delineated chapter two on institutional change. Yet, this did not produce the desired results, as the mission changed its approach in the second EAP to smaller, more targeted measures.

From the perspective of the Greek government, the strategy of 'survival and return' might have led to sub-optimal policy outcomes for Greece, as they severely underestimated the mission's commitment to the letter of the programme, as Kevin Featherstone pointed out in an interview, coupled with mounting uncertainty about the incentives derived from implementing the programme.[446] The incentives, complementarities in VOC parlance, became increasingly remote through a combination of design flaws, such as the pursuit of export led growth through a market

[445]Georges Siotis, Senior Economic Advisor, Task Force for Greece, interviewed by Benjamin Klos, 2015
[446] Kevin Featherstone, Professor LSE, interviewed by Benjamin Klos

based VOC, but also due to the fact that Greece's pre crisis economic model was diametrically opposed to that envisioned by the mission.

The pursuit of a 'survival and return' strategy further aggravated the problem and led to incomplete implementation of reforms, as happened with the EU Services Directive, which in turn left Greece in a hybrid state characterised by very few institutional complementarities at the end of the Second Adjustment Programme. The assertion of a failure of reforms in the product market sector in Greece was confirmed by a former Greek cabinet minister, who, when asked in which area reforms have been disappointing, named the product market sector, and specifically the services sector.[447]

[447] Former Greek Cabinet Minister, interviewed by Benjamin Klos, 2015, asked to remain anonymous

Chapter 5

Labour market reforms in Greece and Ireland

'A neoliberal solution to a neoliberal problem'

Introduction

This chapter discusses important characteristics of the Greek and Irish labour markets and their alteration during the Economic Adjustment Programmes (EAPs). As this institutional area is expansive as well as complex, a subdivision seems indicated. This chapter therefore employs the subdivision devised by Bruno Amable, and looks at the areas of employment protection, wage bargaining and employment policy separately. In this manner, the evolution of distinguishing features in these three subcategories can be traced more easily.

In Bruno Amble's typology, the sub-category of employment protection is structured into two broad categories: Firstly, employment protection legislation for regular contracts, and secondly, employment protection legislation for temporary contracts. The category of regular contracts is then composed of the summary indicators 'procedural inconvenience', 'direct costs of dismissal' and lastly the 'length of notice and trial period'. The category temporary contracts consists of the summary indicators definition of types of labour and procedures and maximum calculated duration.[448]

In the area of industrial relations, Amable's structure of indicators is much less hierarchical than in other institutional areas. The indicators employed in this sub-category are the 'degree of wage bargaining centralisation', 'rate of union membership', 'collective agreement coverage', the 'wage bargaining corporatism index' and the 'effective tax wedge for different marital statuses', 'industrial disputes' and 'manager-employee relationships'.[449] Bruno Amable identifies few indicators for the area of employment policies. He only names the following: share of GDP invested in public employment, in programmes for handicapped persons, in youth programmes, in unemployment payments, and in various labour market programmes.[450]

When all three institutional sub-areas of the labour markets in Ireland and Greece are culminated, Amable finds that Greece features a pre-crisis labour market which is near identical with the ideal typical South European VOC, with a dual labour market, comprised of a well-protected core and precarious fringe labour market. Ireland is a more ambiguous case. While it resembles most closely the models of Germany and Austria with respect to employment policies and industrial relations, it is also very similar to market based countries like the US and the UK with regard to its levels of employment protection. This chapter will trace this ambiguity to the rise and fall of the social partnership model.

In terms of the VOC analysis conducted in this chapter, Amable finds that Greece was a clear cut case of a Southern European (Mediterranean) VOC. Assuming an intended trajectory towards a market based VOC labour market, intense and extensive reforms would be needed in the sub-categories of employment protection and industrial relations, where the Southern European VOC

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448 B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p.125
449 Ibid., pp.270-271
450 Ibid., p.138

and Market based VOC are almost diametrically opposed in several important respects underlying Amable's cluster analysis. Importantly, we would expect no significant reforms in employment policies, where the Mediterranean VOC and the market based VOC are characterised by the absence of active policies.

In Ireland, Amable identifies a hybrid labour market, combining a market based employment protection regime with wage setting mechanisms and employment policies which resemble most closely that of the Continental European VOC. The key distinguishing feature of the Continental European VOC cluster is the wage bargaining corporatism displayed. The cluster containing Ireland for employment policies is set apart by the active nature of its employment policies and specifically through its hiring policies.[451] Therefore, again assuming a trajectory towards a full-fledged market based VOC labour market, we would expect that the majority of reforms takes place in the sub-areas of wage setting/industrial relations and the reduction or abolishing of active employment policies.

The Irish Labour Market

The emerging overall picture of the Irish labour market prior to the crisis is an ambiguous one where two out of three subcategories indicate a Continental European VOC labour market, but the low levels of employment protection are reminiscent of a market based VOC model such as the UK and the US. The immediate question arising from these findings is how to explain this lack of cohesion within one institutional area in one country. The answer to this question lies in the concept of social partnership, which played a central role in shaping the Irish labour market of the Celtic Tiger period.[452] The Irish social partnership model is, in the narrowest sense, a model of centralised wage bargaining along corporatist lines.[453]

Social partnership merits a separate discussion for two interlinked reasons: Firstly, it is the single most important feature of the Irish labour market and its inherent ambiguities are mirrored by the Irish labour market as a whole. Secondly, the Irish social partnership is precisely not a narrow corporatist wage bargaining mechanism, but rather a broad approach, including three-yearly economic and social agreements.[454] The Irish social partnership model is distinguished by its inclusion of social policies beyond the narrow scope of wage bargaining and saw its gradual expansion in scope from 1987 onwards.[455] This represents a significant shift in the Irish labour market, which prior to 1987 compensated for high unemployment rates through mass emigration.[456]

This broad and over time expanding scope of the Irish social partnership model sets it apart from more liberal economies, such as the UK and the United States.[457] In fact, examining the origins of

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[451] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p.140
[452] W.K. Roche, 'Social Partnership in Ireland and New Social Pacts', *Industrial Relations*, vol. 46, no. 3, 2007, p. 395
[453] T. McDonough and T. Dundon, 'Thatcherism Delayed? The Irish crisis and the paradox of social partnership', *Industrial Relations Journal*, vol. 41, no. 6, 2010, p. 544
[454] M. Murphy, 'Social partnership- is it the only game in town?', *Community Dev Journal*, vol. 37, no. 1, 2002, p. 80
[455] W.K. Roche, 'Social Partnership in Ireland and New Social Pacts', *Industrial Relations*, vol. 46, no. 3, 2007, p. 399
[456] C. Schweiger and J. Wickham 'Is the tiger eating its children? The two sides of the Irish Employment Model', 1st draft, *Employment Research Centre*, 2005, p. 3
[457] M. Murphy, 'Social partnership- is it the only game in town?', *Community Dev Journal*, vol. 37, no. 1, 2002, p. 83

the social partnership model, it appeared as a deliberate alternative to Thatcherism in the UK.[458] Crucially, the Irish social partnership was borne out of necessity in a period of intense economic upheaval in 1987, in explicit rejection of the path chosen in Britain at the time. At the same time, it differs from the continental European model in some important aspects as well, as Christian Schweiger stresses: 'In contrast to the corporatist arrangements in many continental economies the Irish social partnership process produced consensual agreements which were supposed to determine a framework for policy-making on the variety of issues they covered'.[459]

Another important difference between the continental European variety of corporatism and the Irish model lies in the level of employment protection it conferred on employees. Mc Donough and Dundon characterise the Irish model as 'the continuation of a tradition of a strong voluntarism with minimal employment rights'.[460] The distinction of the Irish model is thus its combination of an extensive range of policies not contained in their Continental European counterparts, but coupled with weaker embeddedness in the overall institutional framework.[461]

The Irish institutional wage setting mechanism broadened in scope in 1996 and gradually evolved into a distinct model. The unions gained direct access to the wage bargaining process in exchange for their consent to only moderate increases in wages.[462] Indeed, most scholars include the cooperative approach to labour relations as a key component in the economic growth during the Celtic Tiger period. In this line of reasoning, the partnership model was instrumental in keeping the levels of wage growth moderate and hence kept the Irish export economy competitive.[463] Frank Barry stresses this point in his analysis of the Celtic Tiger phenomenon.[464] This was done in order to promote international competitiveness and was complemented by the goals of achieving macro-economic stability, tax reduction and increasing employment levels.[465]

Since its introduction in 1987, there has been significant scholarly debate on the precise nature of social partnership in Ireland. Some scholars have pointed to the reduced influence exercised by trade unions, either through the reduction of their special status in the public eye,[466] or the non-binding nature of the agreements concluded through this process,[467] or they have portrayed the entire social partnership as part of a neoliberal agenda to silence union discontent.[468] There seems to be a degree of consensus on the fact that the Irish model prioritises international competitiveness over equality, particularly compared to other European forms of corporatism.[469] D'Art and Turner

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[458] W.K. Roche, 'Social Partnership in Ireland and New Social Pacts', *Industrial Relations*, vol. 46, no. 3, 2007, p. 397

[459] C. Schweiger, *The EU and the Global Financial Crisis. New Varieties of Capitalism*, Edward Elgar, Cheltenham, 2014, p. 148

[460] T. McDonough and T. Dundon, 'Thatcherism Delayed? The Irish crisis and the paradox of social partnership', *Industrial Relations Journal*, vol. 41, no. 6, 2010, p. 544

[461] P. Lane, 'Role of Government: Rationale and Issues', in J. W. O'Hagan, C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 12th edn., Gill & Macmillan, London, 2014, p. 77

[462] M. Lallement, 'Europe and the economic crisis: forms of labour market adjustment and varieties of capitalism', *Work Employment & Society*, vol. 25, no. 4, p. 636

[463] Ibid., pp. 627-641

[464] F. Barry, *Understanding Ireland's Economic Growth*, Palgrave Macmillan, London, 1999, p. 1

[465] M. Murphy, 'Social partnership- is it the only game in town?', *Community Dev Journal*, vol. 37, no. 1, 2002, p. 82

[466] P. Teague, 'Social partnership and the Enterprise Lessons from the Irish experience', *European Political Economy Review*, vol. 2, no. 1, 2004, pp. 6-35

[467] C. Schweiger, *The EU and the Global Financial Crisis. New Varieties of Capitalism*, Edward Elgar, Cheltenham, 2014, p. 148

[468] K. Allen, *The Celtic Tiger: The Myth of Social partnership*, Manchester University Press, Manchester, 2000

[469] B. Nolan, *Income distribution in Ireland*, Combat Poverty Agency and Oak Tree Press, Dublin, 2000

stress the peaceful coexistence of the social partnership model with a range of neoliberal policies, such as low corporate taxes and the elimination of barriers to trade.[470]

One distinct aspect, the non-binding nature of agreements, meant that the social partnership model effectively ended before the introduction of the EAP programme, when the government unilaterally suspended an agreement reached through the social partnership model.[471] In spite of this, the social partnership model is the essential answer to the question of why the Irish labour market fits neither in the neoliberal paradigm of market based VOCs nor the Continental European corporatism. From a VOC perspective, part of the Celtic Tiger success story can thus be linked to wage restraint, made possible by a corporatist wage setting approach, which allowed the country to obtain a trade surplus.[472] This was coupled with the strategy of providing only minimal EPL (Employment Protection Legislation), in an effort to attract foreign direct investment.

Employment protection in Ireland

In Bruno Amable's own cluster analysis for employment protection, Ireland is grouped with the market based VOC countries, USA, UK, Canada and Australia.[473] Amable emphasises that the group is highly homogenous compared to other groups in the analysis and displays a large number of shared features, such as low compensation payments for unfair dismissal, low levels of seniority within one company, and the absence of restrictions or limits on the use of temporary work contracts.[474] From a VOC perspective, we would thus anticipate a low volume of reforms in the subcategory of employment protection, as the Irish pre-crisis approach to EPL was fairly close to that prescribed by the mission in any case.[475]

One data set for measuring the strictness of employment protection is derived from the OECD data base. Here, the figures for regular employment indicate that Ireland ranked among the countries with the lowest levels of employment protection. In this data set, low scores indicate low levels of employment protection. Ireland scored 1.6 in 1998, a value which remained constant ten years later in 2008. By comparison, the least regulated country in this sample is the US with a mere 0.2 for both 1998 and 2008. The UK was closer to the Irish levels with 1.0 and 1.1 respectively.[476] Another useful point of reference in this category is the OECD average value, which was 2.1 for both 1998 and 2008. The data seem to indicate that Ireland had low levels of employment protection for regular employment, being one of the countries with the least strict employment protection regimes in Europe. [477]

The case for temporary employment protection was even more pronounced. Here, Ireland scored a mere 0.3 in 1998 and 0.6 in 2008. The most extreme case in the sample in this category was Greece which scored 4.8 and 3.1 respectively. The OECD average in this category was 1.9 in 1998 and 1.8 in 2008. The difference between Ireland and the OECD average was particularly stark in

[470] D. D'Art and T. Turner, 'Irish trade unions under social partnership: a Faustian bargain', *Industrial Relations Journal*, vol. 42, no. 2, 2011, p. 159
[471] Alan Barrett, Professor, interviewed by Benjamin Klos, 2016
[472] P. Hall, 'Varieties of Capitalism and the Euro Crisis', *West European Politics*, vol. 37, no. 6, 2014, p. 1227
[473] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 131
[474] Ibid.
[475] Ibid., p.175
[476] J. O'Hagan and T. McIndoe-Calder, 'Population, Employment and Unemployment', in J. W. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2014, p. 166
[477] Ibid.

this category. However, the data are open to different interpretations and it should be pointed out that some authors do not concur with my assessment, stressing instead that 'compared to the USA, Ireland, and indeed most of Europe, has much more strict employment protection'.[478]

Some scholars have identified this low employment protection regime as an integral part of the Irish growth strategy as early as the 1990's. The economist Paul Krugman noted that 'if Brussels ever does start to impose rules aimed at preventing social dumping, they would probably bite even more severely on Ireland than on the UK'.[479] Brian Hayes supports this assertion by identifying low employment protection as an integral part of the Irish economic success in the 90's and 2000's, explicitly rejecting the viability of what he calls 'mama or papa type economies of Greece or Italy' for the Irish growth model.[480] The statement is an endorsement of a liberal understanding of the labour market, where state intervention through labour market regulation and employment protection is a last resort rather than the norm.

The low employment protection regime and the Celtic Tiger boom period do indeed appear closely connected, as a look at the period preceding the Celtic Tiger boom demonstrates. A comparative OECD study which encompasses 20 countries for the period from 1989 to 1994 paints a very different picture. This study ranks employment protection on a scale from 0 to 20, with 20 representing the highest level of employment protection. Here, the score for Ireland is 12.0, compared to an OECD average of 10.5.[481] This data set is extremely useful for tracing of the emergence the Irish employment protection regime as it was at the onset of the crisis. Far from being a historical feature of the Irish labour market, it should be very much regarded as a distinct feature of the Celtic Tiger period. From a Varieties of Capitalism perspective, the low employment protection,[482] instrumental in attracting foreign direct investment (FDI), was compensated for by high overall employment levels and inclusion of social, tax and other policies in the social partnership model.

Ireland's international partners were broadly content with the Irish employment protection regime at the onset of the crisis, affirming that 'Ireland has a good track record regarding the flexibility of its labour market and is recognised to provide an attractive business environment'.[483] While minor adjustments within the employment protection regime were requested and implemented, there appeared to be a consensus between the mission and the Irish government on this issue.[484] This consensus certainly explains the low reform volume described in this sub section.

A first step towards reform of employment protection in Ireland was announced in the second review, which proclaimed that employment regulation orders (ERO's) would be reviewed.[485] The review of ERO's, as announced on the 9th of February 2011, was presented to the government in April 2011. The review proposed that the basic structure of ERO's be retained, but 'that the system requires radical overhaul so as to make it fairer and more responsive to changing economic circumstances and labour market conditions'.[486] The implications of this reference to

[478] J. O'Hagan and T. McIndoe-Calder, 'Population, Employment and Unemployment', in J. W. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2014, p. 166

[479] P. Krugman, `Good News from Ireland: A Geographical Perspective', in A. W. Gray (ed.), *International Perspectives on the Irish Economy*, Indecon, Dublin, 1997, p. 53

[480] Brian Hayes, MEP, interviewed by Benjamin Klos, 2016

[481] B. Walsh, `The Persistence of high unemployment`, in F. Barry (ed.), *Understanding Ireland`s Economic Growth*, Palgrave Macmillan, London, 1999, p. 218

[482] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p.126

[483] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 34

[484] Alan Barrett, Professor, interviewed by Benjamin Klos, 2016

[485] European Commission, [Occasional Papers 78] *The Economic Adjustment Programme for Ireland*, May, 2011, p. 15

[486] European Commission, [Occasional Papers 88] *The Economic Adjustment Programme for Ireland*, December, 2011, p. 33

responsiveness to economic circumstances in times of severe crisis were quite clearly a reduction of pre-crisis standards of employment protection.

In the economic thinking of the Troika, and here particularly the European Commission, enhanced labour market responsiveness, also referred to as 'adjustment capacity', was achieved through the forced implementation of reforms of employment protection regimes, particularly in EAP countries. A Commission report described this as follows: 'Subsequently, as of 2010, measures were introduced to enhance the adjustment capacity and resilience of labour markets against the background of current account reversals and debt crises, in particular in vulnerable countries and countries under financial assistance programmes'.[487] This demonstrates that from the mission's point of view, greater labour market responsiveness is primarily achieved though dismantling of employment protection provisions.

The reduction of employment protection in Ireland is in line with an overall shift towards a more clear-cut market based VOC. Amable recognised that employment protection alone accounted for 41% of the variance, making it the single most influential factor.[488] His cluster analysis further indicates that with regard to employment protection, market based VOC countries are clearly distinct from the other countries in the sample. However, as the mission recognised that the Irish labour market already featured a low employment protection level, the insistence on further EPL reductions would not be strictly necessary to obtain further complementarities.

Additionally, the relationship between low employment protection and the responsiveness to crises has been challenged more recently. Michel Lallement, looking at OECD data, finds that 'there is no correlation between the level of employment protection (as measured by the OECD's indicator for 2007) and the labour market's capacity to adjust more or less rapidly to changes in economic circumstances'.[489] The most crucial reform pertains to the scope of employment regulation orders (ERO's): 'ERO's will no longer include conditions of employment covered in existing legislation, such as compensation for working on Sunday`.[490] Furthermore, companies in financially difficult situations would be allowed to deviate from existing ERO's, thereby crucially undermining the system of employment protection as universally applicable.

Redundancy payments constituted a further area of reform within the framework of Employment protection legislation (EPL). Here, the Irish government undertook some reforms in own initiative. Effectively, it reduced the rebate of social insurance funds for employers in cases of redundancies from 60% to 15%. The mission estimated that this 'more than doubles the effective cost of redundancies for firms'.[491] Significantly, this own initiative would have a positive budgetary impact but was nevertheless seen critically by the mission. This in turn exposed a certain supply side bias of the mission, which apparently sought to promote growth solely through employer friendly initiatives. The mission argument ran as follows: 'This measure could reduce incentives to hire, since firms anticipate potential redundancy costs'.[492]

Throughout much of the programme, labour market reforms featured heavily, a tendency which was further increased through rising unemployment figures. However, this did not include employment protection, where reforms efforts were sporadic and piecemeal at best, despite the

[487] European Commission, *Labour market and wage developments in Europe 2015*, European Commission, 2015, p. 5
[488] B. Amable, *The Diversity of Modern Capitalis*m, Oxford University Press, Oxford, 2009, p.126
[489] M. Lallement, 'Europe and the economic crisis: forms of labour market adjustment and varieties of capitalism', *Work Employment & Society*, vol. 25, no. 4, pp. 630-31
[490] European Commission, [Occasional Papers 88] *The Economic Adjustment Programme for Ireland*, December, 2011, pp. 33
[491] European Commission, [Occasional Papers 93] *The Economic Adjustment Programme for Ireland*, March, 2012, p. 26
[492] Ibid.

focus of the Irish EAP on the labour market as a whole.[493] Significantly, the reform volume as well as the policy trajectory of these reforms matches precisely the pattern suggested by Amable VOC framework.[494] In fact the only major reform in this sub-category was the exclusion of working conditions from ERO's.

Industrial relations in Ireland

Amable's cluster analysis groups Ireland together with Germany and Austria. An earlier typology by Crouch finds that industrial relations in Germany and Austria are characterised by the long term nature of the objectives pursued by the unions in these neo-corporatist settings.[495] Within this corporatist setting, Amable identified a degree of heterogeneity with regard to the power held by unions. Amable emphasised that this model 'requires centralised and encompassing organisation of interest and institutionalised support from the state'.[496]

The absence of such institutionalised support could be explained through the hybrid labour market of Ireland. Continental European VOCs, where the unions role in the wage setting process is more formalised, also feature significantly higher levels of employment protection, it is therefore permissible to assume that both features are linked. Despite the absence of institutionalised support from the state, a closer examination of industrial relations in the Irish labour market during the boom of the Celtic Tiger period does indicate that they were indeed crucially shaped by a corporatist approach and the assumption of positive sum outcomes for employers and employees.[497]

Union membership is another vital indicator in determining the industrial relations and wage bargaining mechanism of Ireland. Here, OECD data indicate that Ireland had a relatively high percentage of Union membership, which stood at 42.7% in 1997 and declined to 31.7% in 2007.[498] By comparison, the OECD average for 1997 stood at 35.9% and declined to 29.4% in 2006. Unfortunately, the corresponding figure for 2007 is not available.

In Amable's framework, the degree of unionisation and corporatism accounted for 35 % of the variance in his cluster analysis. A graphic representation of countries on this axis shows the importance of this variable in placing Ireland in the Continental European cluster with Germany and Austria, which find themselves in immediate proximity to Ireland in the graph.[499] The fact that Ireland featured a high degree of union membership is thus highly relevant to its categorisation under Amable's framework.

Amable's VOC approach suggests that the decentralisation of age bargaining was motivated by a quest for greater flexibility as the primary remedy to the economic crisis, whereby in market based VOCs 'decentralised labour markets favour firms' adjustment to competitive pressure and make structural change less costly'.[500] The decision by the government to drop the social partnership model prior to the implementation of the EAP, heralded by the government's unilateral cutting of

[493] European Commission, [Occasional Papers 131] *The Economic Adjustment Programme for Ireland*, April, 2013, p. 26
[494] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104
[495] C. Crouch, *Industrial Relations and European State Traditions*, Oxford University Press, Oxford, 1994
[496] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p.137
[497] J. Wickham, 'After the party's over: the Irish employment model and the paradoxes of non-learning', in S. Lehndorff (ed.), *A triumph of failed ideas – European models of capitalism in the crisis*, European Trade Union Institute, Brussels, 2012, p. 68
[498] OECD Directorate for Employment, Labour and Social Affairs, Online Database, 2011
[499] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 135
[500] Ibid., p. 108

public sector wages,[501] had important consequences for the success of the programme. Alan Barrett emphasises that through the departure from the social partnership approach, the volume of necessary reforms in the labour market was drastically diminished.[502] The reforms initiated at the onset of the crisis were broadly in line with demands for reform in the labour market in the Irish EAP and had the effect of reinforcing and entrenching a reform package already under way, leading to what Alan Barrett described as a 'meeting of minds'[503] between the Irish government and the Troika.

The initial response to the crisis seemed to suggest that a form of 'crisis corporatism' was possible,[504] wherein unions and employer associations would agree on wage restraint in order to weather the economic crisis with minimal layoffs. However, Ireland abandoned an inclusive approach to crisis resolution and the country henceforth pursued a strategy of decentralisation of wage bargaining, thus shifting towards what Professor Mark Hughes calls a 'neoliberal solution to a neoliberal problem'.[505] The jettisoning of the social partnership raises question about the country's continued ability to restrain wage expansion, as it had done during the Celtic Tiger boom.

From its inception, the EAP placed strong emphasis on the labour market in general and the reform of the mode of wage setting in particular.[506] In this respect, the reports mandated a reform of sectoral wage agreements, particularly where they provided higher sectoral minimum wages.[507] This was the first step on a reform path which would 'amount to a profound decentralisation and erosion of collective bargaining systems'.[508] A definite timeline for this plan to 'modernise wage setting arrangements'[509] was outlined in a subsequent report in September 2011.

The removal of the automatic applicability of sectoral agreements undermined collective bargaining in a fundamental way,[510] as it may ultimately pave the way for firm level agreements to take precedence over sectoral agreements, making the latter obsolete. In VOC terms, a shift to a decentralised, firm-level agreement based wage setting mechanism would confirm a shift in industrial relations indicated by Amable's typology.[511] Here, the market based cluster is distinguished from other clusters through decentralised of wage bargaining and a low level of coordinated wage setting procedures.

The direction of these forthcoming reforms was clearly indicated by the language in the reports, which repeatedly stressed that Ireland's high unemployment can only be addressed through increased 'labour market flexibility'.[512] This statement mirrored the Commission's conviction that

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[501] M. Doherty, 'It must have been love…but it's over now: The crisis and collapse of social partnership in Ireland', *European Review of Labour and Research*, vol. 17, no. 3, 2011, pp. 371-385

[502] Alan Barrett, Professor, interviewed by Benjamin Klos, 2016

[503] Ibid.

[504] H. J. Urban, 'Crisis corporatism and trade union revitalisation in Europe', in S. Lehndorff (ed.), *A triumph of failed ideas – European models of capitalism in the crisis*, European Trade Union Institute, Brussels, 2012

[505] Mark Hughes, Professor, interviewed by Benjamin Klos, 2016

[506] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 34

[507] Ibid., p. 35

[508] C. Hermann and K. Hinrichs, 'Die Finanskrise und ihre Auswirkungen auf Sosialstaaten und Arbeitsbesiehungen-ein europäischer Rundblick', Chamber of Labour, Vienna

[509] European Commission, [Occasional Papers 84] *The Economic Adjustment Programme for Ireland*, September, 2011, p. 20

[510] C. Hermann, 'Crisis, structural reform and the dismantling of the European Social Model', *Institute for International Political Economy Berlin*, Working Paper, no. 26, 2013, p.8

[511] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 136

[512] European Commission, [Occasional Papers 88] *The Economic Adjustment Programme for Ireland*, December, 2011, p. 32

making wage bargaining mechanisms more flexible was an irreplaceable part of the reform agenda.[513] In the short term, the government planned to re-introduce a legislative framework, which would then allow the voluntary renegotiation of ERO's (Employment Regulation Orders). However, as this was not a mandatory requirement, it would greatly enhance the bargaining position of the employer associations in these negotiations, and their outcomes would be at best problematic from the point of view of their democratic legitimacy.[514]

With regard to REAs (Registered Employment Agreements), the mission found that they were particularly important for the construction sector. Here, REA's, which were universally applicable to the sector once they were agreed between unions and employer associations, increased the minimum wage by 59-99%, depending on the skill level of the worker. In this area, the review proposed some truly radical changes to the current model: 'Regarding REAs, the reforms will establish a time-bound process by which REA terms may be varied without consent of all parties, clarify the representativeness of parties necessary to register an REA, and clarify when REAs may be cancelled'.[515]

In effect, this gave employers the right to cancel REAs unilaterally, change the wages negotiated within them and challenge any new REA on the grounds that employers are not adequately represented. Hence, wage setting mechanisms at the sectoral level would become meaningless, which would ultimately lead to employees having to rely on national minimum wage provisions set by the government, or on agreements at the firm level, which was certainly the mission's intention.

This is argument is supported by the European institutions' long established preference for negative integration as a method of choice for economic integration and its policies,[516] which turned particularly the European Commission into an 'economic liberaliser'.[517] The measures outlined above reinforce rather than initiate a process of shifting the Irish political economy ever closer to a 'pure' market based VOC model. Decentralised and largely uncoordinated modes of wage setting are a distinguishing feature of the market based VOC model and indeed set it apart from all other VOC models included in Bruno Amable's analytical framework.[518]

The finalised and amended version of the Industrial Relations Act introduced a number of requirements to be met before an REA can be registered or an ERO submitted to the Labour Court. These requirements were to be checked by the Labour Court and included: the impact on employment, the consequences in terms of competitiveness of the sector, and a comparative analysis of the wage levels in other EU Member States.[519] This would force the Labour Court to make economic assessments, which it would be ill equipped to do, and it could promote a race to the bottom of social and employment standards in the EU.

[513] European Commission, *An Agenda for new skills and jobs: A European contribution towards full employment*, Communication from The Commission, Strasbourg, 23 November 2010, no. 682 final, accessed on 27 December 2015, <http://eur-lex.europa.eu/resource.html?uri=cellar:776df18f-542f-48b8-9627-88aac6d3ede0.0003.03/DOC_1&format=PDF>
[514] S. Clauwaert, and I. Schönmann, *The Crisis and national labour law reforms: a mapping exercise*, Working Paper European Trade Union Institute, 2012, p. 8
[515] European Commission, [Occasional Papers 88] *The Economic Adjustment Programme for Ireland*, December, 2011, p. 33
[516] C. Schweiger, *The EU and the Global Financial Crisis. New Varieties of Capitalism*, Edward Elgar, Cheltenham, 2014, p. 5
[517] M. Rhodes, M. Thatcher, B. Hancké, *Beyond Varieties of Capitalism: Conflict, Contradictions, and Complementarities in the European Economy,* Oxford University Press, Oxford, 2007
[518] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 136
[519] European Commission, [Occasional Papers 127] *The Economic Adjustment Programme for Ireland*, January, 2013, p. 37

The depicted shift in the wage setting mechanism away from centralised wage bargaining and towards firm level agreements also reflected the hand of the IMF in the design of the structural reforms, as recent research by Olivier Blanchard, IMF chief economist from 2008 to October 2015, indicates: 'our review of the economic arguments suggests that what is needed for efficiency is a system that allows decentralised wage setting (adaptation "across space", i.e., sectors, regions, firms) while keeping coordination to help the macroeconomic adjustment'.[520]

Another important area of reform stipulated in the reports relates to the national minimum wage. The first report emphasised that 'it is important to ensure wage and price adjustments that restore and sustain competitiveness'.[521] The national minimum wage (NMW) was introduced in Ireland in 2000 and although many observers anticipated negative employment effects at the time, a study a year after the introduction found that 95% of companies surveyed stated that the NMW had no adverse effect on the number of employees hired.[522] With regard to the ratio of minimum wage to median wage, OECD statistics indicate that Ireland had a ratio of 0.53, compared to the OECD average of 0.46.[523] This would suggest that the minimum wage provision in Ireland was comparatively generous.

Moderate minimum wage levels are more compatible with the 'high importance of social protection in society'[524] which features in the Continental European VOC, than the goal of poverty alleviation associated with the market based VOC.[525]In the Irish EAP, greater competitiveness was to be achieved through a cut in the national minimum wage of 12%. This was complemented by the aforementioned review of sectoral wage agreements, in order to comprehensively depress wages for the lowest paid sections of the labour market. Yet, such measures need to be assessed beyond their economic impact. Research focused on the social impact of these wage adjustment, highlighted the income inequality and the depression of domestic demand this entailed.[526]

Given the sharp economic decline and the rise in unemployment, the mission apparently had expected a stronger decline in overall wage levels, which did not materialise as quickly as anticipated, something that the mission attributed to remaining labour market rigidities.[527] To accelerate the overall wage decline, report 84 also stated that the Irish government had announced a 10% pay cut for new entrants into the public service.[528]

This was in addition to the rather severe 14% cut which took place in the context of the Crooke Park Agreement,[529] which was concluded between the unions and the Irish government. The extensive efforts by the Irish administration and the Troika to curtail the role played by EROs has already been elaborated upon in the previous paragraphs. Seen in conjunction with the newly legislated curtailment of public sector pay, this meant that in many low paid wage segments, the national minimum wage actually determined the effectively paid salary, rather than through

[520] O. Blanchard, F. Jaumotte and P. Loungani, 'Labor market policies and IMF advice in advanced economies during the Great Recession', *International Monetary Fund,* March, 2013, p. 9
[521] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 34
[522] J. O'Hagan and T. McIndoe-Calder, 'Population, Employment and Unemployment', in J. W. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2014, p. 162
[523] OECD Directorate of Employment, Labour and Social Affairs, Online Database, 2011
[524] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 105
[525] Ibid.
[526] A. Fraser, E. Murphy and S. Kelly, 'Deepening Neoliberalism via Austerity and 'Reform': The case of Ireland', *Human Geography*, vol. 6, 2013, p. 39
[527] European Commission, [Occasional Papers 84] *The Economic Adjustment Programme for Ireland*, September, 2011, p. 6
[528] Ibid., p. 20
[529] S. Bach and A. Stroleny, 'Public Service employment restructuring in the crisis in the UK and Ireland: Social partnership in retreat', *European Journal of Industrial Relations*, vol. 19, no. 4, 2013, pp. 341-357

EROs, which tended to include salary provisions of about 10% over the national minimum wage.[530] A later report then noted that by September 2012, the publication time of the report, much of the 'competitiveness imbalance'[531] in Ireland has been addressed, which was attributed, among other factors, to the fall in hourly wages by 3.7%, from the end of 2009 to the end of 2011.

In conclusion of this section, it should be clearly stated that the reforms proposed by the Troika and executed with some small adjustments by the Irish government, have effectively entrenched the shift away from the social partnership model, which was an essential cornerstone of the success of the Celtic Tiger growth model. In James Wickham's words: 'Instead of strengthening the state, the response is to weaken it. The jettisoning of social partnership has ensured that other features of the Irish model have been consolidated'.[532] The reforms in the Irish wage setting mechanism have indeed consolidated an economic model, which had previously been epitomised by the inherent ambiguity the social partnership model. Conceptualised in Amable's VOC framework, the reform trajectory in the subcategory of industrial relations was along the expected lines.[533]

Employment Policies in Ireland

Amable's assertion of an active employment policy in Ireland has been challenged by scholars in the field, who assert that 'even when government funds were available, there was no shift towards labour market activation for those that remained outside the labour market'.[534] This finding is partially confirmed by other scholars, who emphasise that employment policies are not enforced universally and that some groups such as lone parents and people with disabilities receive unemployment benefits without the condition to be available for potential job offers or training schemes.[535]

In 1996 the then government introduced a formal requirement to register young long-term unemployed people and in 1998 all long-term unemployed job seekers with the National Employment Action Plan (NEAP). These measures were successful in reducing youth unemployment, which confirms Amable's findings, but other authors have emphasised low interview frequencies and weak enforcement mechanisms.[536] Thus, there were attempts to pursue active employment policies during the Celtic Tiger period, but they were not always consistent and adequately funded.

It is crucial to contextualise the Irish employment policy here. Looking at the period from 1985 to 1997, Peter Auer finds that Ireland had the highest inactivity rate among the unemployed out of

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[530] European Commission, [Occasional Papers 88] *The Economic Adjustment Programme for Ireland*, December, 2011, p. 33

[531] European Commission, [Occasional Papers 115] *The Economic Adjustment Programme for Ireland*, September, 2012, p. 7

[532] J. Wickham, 'After the party's over: the Irish employment model and the paradoxes of non-learning', in S. Lehndorff (ed.), *A triumph of failed ideas – European models of capitalism in the crisis*, European Trade Union Institute, Brussels, 2012, p. 68

[533] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 136

[534] J. Wickham, 'After the party's over: the Irish employment model and the paradoxes of non-learning', in S. Lehndorff (ed.), *A triumph of failed ideas – European models of capitalism in the crisis*, European Trade Union Institute, Brussels, 2012, p. 68

[535] J. O'Hagan and T. McIndoe-Calder, 'Population, Employment and Unemployment', in J. W. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2014, p. 170

[536] J. O'Hagan and T. McIndoe-Calder, 'Population, Employment and Unemployment', in J. W. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2014, p. 170

the countries in the sample, 38.1 % of unemployed people in 1985.[537] At the time, this was coupled with relatively high unemployment of 10.5%. Consequently, after a period of economic growth, in 1997 the unemployment rate and the inactivity rate had both declined, to 6.5% unemployment and an inactivity rate of 35.7%.[538] These data allow us to link the pursuit of active employment policies to the emergence of the Celtic Tiger boom. Active employment policies also correspond to the Continental VOC model rather than the market based VOC exhibited in other institutional areas of Ireland.[539]

The employment policies outlined in the reports were characterised by a significant shift in focus over time. While the pursuit of active employment policies was named as a priority from the onset of the programme, it further gained in importance over time, undoubtedly also in light of persistently high unemployment. This link became apparent from the first report: 'Activation should be a priority given that long-term unemployment is high'.[540] While the labour participation rate peaked at 64% in Q2 2007 and decreased to 60.7% in Q2 2011, the trend for unemployment is reversed. In Q2 2007 unemployment stood at 4.6 % to increase to 14.3% in 2011.[541]

Subsequent mission statements make clear that while the mission was willing to give some limited space to active employment policies, it continued to regard material deprivation as the primary component to improve job search: 'Enhanced labour market activation policies, together with more stringent job-search conditionality attached to unemployment benefits, will strengthen job search efforts and improve labour market matching at limited budgetary cost'.[542]

At the end of 2011, the Irish government had made substantial progress in translating the guiding principles of enhanced labour market activation policies into concrete measures. One key component of the new activation model was the National Employment and Entitlement Service (NEES), which aimed at increasing efficiency through the merging of the delivery of active and passive labour market policies.[543] This measure was introduced primarily to merge the benefit and placement function of employment policy, as prior to the crisis Ireland was one of only a few OECD countries where this function was separate.[544] Additionally, the model entailed the introduction of a new IT system and a new case management model.

New legislation for employment policies sought to improve these in four major ways: Firstly, through integration of the training arm of the Irish National Employment and Training Authority (FAS) with the vocational education committee system. Secondly, it sought to swiftly introduce SOLAS, a new institution aimed at providing education and training schemes to job seekers.[545] This institution was intended to cooperate closely with the new National Employment and Entitlements Service (NEES). Thirdly, the link between the workplace and training schemes for people in work was to be enhanced. Lastly, a review of the apprenticeship system was to be conducted.[546] In this way, the mission hoped to improve early activation of job seekers, to avoid

[537] P. Auer, 'Employment Revival in Europe. Labour market success in Austria, Denmark, Ireland and the Netherlands', *International Labour Office*, Geneva, 2000, p. 6
[538] Ibid.
[539] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 140-141
[540] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 34
[541] A. Barrett and S. McGuiness, 'The Irish Labour market and the Great Recession', *CESifo DICE Report*, no. 2, 2012, p.28
[542] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 35
[543] European Commission, [Occasional Papers 88] *The Economic Adjustment Programme for Ireland*, December, 2011, p. 32
[544] D. Grubb, S. Singh and P. Tergeist, 'Activation Policies in Ireland', *OECD Social, Employment and Migration Working Papers*, no. 75, 2009
[545] SOLAS - The Further Education and Training Authority, accessed on 27 December 2015, <http://www1.solas.ie/Pages/HomePage.aspx>
[546] European Commission, [Occasional Papers 96] *The Economic Adjustment Programme for Ireland*, June, 2012, p. 41

their drift into long-term unemployment, where the chances of finding new employment declined sharply.

A subsequent report then stated that the government made good progress in the implementation of its 'Pathways to Work' agenda, particularly with regard to the new employment centres, which should provide 'close engagement with employers to encourage recruitment directly from the claimant roll'.[547] The 'pathways to work' initiative featured some positive aspects, such as the provision of 21,000 additional training places.[548] The pursuit of active employment policies on this scale is compatible with Ireland's pre-crisis hybrid labour market, but does not constitute a typical feature of a market based VOC model.[549]

Significantly, the case for promoting active employment policies was recognised by the mission, but the execution of such policies was in practice severely limited by considerations of fiscal consolidation, so that in effect new measures had to be cost neutral.[550] This constituted a crucial impediment to the genuine pursuit of active employment policies. The position of the Irish government, which was in favour of continued emphasis on active employment policies, as well as that of the mission can thus be predicted using Amable's VOC typology.[551]

A related pilot project tested the execution of one stop shops for job seekers, named *Intreo*. Furthermore, as resource levels and training levels for the new centres are assessed, the mission also recommended the outsourcing to private companies of some of these centres.[552] *Intreo* was intended by the Irish authorities to serve as 'an integrated platform for labour activation services',[553] in an effort to enhance coordination between the various employment policy schemes. In the winter of 2012, the government presented an Action Plan for Jobs 2013, which continued most initiatives introduced in 2012, although it contained some crucial albeit subtle alterations. The alterations were relevant because they can be clearly traced to the Irish government's own initiative and the mission did not approve of several of the measures presented.

A point of criticism related to the introduction of '"disruptive reforms", which the authorities sought to promote as major breakthroughs'.[554] In addition to the promotion of FDI and business facilitation, which the mission approved of, the plan introduced a scheme for subsidised recruitment, whereby a company received funding somewhere between €7,500 and €10,000 per person from the government over a two year period. Secondly, the plan made provisions for the increased availability of IT skills through additional training facilities. The introduction of subsidised hiring policies is highly relevant in VOC terms, as it constituted a fall back on Ireland's pre-crisis VOC labour market, where such hiring policies were decisive for Ireland's cluster allocation.[555]

The mission's primary response to this deviation from the reform trajectory towards a market based VOC was to underline again the imperative of staying within the budgetary envelope, which made a comprehensive and active employment policy impossible. Experts in the Irish labour

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[547] European Commission, [Occasional Papers 115] *The Economic Adjustment Programme for Ireland*, September, 2012, p. 31
[548] A. Barrett and S. McGuiness, 'The Irish Labour market and the Great Recession', *CESifo DICE Report*, no. 2, 2012, pp.32-33
[549] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 174-175
[550] A. Barrett and S. McGuiness, 'The Irish Labour market and the Great Recession', *CESifo DICE Report*, no. 2, 2012, p.32
[551] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104
[552] European Commission, [Occasional Papers 115] *The Economic Adjustment Programme for Ireland*, September, 2012, p. 31
[553] European Commission, [Occasional Papers 127] *The Economic Adjustment Programme for Ireland*, January, 2013, p. 38
[554] European Commission, [Occasional Papers 131] *The Economic Adjustment Programme for Ireland*, April, 2013, p. 27
[555] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009 140

market criticised activation schemes on the grounds that there is no mandatory requirement to meet case workers: 'Furthermore, neither new nor existing claimants are subject to regularised contact with employment services and the proposed sanction regime appears weak'.[556] However, this criticism omits the fact that such regularised contact would simply not be feasible, given the current administrative and fiscal constraints, particularly with regard to the extremely low number of case workers.

The same report further stressed the need to increase the quantity and scope of work-based apprenticeships in collaboration with the private sector.[557] An independent review commissioned by the Department of Social Protection (DSP) assessed the impact of various employment policies purely on economic grounds, i.e. whether they justify the financial investment by assessing the return to work rate of job seekers in the various programmes. The results of this review were very negative for most of the schemes under examination.[558] The first post programme surveillance review from the spring 2014 summarised the progress made in the various reform initiatives in the area of employment policy and found that the activation services, such as *Intreo* have progressed much further than the equally critical further education and training schemes for job seekers (FET).[559]

In conclusion of the employment policy section of this chapter, this section clearly outlined a discord between the mission and the Irish government over employment policies. The Irish government sought to pursue active employment policies in a continuation of its pre-crisis VOC features.[560] The mission did not support such measures and indirectly reduced the effectiveness of such measures by refusing to make additional funding available. It made small concessions at a late stage in the programme, however, as unemployment figures reached alarming levels and public pressure for a more active role of the Irish state mounted.

The Greek Labour market

The nature of the Greek labour market is essentially a dual one. While in most economically advanced economies there is a distinction between the level and nature of employment protection for regular contract employees and those on temporary employment contracts, this distinction was particularly pronounced in Greece before the crisis. There was a core labour market which comprised a large public sector and large companies, which was rather rigid and employment herein was heavily protected.

There was also a 'fringe' labour market, which was characterised by irregularity and uncertainty for the employee.[561] This created particular strong vested interests among the employees in the core labour market, particularly among 'workers in the public sector [who] enjoy high employment protection and seek to safeguard it. In the absence of high unemployment benefits and a developed

[556] A. Barrett and S. McGuiness, 'The Irish Labour market and the Great Recession', *CESifo DICE Report*, no. 2, 2012, p.33
[557] European Commission, [Occasional Papers 154] *The Economic Adjustment Programme for Ireland*, July, 2013, p. 30
[558] Ibid., p. 31
[559] European Commission, [Occasional Papers 195] *The Economic Adjustment Programme for Ireland*, June, 2014, p. 28
[560] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 142
[561] G. Katrougalos and G. Lasaridis, *Southern European Welfare States: Problems, Challenges and Prospects*, Palgrave Macmillan, London, 2003

system of vocational training, job protection is cherished'.[562] This duality between a fringe and a core labour market characterises Southern European VOC labour markets in Amable's framework as well.[563] Given the market based VOC's emphasis on flexibility over regulation as the primary adjustment mechanism, we would expect extensive liberalisation of EPL legislation.

Within the wage labour market, Bruno Amable's analytical framework produces an interesting parallel: Employment policy is the only subcategory, where a juxtaposition of the Southern European Variety of Capitalism and the Market based Variety of Capitalism, which is closest to the overall reform trajectory of the EAPs, indicates that ideal typical policies in this area should be largely identical in both models, as both favour largely passive employment policies.[564] Whereas policies are often diametrically opposed in the two other subcategories, necessitating comprehensive reform packages, this area should be characterised through the absence of major permanent reform efforts.

Employment protection in Greece

There was a crucial link between the fragmentation of the labour market into a core and a fringe labour market and the rigidity of the employment protection regulation, which a 2005 OECD report highlighted.[565] This duality meant that work time flexibility was achieved predominantly through overtime work and recruiting of temporary staff rather than new permanent staff.[566] The dual character of the Greek labour market led to a different set of rules being applied to the fringe labour market, where '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'.[567]

This led to a further increase in the gulf between core and fringe labour market, as it created additional barriers to entry into the core labour market. Even throughout the period of economic growth that characterised the decade before the economic crisis, which saw the Greek economy grow at rates above the EU average,[568] unemployment had remained at high levels, and entry into the core labour market proved particularly difficult for young people.[569] The bias in favour of permanent over temporary employment was an important characteristic of the Greek labour market and one which Marietta Giannakou, former Minister of Education, is convinced was the direct result of intense politicisation of the employment protection regime, reflecting the influence of small interest groups on the policy making process in this area.[570]

Another fault line in the Greek labour market was a division by professions. A distinguishing feature of the Greek labour market was that employment protection legislation continued to be

[562] K. Featherstone and D. Papadimitrou, 'Assessing Reform Capacity in Greece. Applying Political Economy perspectives', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 43
[563] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 104-105
[564] Ibid., pp. 174-175
[565] OECD, 'Economic Surveys of Greece 2005', *Raising Labour Force Participation and Employment Rates*, OECD, Chapter 4, 2005, p. 101
[566] Ibid.
[567] K. Featherstone and D. Papadimitrou, 'Assessing Reform Capacity in Greece. Applying Political Economy perspectives', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, pp. 43-44
[568] OECD, 'Economic Surveys of Greece 2005', *Executive summary*, OECD, 2005, p. 5
[569] OECD, 'Economic Surveys of Greece 2007', *Easing entry into the labour market*, OECD, Chapter 4, 2007, p. 86
[570] Marietta Giannakou, former Minister of Education, interviewed by Benjamin Klos, 2015

much more extensive for ‘white collar’ workers than for ‘blue collar’ workers.[571] Seen from a VOC perspective, the duality of core and fringe labour markets in one country is typical of Southern European VOC countries, rather than a specifically Greek feature.[572] Given the strongly deregulated nature of market based VOC labour markets, we would expect extensive deregulation to take place, and for this deregulation to be particularly severe for the core labour market.

The first economic adjustment programme focused on the removal of EPL (Employment Protection Legislation) in the context of its overall labour market reforms, while in the second economic adjustment programme, the focus of reforms shifted markedly towards wage bargaining and arbitration, which will be discussed in more detail in the next section. The most important employment protection reforms occurred in two broad waves, in June and December 2010.[573]

A proposed third wave of employment protection reform was not implemented, due to strong domestic resistance and politicians’ fear of the political costs involved in pushing through further employment protection reductions. Significantly, the last report to mention the 'third wave' of employment protection reforms was published in February 2011,[574] after which overall public unrest and dissatisfaction with the economic adjustment programme reached new heights, combined with intensifying political unrest, which culminated in the resignation of Prime Minister Papandreou in early November 2011 and the establishment of a caretaker coalition government under Lucas Papademos.[575]

Further steps to reduce EPL took place in December 2012, when reforms aimed at the removal of regulatory requirements in the area of employment protection. This included ‘abolishing pre-approvals of overtime work and streamlining reporting requirements for employers' working hours’ arrangements in order to reduce the administrative burden’.[576] These requirements were originally designed to ease checks and controls by the Labour Inspectorate and have not been replaced by other measures of enhancing the Inspectorates’ ability to effectively control observance of employment protection rules. This measure was targeted at tackling the mechanisms by which EPL was enforced by the Greek state prior to the crisis.

Generous severance rules in the core labour market were a key component shaping the pre-crisis employment policies in Greece, which an OECD report links to a tendency to resort to overtime rather than new recruitment to compensate for increased workloads.[577] In terms of Amable’s framework, extensive severance provisions for no fault dismissals and for dismissals after 20 years of service form an identifying feature of the Mediterranean cluster of employment protection.[578] By contrast, market based VOCs are characterised by minimal provisions for severance pay, even

[571] World Bank, ‘Doing Business in Greece 2008’, *World Bank Publications*, 2008
[572] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 174-175
[573] N. Christodoulakis, *Greek Endgame. From Austerity to Growth or Grexit*, Rowman and Littlefield International, London, 2015, pp. 49-61
[574] European Commission, [Occasional paper 77] *Economic Adjustment Programme for Greece*, Third Review, European Commission, February, 2011
[575] C. Simitis, *The European debt crisis. The Greek case*, Manchester University Press, Manchester, 2014, p. 153
[576] European Commission, [Occasional paper 123] *Second Economic Adjustment Programme for Greece*, First review, European Commission, December, 2012, p. 46
[577] OECD, ‘Economic Surveys of Greece 2005’, *Raising Labour Force Participation and Employment Rates*, OECD, Chapter 4, 2005, p. 105
[578] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 132

in cases of unfair dismissal, and low benefits deriving from seniority.[579] Hence, a comprehensive overhaul of regulations concerning severance pay would be expected.

The cost of terminating employment in Greece was 24 weeks of salary, assuming the Greek average salary in 2007 as a basis for calculation, see *Figure 11* below. Furthermore, non-wage labour costs constituted 28% of salary.[580] Thus, in 2008, Greek employment protection for the core labour market was high, with the overall system skewed in favour of white collar workers. Yet, the Greek employment protection regime had been subject to some change in the decade after 2000, as a result of which the restrictiveness of employment protection for temporary work was eased slightly.[581]

Figure 11: Employment protection in Greece

Employing Workers data	Doing Business 2006	Doing Business 2007	Doing Business 2008
Rank	n/a	144	142
Rigidity of Employment Index	55	55	55
Nonwage labour cost	31	31	28
Firing costs (weeks of wages)	24	24	24

Figure 11: Doing Business report, World Bank 2008

A crucial milestone on this reform trajectory towards a market based VOC was the Law 3862/2010, which was approved by parliament in July 2010. This law, among other provisions, eased employment protection by modernising and reducing severance payments, and reduce cost and administrative burdens for collective dismissals.[582] These measures impacted on employment across the board, but in the same report, further reforms were requested, particularly to 'facilitate the use of temporary and part-time contracts, as well as increase flexibility in working hours'.[583] Efforts to this effect occurred in several waves. The Troika report of February 2011 mentioned a proposed further wave of reforms, aimed at reducing severance payment for fixed term contracts. The report indicated that despite extensive deregulation, the cost of terminating contracts remained high by EU comparison.[584]

In December 2012, the first review of the second programme announced that new reforms had been agreed in order to improve the functioning of the labour market, which aimed, among other things, at 'easing the degree of employment protection in order to facilitate job mobility and

[579] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 131
[580] OECD, 'Economic Surveys of Greece 2007', *Easing entry into the labour market*, OECD, Chapter 4, 2007, p. 86
[581] Ibid., p. 96
[582] European Commission, [Occasional paper 68] *Economic Adjustment Programme for Greece*, First Review, European Commission, August, 2010, p.42
[583] Ibid.
[584] European Commission, [Occasional paper 77] *Economic Adjustment Programme for Greece*, Third Review, European Commission, February, 2011, p.34

encourage job creation'[585] and less stringent rules for the adjustment of working hours. In terms of severance pay across all professions, the previous alterations were now deemed insufficient and a cap at 12 months of salary for all employees was legislated.[586]

In addition, notice periods were reduced to a maximum of four months for all employees. Here too, the reforms should be seen in light of the predicted spill over effects of the reform: 'Looking forward, this reform is an important complement to the product market reforms of the programme: as the latter are expected to give rise to more dynamic product market entries and exits of firms and thereby of potential employers, proper framework conditions enhancing labour mobility need to be in place'.[587] Thus, as expected based on Bruno Amable's framework, severance pay was reduced in the EAP, bringing the country closer to the market based VOC model.

In a closely related set of measures, legislation passed in December 2010 targeted regulation of temporary and part time work. This new legislation contained two important provisions: Firstly, it increased the probationary period significantly, from two months to one year.[588] This alteration, like any other reform of the employment protection regulation, brought about very one sided advantages to the employer. Secondly, employment protection and rights were severely limited, as the maximum period for which part-time shift work is allowed was extended to nine months, up from previously six. Furthermore, regulations relating to the minimum payment part time workers are due in (relation to their full time colleagues) have been abolished in their entirety.[589]

In the last report available for analysis from April 2014, new proposals emerged in the discussion stage, which related to the scope of temporary work and temporary work agencies. According to these proposals, temporary work agencies would be able to supply temporary employees to a whole range of new professions, with the aim 'to broaden the types of work, positions, and contracts for which hiring through temporary work agencies is possible and reduce restrictions on hiring via agencies e.g. following redundancies for economic reasons'.[590]

This is compatible with the introduction of a market based VOC labour market, where 'easy recourse to temporary work and easy hire and fire' are characteristic features.[591] The attempted extension of the use of temporary agencies was also an attempt to circumvent the stricter employment protection of the core labour market. From a VOC point of view, efforts to increase the use of temporary work agencies are in line with a reform trajectory towards a market-based VOC model. Bruno Amable labelled 'few temporary work renewal restrictions' as a main characteristic of a typical labour market in a market based VOC.[592]

However, it is worth stressing the difficulty in altering a country's VOC model comprehensively, which is something all VOC literature recognises.[593] Crucially, Amable's framework frames the

[585] European Commission, [Occasional paper 123] *Second Economic Adjustment Programme for Greece*, First review, European Commission, December, 2012, p. 45
[586] Ibid.
[587] Ibid.
[588] European Commission, [Occasional paper 77] *Economic Adjustment Programme for Greece*, Third Review, European Commission, February, 2011, p.34
[589] Ibid.
[590] European Commission, [Occasional paper 192] *Second Economic Adjustment programme for Greece*, Fourth Review, European Commission, April, 2014, p. 48
[591]B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 104-105
[592] Ibid., p. 174
[593] P. Hall and D. Soskice, *Varieties of Capitalism. The Institutional foundations of comparative advantage*, Oxford University Press, Oxford, 2010

relationship between employment protection and economic growth as U-shaped,[594] indicating that 'high growth is possible either in uncoordinated industrial relations and deregulated product markets, or with coordinated industrial relations and regulated product markets'.[595] Hence, contrary to the mission's perception, Amable's framework theoretically allows for strong employment protection regimes and strong economic growth to coexist. The mission's implicit assertion that flexible labour markets and employment growth are linked has been challenged in recent years.[596]

The ultimate goal of the reforms in the area of employment protection was to boost external competitiveness through increasing labour supply and increasing wage flexibility.[597] However, the view that increasing labour flexibility and reducing labour cost would be sufficient to boost Greece's international competitiveness, has not been shared by policy makers on the Greek side. For Luka Katselli the reduction of employment protection and the indirect lowering of wages, reflected the view in EU institutions and some Member States, that 'the problem of competitiveness can be solved through the lowering of wages'.[598] In her view, the measures outlined above are ill-suited to address the issues facing the Greek economy: 'If the major purpose is to increase competitiveness, the reforms that you need are completely different from the ones that were undertaken in the five years and are still being pushed by our creditors'.[599]

This assessment matches Peter Hall's finding that no major liberal economy is operating a successful export led growth strategy.[600] In fact, Hall asserts that 'institutional capacity for coordination in their political economies to pursue strategies based on export-led growth' has been a crucial aspect in the success of such strategies. Liberal VOCs (market based VOCs) lack these institutional capabilities, as they rely on market forces rather than state moderated coordination. Hence, theoretical insights support the former Minister of Labour in her assertion that the reforms promoted by the Troika are ill-suited to improve competitiveness and thus export led growth.

The way in which employment protection legislation was reformed is highly instructive in terms of Bruno Amable's VOC framework. Looking at an ideal typical market based VOC, 'limited employment protection for regular contracts' is an important component of the labour market of this VOC.[601] The reforms thus far certainly indicate efforts to limit EPL. In a similar vein, short notice periods, trial periods and low unfair dismissal compensations are all listed as identifying features of labour markets in market based VOC countries.[602]

[594] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 218
[595] Ibid.
[596] P. Tridico, 'Financial Crisis and global imbalances: its labour market origins and its aftermath', *Cambridge Journal of Economics*, vol. 36, 2012, pp. 17–42
[597] European Commission, [Occasional paper 72] *Economic Adjustment Programme for Greece*, Second Review, European Commission, December, 2010, p.29
[598] Luka Katselli, former Greeek Minister of Labour, interviewed by Benjamin Klos, 2015
[599] Ibid.
[600] P. Hall, 'Varieties of Capitalism and the Euro Crisis', *West European Politics*, vol. 37, no. 6, 2014
[601] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 174
[602] Ibid., pp. 174-176

Wage Bargaining in Greece

The previously mentioned fragmentation of the labour market has implications for wage bargaining and industrial relations as well. The fragmentation of the labour market led to unionisation of the workforce being unevenly in favour of the core labour force in highly regulated work environments. Thus, unions tended to over-represent the interests of public sector workers and had thus become suspicious of labour market reforms threatening the status quo.[603] The fragmentation of the Greek labour market is further mirrored by a fragmentation of the national union landscape, where unions were subject to intense competition over the right to represent workers,[604] which in turn led them to focus their attention on the largest segments of the Greek labour market, i.e. the core labour market. Wage bargaining in Greece has undergone some significant reforms and since 1990, the Greek state no longer directly intervenes in the process of wage bargaining, although political parties continued to exercise indirect influence through networks of political patronage.[605]

In Greece, a high fragmentation of union representation was complemented by relatively low participation rates, with only 20% of the active workforce participating in unions.[606] In Amable's framework, the high number of different unions led to the country's grouping in an ill-defined cluster with Japan and Norway, whose single shared characteristic is a high degree of union density. In Southern European VOCs, wage setting is typically strongly centralised and occurs primarily at the national level.[607] Here, Greece deviated from the norm somewhat, in that sectoral agreements were important supplements to national-level agreements,[608] so that intermediary agreements in conjuncture with general national agreements actually applied to 99% of Greek enterprises.

On an administrative level, intermediate wage bargaining, as practised in Greece before the EAP, tended to lead to a vast number of separate wage settlements, which made the introduction of coherent national labour market policies difficult, as the labour market was highly fragmented. This was not only mirrored by unions with regard to the sectors represented but also in the internal organisational structure of the unions themselves.[609]

In this environment, the achievement of continuous co-ordination between social partners became near impossible, a feature that Greece shares with other Southern European countries.[610] Despite this organisational weakness, trade unions retained the ability to exercise strong veto powers to resist change.[611] This assessment is supported statements of Luka Katselli who rejects the notion

[603] K. Featherstone and D. Papadimitrou, 'Assessing Reform Capacity in Greece. Applying Political Economy perspectives', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.)*, From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 36
[604] B. Hancke, *Unions, Central Banks and the EMU: Labour Market Institutions and Monetary Integration in Europe*, Oxford University Press, Oxford, 2013
[605] K. Featherstone, 'The Greek Sovereign Debt Crisis: A Failing State in a Skewed Regime', *Journal of Common Market Studies*, vol. 49, no. 2, pp. 193-217
[606] OECD, 'Economic Surveys of Greece 2007', *Easing entry into the labour market*, OECD, Chapter 4, 2007, p. 87
[607] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104
[608] OECD, 'Economic Surveys of Greece 2007', *Easing entry into the labour market*, OECD, Chapter 4, 2007, p. 87
[609] K.A. Lavdas, 'Interest Groups in Disjointed Corporatism: Social Dialogue in Greece and European. Competitive Corporatism.' *West European Politics*, vol. 28, no. 2, 2007, p. 302
[610] P. Hall, 'The Economics and Politics of the Euro Crisis', in *German Politics*, vol. 21, no. 4, 2012, p. 362
[611] O. Molina and M. Rhodes, 'The Political Economy of Adjustment in Mixed Market Economies: A Study of Spain and Italy', in B. Hancké, M. Rhodes and M. Thatcher (eds.), *Beyond Varieties of Capitalism. Conflict, Contradictions and Complementarities in the European Economy,* Oxford University Press, Oxford, 2007, pp. 225-227

of the Greek labour market as over-regulated. Instead she regards the labour market as 'anarchic' due to its high level of fragmentation.[612]

Wage bargaining and industrial relations in Greece were thus shaped by fragmented unions and labour markets alike, which made identifying common goals and subsequent collective action difficult, as interest mediation was largely confrontational.[613] The reason for the adversarial nature of interest mediation concerning wages derives therefore from a lack of a culture to support cooperation between employers' associations and unions and historically a deep-rooted distrust of the state as interest mediator. This, according to Marietta Giannakou, meant that both employer association and the unions sought to avoid the mediation stage.[614] Unions and employer's associations increasingly saw wage negotiation as a 'zero sum' game.[615]

The adversarial nature of wage bargaining between employers and employees was thus a long established and crucial feature of the Greek labour market. This is perhaps also part of the reason why Watt and Theodoropoulou assert that 'the Greek system of collective wage bargaining as it emerged in the 1990s gave rise to a form of coordination that did not lend itself to producing moderate wage growth as a result of competitiveness concerns',[616] but was instead utilised to achieve short term goals.

With the exception of centralisation of wage bargaining, Amable's VOC framework captures core features of the Greek wage setting framework before the economic crisis very accurately, particularly regarding the adversarial nature of industrial relations and the large number of unions participating in the wage setting process.[617] However, the importance of sectoral agreements to supplement the national level agreements is not accurately captured in Amable's typology.[618] Which distinguishes only between fully centralised wage setting and a decentralised mode, without accounting for hybrid modes. Furthermore, while some fragmentation of labour markets and union representation is a systemic feature of the Southern VOC, the extent observable in Greece prior to the crisis is quite unique. Working under the assumption that Greece is intended by the Troika to be transformed in a market based VOC, we would expect measures to curb union influence in wage setting processes and extensive decentralisation of wage setting.[619]

Within the wage labour nexus, as the labour market institutions are called in Bruno Amable's parlance, wage bargaining had by far received the most attention by the reports, both quantitatively and qualitatively in the form of in-depth background analyses. The model through which wage bargaining took place came under intense scrutiny from the onset of the programme, with the IMF/ECB/ Commission calling on Greece to clarify the legal framework for collective bargaining to ensure that there was a clear legal framework for firm-level agreements. The Greek authorities

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[612] Luka Katselli, former Greeek Minister of Labour, interviewed by Benjamin Klos

[613] K. Featherstone and D. Papadimitrou, 'Assessing Reform Capacity in Greece. Applying Political Economy perspectives', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 44

[614] Marietta Giannakou, former Minister of Education, interviewed by Benjamin Klos, 2015

[615] K. Featherstone and D. Papadimitrou, 'Assessing Reform Capacity in Greece. Applying Political Economy perspectives', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 36

[616] S. Theodoropoulou and A. Watt, 'An Evaluation of the Austerity Strategy in the Eurozone: Was the First Greek Bailout Programme bound to fail?', in G. Karyotis and R. Gerodimos (eds.), *The Politics of extreme austerity. Greece in the Eurozone crisis*, Palgrave Macmillan, New York, 2015, p. 80

[617] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104

[618] Ibid., p. 133

[619] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104

aimed to adopt new legislation by late August, in particular by allowing firm-level agreements to prevail over other levels'.[620] This demand was coherent with the overall outright goal to 'forge consensus on decentralisation of wage bargaining'.[621] It is also along the expected reform trajectory towards decentralisation derived from Amable's framework.[622]

The introduction of alternatives to centralised collective bargaining, particularly when these alternatives supersede the existing model, would effectively render centralised collective bargaining obsolete. Luka Katselli stresses that the dismantling of the previous model of centralised collective agreements was not the only possible policy option: 'There were some specific rigidities, which could have been changed and addressed without dismantling all the collective agreements and the social dialogue'.[623] However, she suggested that this option was not taken because the shift to firm level agreements was a policy goal in itself, as elaborated in greater detail below.

Previously, arbitration in cases of non-agreement between employer association and unions was provided by a nominally independent state agency since 1990. However, this left scope for indirect influence by the state. In the first outline of the reform agenda, the 'Troika' stressed the need to 'reform the arbitration system, which should operate according to transparent and objective principles, guaranteeing non-interference from the government'.[624] From a VOC perspective, this is highly significant, as the reduction of state influence on the wage setting process constitutes a necessary pre-condition for a gradual shift towards a market based VOC model, which explicitly relies on the market as the primary adjustment mechanism.[625]

In the first statement regarding reform, the authors of the reports thus made two very important points: Firstly, the wage bargaining model was to be altered as swiftly as possible, to allow for a shift from national wage settlements towards firm level agreements. This would correspond to a shift of wage bargaining from a semi-centralised system towards a decentralised one. Secondly, the elimination of the role of the state in the arbitration process was clearly identified as a reform goal. This can be seen in a broader context with the removal of state influence in the economy.

The requested reform of wage settlements, specifically the introduction of firm level agreements, was scheduled to be passed by the Greek parliament,[626] but was consequently delayed. The nature of the delay was quite revealing, as the Greek administration altered the initial proposal in a significant respect: 'the draft law that was discussed between the government and the mission was not fully consistent with the MOU. In particular, the latter requires that firm-level collective agreements take precedence over sectoral and occupational agreements without undue restrictions'.[627]

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[620] European Commission, [Occasional paper 68] *Economic Adjustment Programme for Greece*, First Review, European Commission, August, 2010, p.42
[621] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, May, 2010, p.22
[622] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 174-176
[623] Luka Katselli, former Greek Minister of Labour, interviewed by Benjamin Klos, 2015
[624] European Commission, [Occasional paper 68] *Economic Adjustment Programme for Greece*, First Review, European Commission, August, 2010, p.42
[625] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 101-102
[626] European Commission, [Occasional paper 68] *Economic Adjustment Programme for Greece*, First Review, European Commission, August, 2010, p.42
[627] European Commission, [Occasional paper 72] *Economic Adjustment Programme for Greece*, Second Review, European Commission, December, 2010, pp.29-30

Hence, the delay in passing the relevant legislation was not due to a lack of administrative capacity, but to the deliberate intention of the government to alter the proposed legislation in a decisive manner. Thus, it intended to prevent a permanent alteration of the way in which wage bargaining is conducted in Greece and to effectively maintain the pre-crisis semi-centralised model. Firm-level agreements which exist parallel to sectoral ones would not constitute an irreversible alteration of the model and were therefore preferred by the Greek administration. This finding lends support to the assumption that the Greek government pursued a 'survival and return' strategy,[628] where minimal and reversible concessions to the Troika, in what Streeck and Thelen call adaptation.

The account of Luka Katselli of how the dismantling of collective agreements on the national level was accomplished is highly informative, as it suggests that for the mission, the shift to firm level wage bargaining was not a means not an end, but rather an end in itself:

'There were companies which were not competitive and wanted to deviate from sectoral agreements. So I managed to negotiate with the Troika, and pass the law of what we call firm-level agreements, where we maintain the idea of having an agreement between workers and employers, if they wanted to deviate, they could, with just one announcement. The Troika accepted that and we passed it into law in January 2011 and we started to monitor its implementation. What happened between January and May? Special interests in Greece, which did not wish to negotiate a sectoral agreement, went and found the Troika. (…) They came to the Troika and said "look this isn't working, we want a dismantling of sectoral agreements, altogether. Not flexibility within the framework, but dismantling it". The Troika had never put that in the negotiations we had. We had agreed that we would monitor the implementation and if in a years' time, it had not worked, we would see how to adjust. (…) Well, in three months' time, before we even had time to start implementing it, in May 2011, they came, the ministry, not the Troika, and said this is a prior action, you have to dismantle it, it's not working'.[629]

This narrative of the events leading up to the abolishment of collective agreements at the sectoral level suggests that the economic outcomes of sectoral agreements was not the primary concerns of the Troika officials, as the previously agreed sectoral agreements could not be implemented, monitored or evaluated in the time that elapsed between legislation in January 2011 and the subsequent alteration of the legislation in May 2011.

Hence, it might be that the mission was aware of the reversibility of the wage setting reforms thus far, and might have sought a permanent alteration of the wage setting mechanism in the long run. Luka Katselli maintained during the interview that this was not inevitable as 'collective bargaining could have been made more flexible without dismantling it'.[630] This suggests a change of mind on the side of the mission, perhaps in recognition of the faltering will to implement a comprehensive alteration of Greece's economic model, giving further credence to the pursuit of a 'survival and return strategy, which will be elaborated later in this chapter.

Luka Katselli's account also supports the claim that implementation of the EAP reforms were hampered by the mission's 'moving of goal posts'. Georges Siotis counters this with the assertion that 'a genuine structural reform would be to transform whatever wage setting institutions you had before that led to excessive wage growth, into a system of wage setting which ensures that this set

[628] W. Streeck and K. Thelen, *Beyond Continuity. Institutional Change in Advanced Political Economies*, 2nd edn., Oxford Univerisity Press, Oxford, 2010
[629] Luka Katselli, former Greek Minister of Labour, interviewed by Benjamin Klos, 2015
[630] Ibid.

of wage setting institutions does not lead to long lasting loss of wage competitiveness. That, I would say is a genuine structural reform'.[631]

Another detail of the proposed reforms which touched upon both the decentralisation and the role of the state in wage bargaining is the ability of the Minister of Labour under the old model to extend agreements to workers and firms not represented in the agreement.[632] In comments on the draft law from December 2010, the mission stressed that it regards firm level agreements and the so called extension mechanism as highly interlinked: 'The firm-level collective agreements and the extension of sector and occupational agreements to parties not represented in negotiations should be discussed together, since the former will not reach their objective of taking into consideration the specific circumstances of each firm, as long as the latter remains applicable'.[633]

Crucially, the law also sought to revoke the favourability principle, according to which, in cases of concurrency, the contract most favourable to the worker applies.[634] This would be particularly relevant to areas where sectoral, national and firm level agreements coexist. In an exchange of drafts between the Greek Ministry of Labour and the mission, the mission pressed the Greek government to ensure that the firm level agreements would supersede sectoral agreements: 'To guarantee compliance with the MOU, the Draft Law should establish that firm-level collective agreements can deviate *in peius* from sectoral agreements'.[635]

The aim of the mission was to ensure that the provisions in firm-level agreements could be less generous, thus aiding the downward adjustment of wages. Ultimately, the favourability clause was removed but only in October 2011 after significant delays. In addition to depressing wage levels by allowing firm level agreements to be less generous than sectoral agreements, the removal of this clause also promoted the decentralisation of the labour market in Greece by giving greater significance to local/ firm-level agreements. This is what one would have expected from a VOC perspective, given that low levels of coordination and centralisation are identified by Bruno Amable as distinguishing market based VOC's from other VOC models.[636]

The Greek government's outright refusal to enact reforms aimed at curbing the function of ministerial degrees is hardly surprising from a VOC point of view. While the system of wage bargaining was de facto changed, the ministerial decrees gave the state the ability to exercise political influence and to effectively reverse reforms at a later stage. This gives credence to the concept of 'survival and return',[637] referred to in previous chapters. The concept by Wolfgang Streeck and Kathleen Thelen stipulates that when faced with a large, exogenous economic shock, policy makers can either opt to make minimal concessions to reforms and return to the status quo after the crisis or embark on a genuine reform agenda which would ultimately result in the breakdown and replacement of the pre-crisis institutional model. In the Greek context, the preservation of ministerial degrees as a policy making tool in the labour market played a crucial

[631] Georges Siotis, Senior Economic Advisor, Task Force for Greece, interviewed by Benjamin Klos, 2015
[632] European Commission, [Occasional paper 72] *Economic Adjustment Programme for Greece*, Second Review, European Commission, December, 2010, p.30
[633] Comments on draft law, Dec 7-dec 12 2010
[634] Draft law comment exchange between then Minister of Labour Luka Katselli and the Troika (J N Martins and L Spanos), 7. Dec. 2010-12 Dec. 2010
[635] Ibid.
[636] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 174
[637] W. Streeck and K. Thelen, *Beyond Continuity. Institutional Change in Advanced Political Economies*, 2nd edn., Oxford University Press, Oxford, 2010

role, as it could later be used as the primary instrument to reverse structural reforms undertaken within the EAP agenda, thereby enabling the return to the pre-crisis economic model.

Subsequent reports acknowledged these fundamental differences over the use of firm-level agreements, particularly the government's reluctance to facilitate permanent, comprehensive and systemic change in this area: 'The government tends to see the new law and the special firm-level collective agreements (SFLCA, see box) as a tool for only limited wage decentralisation targeted to firms in difficulty, rather than promoting it as a powerful instrument to increase employment and improve competitiveness. The government has not legislated the elimination of the extension of sectoral collective agreements to all firms in each sector'.[638]

The most detrimental effect for union influence in the wage setting process would have come from the abolishment of the extension mechanism, which previously allowed the Minister of Labour to extend wage settlements automatically to the entire sector.[639] In VOC terms, the removal of the extension mechanism by ministerial degree would crucially undermine the unions' role in the wage setting process, thus supporting predictions to that effect derived from Amable's typology.[640] In addition to the demanded removal of the favourability clause, which the Greek Minister for Labour at the time, Luka Katselli, refused, the automatic extension of wage setting agreements by ministerial degree proved equally contentious.

Two consecutive draft laws were criticised by the Troika in its comments on the draft laws, because the draft specified that the extension mechanism would not be applicable to the new firm level agreements, whereas the mission requested that 'the extension mechanism should be abolished, not simply made non applicable when there are firm-level agreements'.[641] This difference of opinion between the negotiating partners signified a deeper discord, as the Greek government clearly regarded the demanded introduction of firm level agreements as a temporary measure, to be abolished after the crisis, whereas compliance with the mission's request would amount to a permanent paradigm shift. It also further supported the argument that the Greek government pursued a strategy of survival and return.

The labour law of December 2010 also brought about substantial changes to arbitration. An important structural change was the removal of the 'privileged access of unions to arbitration',[642] which granted unions the right to appeal for arbitration. This change was clearly intended to further weaken the unions, which were already threatened by the thrust to abolish collective bargaining at a sectoral level. Both measures in conjuncture effectively amounted to a structural reduction of the role of the unions. This development is congruent with an intended move of the country towards a market based VOC, which features a much less pronounced role of unions in the wage setting process.[643]

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[638] European Commission, [Occasional paper 77] *Economic Adjustment Programme for Greece*, Third Review, European Commission, February, 2011, p.32

[639] Draft law comment exchange between then Minister of Labour Luka Katselli and the Troika (J N Martins and L Spanos), 7. Dec. 2010-12 Dec. 2010

[640] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 1175-176

[641] Draft law comment exchange between then Minister of Labour Luka Katselli and the Troika (J N Martins and L Spanos), 7. Dec. 2010-12 Dec. 2010

[642] European Commission, [Occasional paper 77] *Economic Adjustment Programme for Greece*, Third Review, European Commission, February, 2011, p.34

[643] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 108

This fault line between the Greek government and the Troika regarding reforms of the labour market became visible in a number of issues, such as the legal status of opinions issued by the Council of Social Oversight of the Labour Inspectorate (C.S.O.L.I.). Here, the draft laws indicated that firm level agreements may only be concluded after a positive, binding opinion by the C.S.O.L.I. has been issued. By contrast, the mission suggested the following wording in its comments: 'The Council delivers its **non-binding** opinion on the reasoning of the intended collective agreement within a strict period of twenty (20) days, after which it is presumed that the opinion has been delivered'.[644] The suggestion of the precise wording for a draft law also hinted at a deterioration of trust between the Greek government and its international partners within the first year of the EAP, as it was clearly intended to pre-empt procrastination tactics. This discrepancy in the interpretation of the new law, its ultimate purpose and duration is evidenced in the exchange of drafts between the Greek ministry of Labour and the mission in early December 2010.[645]

Almost one and a half years after the initiation of the programme, in October 2011, the initially demanded removal of the extension of sectoral collective agreements to all companies in the sector was finally introduced into law.[646] The same applied to the favourability clause, where suspension was undertaken with the aim to 'decentralise collective bargaining by enlarging the scope of firm-level collective agreements'.[647] The lengthy delay and the pronounced difference of opinion on the subject clearly suggested that both sides were fully aware of the significance of this particular piece of legislation.

In these instances, partial implementation appeared to be the norm rather than the exception. In this context two crucial features stood out. Firstly, some measures of the wage bargaining reform were introduced with a significant delay of over one and a half years, diminishing any complementary effects of the reform that might have occurred, had the measures been implemented simultaneously. Amable emphasises the importance of timing for reforms: 'The overall performance declines when one changes one institution, leaving the other unchanged'.[648] Secondly, the measures legislated mention only the suspension of these agreements, till at least the end of 2014 for the extension of agreements on the entire sector, not their abolishment. This would allow for the pursuit of a survival and return strategy by the Greek government.

The 2011 measures removed the mandatory presence of unions as partners in wage negotiations. This measure was designed to increase the usage of firm level agreements, particularly for small sized firms, which often lacked the necessary union representative in their workforce, as the mission argument ran. According to the new rule, representatives did not need to be members of a union, as long as they represented three-fifths of the workforce. [649] This was a deliberate effort to reduce the influence of the unions in the wage bargaining process, thus fulfilling the prediction derived from Amable's framework that union influence would be curbed in the EAP.[650]

[644] Draft law comment exchange between then Minister of Labour Luka Katselli and the Troika (J N Martins and L Spanos), 7. Dec. 2010-12 Dec. 2010
[645] Ibid.
[646] European Commission, [Occasional paper 87] *Economic Adjustment Programme for Greece*, Fifth Review, European Commission, October, 2011, p. 36
[647] Ibid.
[648] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 63
[649] European Commission, [Occasional paper 192] *Second Economic Adjustment Programme for Greece*, Fourth Review, European Commission, April, 2014, p. 49
[650] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104

At the beginning of the second economic adjustment programme, the arrangements of the wage bargaining system in Greece were again revisited and given renewed attention through the sense of urgency created by the continued economic downturn as well as the stronger overall focus on structural measures. In this respect, the mission stated yet again the synergy effects between product and labour market reforms: 'The mission noted, however, that labour and product market reforms need to go in parallel'.[651] This can be regarded as an indirect recognition of the importance of institutional complementarities, and here the particularly pronounced reciprocity of labour and product markets.[652]

The new reform effort pertaining to the wage setting system took place at a time when minimum wages were cut by 22% for all workers and by 32% for workers under 25.[653] The intention of this measure was to increase downward wage pressure further and to ease entry into the labour market for young workers. The structural aim was to unify the minimum wage, which prior to the reform differed according to seniority, type of work and marital status. In line with this aim, the government was forced to suspend seniority bonuses and automatic wage increases with immediate effect, from March 2012 onwards. In 2013, the government also eased the reporting requirements for firm level agreements, as firm level agreements continued to be underused.

A Troika report from April 2014 announced that industrial relations and wage bargaining would be reviewed in light of helping the long term jobless, young workers and women into the job market.[654] In the words of the authors of the report: 'The framework for industrial relations, industrial action and trade union operations will also be reviewed against best practices'.[655] The further restriction of union influence is the logical extension of the wage bargaining reforms conducted thus far, as Theodoropoulous states succinctly: 'The adjustment programme dictated reforms that weakened instead of strengthening coordination in wage setting by increasing the importance of firm level over sectoral bargaining'.[656] This decision has limited the possibility for concerted action between the social partners further, and, as pointed out previously, Greece was prone to conflictual industrial relations even before the introduction of the EAP.[657]

In VOC terms, reforms of the wage setting mechanism and industrial relations were precisely along the expected lines and centred on the reduction of union influence, where the market based VOCs feature weak unions which pursue largely defensive strategies.[658] A second important feature of the reform agenda was the decentralisation of wage bargaining to the firm level, which the mission pursued vigorously, with reforms hampered by the reluctance of Greek officials to implement them timely and comprehensively.

[651] European Commission, [Occasional paper 94] *Second Economic Adjustment Programme for Greece*, European Commission, March, 2012, p. 38

[652] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 113

[653] European Commission, [Occasional paper 94] *Second Economic Adjustment Programme for Greece*, European Commission, March, 2012, p. 38

[654] European Commission, [Occasional paper 192] *Second Economic Adjustment Programme for Greece*, Fourth Review, European Commission, April, 2014, p. 45

[655] Ibid., p. 47

[656] S. Theodoropoulou, 'National social and labour market policy reforms in the shadow of the EU bail-out conditionality: the cases of Greece and Portugal', *Comparative European politics*, vol. 13, no. 1, pp. 29-55

[657] S. Theodoropoulou and A. Watt, 'An Evaluation of the Austerity Strategy in the Eurozone: Was the First Greek Bailout Programme bound to fail?', in G. Karyotis and R. Gerodimos (eds.), *The Politics of extreme austerity. Greece in the Eurozone crisis*, Palgrave Macmillan, New York, 2015, p. 81

[658] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 175-176

Employment policies in Greece

In Amable's analysis for employment policies, Greece is grouped in a cluster with the USA, Korea, Canada, Spain and Australia.[659] This cluster is identified by the absence of active employment policies and comprises countries which are classified as market based in their overall VOC as well as Southern European VOCs. While these two types of VOC are usually diametrically opposed to one another, in the subcategory of employment policy, both share a passive policy stance.[660] From this theoretical overlap, we can predict that, should the assumption of a transition towards a market based VOC hold, there should be minimal or no reforms in this area.

In general terms, Greece took the expected a passive stance regarding employment policies prior to the crisis. This was to some degree quantifiable, as Greece spent less than one third of the EU average on active labour market programmes (ALMPs), [661] which comprised recruitment incentives, workplace training and lifelong learning schemes. This culminated in Greece having a very high youth unemployment rate compared to the EU and OECD average alike. Greece had a youth unemployment rate for people aged between 15 and 24 of 24%, compared to an EU 19 average of 18% and an OECD average of 12%.[662] The passive stance towards employment policies meant that the gap to other countries in this respect had widened rather than narrowed.[663]

In the first programme for Greece, employment policies were entirely absent from the reports, which was in itself noteworthy, as the unemployment figure in 2011 had increased to 17.9% and to 24.5% in 2012.[664] It can therefore be concluded that the absence of active employment policies from the first programme could not stem for a lack of need, but rather from a deliberate policy choice. This policy choice could be questioned in light of OECD research, which indicated that active employment policies can produce a positive economic impact through reducing unemployment,[665] but is entirely congruent with the expected reform trajectory under Amable's VOC framework.

This effect also occurs in the short run, and thus could have been essential to dampen the worst effects of the crisis on the Greek population. By contrast, most of the structural measures specified in the Greek EAPs are likely to have positive economic effects only in the long term.[666] Yet, research by Leschke and Watt adds the provision that the effectiveness of active labour market policies crucially depends 'on prior expenditure and intensity levels',[667] which in Greece were low by European comparison.

The second economic adjustment programme, beginning in 2012, contained no fundamental alteration in the programme's stance on employment policies and nothing that could be described

[659] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 140
[660] Ibid.
[661] OECD, 'Economic Surveys of Greece 2007', *Easing entry into the labour market*, OECD, Chapter 4, 2007, p. 98
[662] Ibid., p. 86
[663] N. Christodoulakis, 'Market reforms in Greece, 1990-2008: external Constraints and Domestic Limitations', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 105
[664] Eurostat: extracted 30/7/2014, <http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=une_rt_a&lang=en>
[665] OECD, 'Going for Growth', OECD, Paris, 2009
[666] S. Theodoropoulou and A. Watt, 'An Evaluation of the Austerity Strategy in the Eurozone: Was the First Greek Bailout Programme bound to fail?', in G. Karyotis and R. Gerodimos (eds.), *The Politics of extreme austerity. Greece in the Eurozone crisis*, Palgrave Macmillan, New York, 2015
[667] J. Leschke and A. Watt, 'How do institutions affect the labour market adjustment to the economic crisis in different EU countries', *ETUI Working Paper*, European Trade Union Institute, 2010

as 'active' employment policy emerged in the early stage of the second programme. Indeed, as described in the previous section, the focus was almost exclusively on the structure of wage setting. The mission appeared content to enhance the employability of certain groups by cutting their minimum wages and employment protection even more radically than that of other groups: 22% for workers over 25 and 32% for workers under 25.[668] While this had ramifications for certain sections of the workforce, it did nothing to preserve or enhance the skill set of these groups.

The very first mention of active employment policies was made in May 2013. In this report, the mission acknowledged that, due to the extremely and persistently high unemployment in the Greek economy, some employment policies would be required.[669] However, the same report was very quick to outline the narrow limitations of these policies, as a 'measure of emergency and temporary in nature while labour market demand remains sluggish'.[670] The emphasis on the temporary nature of these measures was a crucial aspect here, as these were not structural changes to the functioning of the labour market, but rather temporary measures intended to alleviate some of the worst effects of the crisis.

Perhaps this new consideration of short term pain relief for a suffering population was long overdue, given its complete absence from the first EAP: ‘No positive short-run effects could be expected from the structural reforms in the programme other than by appeal to highly unspecific ‘confidence’ effects which lacked any solid empirical or theoretical basis given the situation in which the country found itself placed’.[671]

In 2013, 27.5% of the eligible Greek population was unable to find work. The figures for youth unemployment were even more alarming, reaching 55% in 2012, based on the mission’s own data.[672] The mission therefore highlighted the economic importance of preserving the skills of the labour force which were not utilised, i.e. the unemployed. Yet, measures remained aimed at 'facilitating the transition of workers across occupations and sectors, by improving the quality of training and favouring the matching between demand and supply'.[673]

The July 2013 plan mentioned the planned implementation of the so called Employment Action Plan, which consisted of short term public work programmes and the promotion of internships.[674] However, it was clarified at a later point that these measures were to take place within the current budgetary envelope, meaning that no additional budget would be allocated to them. Georges Siotis explains this preference of fiscal consolidation over measures which could promote economic growth through the influence of the euro group finance ministers in the design stage of the EAPs.

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[668] European Commission, [Occasional paper 94] *Second Economic Adjustment Programme for Greece*, European Commission, March, 2012, p.38

[669] European Commission, [Occasional paper 148] *Second Economic Adjustment Programme for Greece*, Second review, European Commission, May, 2013, p. 40

[670] Ibid.

[671] S. Theodoropoulou and A. Watt, ‘An Evaluation of the Austerity Strategy in the Eurozone: Was the First Greek Bailout Programme bound to fail?’, in G. Karyotis and R. Gerodimos (eds.), *The Politics of extreme austerity. Greece in the Eurozone crisis*, Palgrave Macmillan, New York, 2015, p. 89

[672] European Commission, [Occasional paper 148] *Second Economic Adjustment Programme for Greece*, Second review, European Commission, May, 2013, p. 41

[673] Ibid., p. 40

[674] European Commission, [Occasional paper 159] *Second Economic Adjustment Programme for Greece*, Third review, European Commission, July, 2013, p. 39

He states that 'the driving force behind the Commission, although it is not obvious when you read the papers, the agenda setter, has been the Euro group'.[675]

In the most recent report put forward by the mission, the goal of proposing a more detailed plan for vocational education and training was requested from the Greek government. Crucially, the proposal was to be developed in cooperation with the technical assistance of the 'Troika' taskforce and to be largely privately funded. According to a more recent activity report of the task force for Greece, which provides technical assistance to Greece in implementing reforms, €350 million were assigned to a vocational training and apprenticeship scheme.[676] The report justified the measure in terms of the exceptionally high youth unemployment in Greece at the time, which indicates that these employment policies will be jettisoned once unemployment figures decline measurably.

Juxtaposing these findings to Amable's VOC framework, the expected very low reform volume is in fact observable in the Greek EAPs.[677] While some minor efforts at promoting active employment policies were made in the second EAP, these suffered from systemic underfunding and were awarded low priority in the overall reform agenda. Most importantly however, these measures were not structural reforms but 'temporary emergency measures'.[678] Thus, their introduction does in no way signify a shift towards active employment policies.

Conclusion

In summarising the key findings of this chapter, the conclusion of this chapter aims to highlight patterns and interpret them using Bruno Amable's VOC framework. As the institutional area of the labour market is fairly extensive and Amable uses three subcategories, the findings for the subcategories of employment protection, industrial relations and employment policies will be presented first.

In the Greek labour market, active employment policies had never featured very strongly, despite a traditionally rather high youth unemployment. From a VOC perspective, employment policies are nevertheless one of the most interesting features of the labour market, because it is the only subcategory where the market based VOC, which most closely resembles the envisioned outcome of the EAP reforms, and the Southern European VOC model display identical features. Hence, Amable's VOC framework predicts the absence of reforms in the institutional area of employment policies. This chapter has provided empirical support for this assertion, demonstrating that structural reforms were absent from the agenda, despite a number of temporary emergency measures enacted at a very late stage in the second economic adjustment programme.

Ireland, by contrast, had since the onset of the Celtic Tiger boom employed relatively active employment policies, particularly regarding hiring policies. This identifying feature merited Ireland's grouping with other countries featuring active employment policies in a continental European cluster in Amable's typology.[679] However, attempts by the Irish government to continue this tradition within the constraints of the EAP met with the disapproval of the Troika and their success was crucially impaired by a lack of funding. The reluctance of the Irish government to

[675] Georges Siotis, Senior Economic Advisor, Task Force for Greece, interviewed by Benjamin Klos, 2015
[676] European Commission, 'Task Force for Greece: 7th Activity Report', *European Commission*, 2014, p.17
[677] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 175-176
[678] European Commission, [Occasional paper 148] *Second Economic Adjustment Programme for Greece*, Second review, European Commission, May, 2013, p. 40
[679] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 140

abandon active employment policies can thus be understood through the perceived benefits stemming from complementarities of such policies. Thus, Amable's framework can explain the discord over employment policies in Ireland as well as the low reform volume and the unusually low level of disagreement in Greece.

In the area of employment protection, Greece witnessed the systematic dismantling of its pre-crisis employment protection legislation. This was suggested by Bruno Amable's approach, where Southern VOCs and market based ones were diametrically opposed to one another on a scale denoting the rigidity of employment protection legislation. The main elements of this were the removal of notification requirements, such as for overtime, the reduction or diminishing of severance payments and the loosening or regulations for the usage of temporary work. All these measures were congruent with a market based VOC trajectory in Greece,[680] although the approach also underlines the huge gulf between both VOCs and thus the long path still ahead. The bulk of the reform measures in the area of employment protection occurred in two waves, one at the beginning of the first programme in summer 2010 and the second in 2012, when the second EAP brought about a greater emphasis on structural measures in general. The lowering of employment protection affected the previously best protected segments of the labour market, the white collar core, the hardest, as these groups had most to lose from the alteration of the status quo.

The Irish employment protection regime, which featured a low level of EPL prior to the crisis and thus had not changed fundamentally since Bruno Amable gathered his data in 2003, led him to conclude that the Irish EPL resembled most closely that of a market based VOC.[681] From this, we would expect few reforms in the area of employment protection, and those to have limited structural impact. This was confirmed in the EAP, were few reforms were demanded by the Troika. When reforms did occur they had the effect of entrenching and 'rounding off' the market based VOC regime in place prior to the crisis. Professor Alan Barret supports this by stating that 'no fundamental reform of the labour market was necessary in Ireland'.[682]

In the area of wage setting and industrial relations, the Irish labour market underwent the most far-reaching transformation, although this process, which was most noticeable in the deconstruction of the social partnership model, was already well underway at the time when the EAP was introduced in Ireland. This deconstruction occurred despite the fact that the social partnership model was seen by many as one of the core components of the success of the Celtic Tiger model. Seen through a VOC lens, the reform of wage bargaining in Ireland was significant enough to constitute a shift in the economic model from a continental European model of wage bargaining, as asserted by Amable in 2003, towards a more market based VOC, which is distinguished by its decentralised mode of wage setting.[683] Given the fact that Ireland had industrial relations and a wage setting mechanism which most closely resembled that of a Continental European VOC, the reduction of union influence and the increased shift to firm level agreements were significant and expected as part of a shift towards a market based VOC.

Decentralisation of wage bargaining was also a core element of the labour market reforms in Greece, although it should be noted that Greece deviated from the ideal typical centralised wage bargaining model for Southern European VOC's in that its pre-crisis model combined centralised wage bargaining with supplementary agreements on a local or firm level. Here, the mission placed

680 B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 174-175
681 Ibid., p. 130
682 Alan Barrett, Professor, interviewed by Benjamin Klos, 2016
683 B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 136

the highest priority on modifying this system into a firm-based wage setting system, which greatly enhanced the influence and power of companies vis-a-vis its employees.

Alterations to the system of wage settlement have met fierce resistance by the government, which had at every stage of the process sought to minimise reforms. It has done so in three major ways: Firstly, it delayed legislation and implementation as much as possible while still receiving the tranches of the fund. Secondly, it altered legislation in the last minute to ensure the inclusion of certain back doors, such as approval procedures by state agencies. Thirdly, it emphasised the temporary nature of many measures intended by the 'Troika' to be permanent. This lend some support to the assumption that Greece did pursue a survival and return strategy.[684]

Reform efforts to curb union influence in the wage setting process were the logical consequence of the discrepancy between the Greek, Mediterranean model which featured strong unions and frequent industrial action and more liberal economic models, where unions tend to be significantly less influential. The Greek model of political economy provided institutionalised access to the wage setting process for unions, whereas market based VOCs typically make no such provisions, and unions often pursue more 'defensive strategies' in market based VOCs.[685] Thus, the alterations to industrial relations were broadly along the anticipated lines.

Comparing the EAP reforms in the labour markets of Greece and Ireland, the similarities were more numerous and pronounced than the differences. This in itself is remarkable, given the extensive body of literature which emphasises the difference in the crisis genesis in both countries,[686] and the fact that the EAPs were negotiated individually with both countries. When the measures required by the mission in the Irish and Greek labour market are juxtaposed, one cannot help but notice that they are very similar in both countries, such as the lowering of EPL standards, the decentralisation of wage bargaining and the refusal to employ active labour market policies. The difference in the volume of reforms in both countries is ipso facto derived from the divergence of the country's pre crisis model.

From a VOC perspective, the failure to take account of specific national features of the labour markets is problematic, partially for reasons of absent complementarities and partially because this disregard effectively precluded the formation of a pro-reform coalition in Greece. This reformist coalition would have brought about exactly the high level of ownership of reforms, which the Troika has repeatedly demanded of Greek officials. As MEP Anni Podimata puts it: 'It's impossible in short, to have a reform programme implemented successfully without a minimum level of social acceptance. (…) If you are confronted by society, you are condemned to fail'.[687]

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684 W. Streeck and K. Thelen, *Beyond Continuity. Institutional Change in Advanced Political Economies*, 2nd edn., Oxford University Press, Oxford, 2010

685 B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104

686 See for example: C. Alcidi and D. Gros, 'Adjustment Difficulties and Debt Overhangs in the Eurozone periphery', *CEPS Working Documen*t, Centre for European Policy Studies, no. 347, Brussels

687 Anni Podimata, MEP, interviewed by Benjamin Klos, 2016

Chapter 6

Financial sector reforms in Greece and Ireland

Loose change or real change?

Introduction

This chapter provides an account of the Greek and Irish financial sectors, with a focus on structural reform measures undertaken during the EAP period. This account is supplemented by key institutional features in the sector which precede the introduction of the Economic Adjustment Programmes. Due to the interconnected nature of the national fiscal sectors across Europe, this chapter will and indeed must make reference to developments at the European level.

Bruno Amable's cluster analysis in the financial sector reveals four distinct groups. He consciously moves beyond the dichotomy of bank based versus finance based systems developed by the seminal work of Hall and Soskice.[688] However, he acknowledges that 'actual financial systems present original combinations of these two polar cases'.[689] While Amable's analysis is more extensive and detailed than his predecessors', the distinction between bank based and finance based systems nevertheless remains a useful starting point for analysis.

Ireland is placed in one cluster with Finland, Korea, Norway and Switzerland. This cluster can be described as 'loosely bank based' with Amable noting that they 'do not seem to represent the ideal bank-based system', although the cluster resembles it more closely than the finance based system.[690] Their primary identifying feature, apart from their relatively small size, seems to be the exceptionally high share of foreign owned banks in the domestic banking sector.

Greece belongs to the second of the four identified clusters, together with Belgium, Denmark and Sweden. This group is distinguished through comparatively low levels of banks' net non-interest income, a high percentage of banks' bonds of year-end balance sheet total and a high level of control of large, publicly traded enterprises by the financial sector. Yet, it is crucial to bear in mind that the size, scope and composition of the financial sectors in Greece and Ireland have undergone significant changes which will be explored in this chapter.

The Greek Financial Sector

Upon to entering a more detailed account of the Greek banking system, it is important to note that this system underwent considerable changes which began in the early 1980's.[691] Greece moved away from an initial model where the state exercised direct and extensive control over the banking sector. This meant that a main characterising feature of the system as a whole was that institutional

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[688] P. Hall and D. Soskice, *Varieties of Capitalism. The Institutional foundations of comparative advantage*, Oxford University Press, Oxford, 2010, pp. 22-27

[689] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 143

[690] Ibid., p. 149

[691] G. Hondroyiannis, S. Lolos and E. Papapetrou, 'Assessing competitive conditions in the Greek banking system', *Journal of International Financial Markets, Institutions and Money*, vol. 9, no. 4, 1999, p. 379

specialisation was brought about through regulations, and the banking sector conducted business in an environment of administrative fixed rates.[692]

This system of extensive regulation left the Greek banking sector relatively underdeveloped with regard to the size and the scope of fiscal instruments available to it. In Fotios Pasiouras' words: 'Until the 1980's the Greek banking industry was characterised by various restrictions and administrative regulations, with extensive government intervention influencing the pricing, volume and allocation of financial resources, all contributing to a low degree of competition and poor competitiveness'.[693]

During the late 1980's the financial sector underwent a period of liberalisation, during which the role of the Greek central bank was strengthened through its newly assumed power to conduct monetary policy and through the setting of a ceiling on financing of the central government by the central bank.[694] This was in part due to the need to extend the capital market by attracting foreign capital and in part due to the political goal of participating in the single European market and consequently EMU. Thus, the early part of the 1980's saw some deregulation, which, in addition to the introduction of a quasi-independent monetary policy by the Greek Central Bank, also saw the rationalisation of the credit market. [695]

The period spanning from the late 1980's into the 1990's was characterised by more fundamental liberalisation of the fiscal system of Greece. Liberalisation reforms consisted of implementation of EU Directives entailed the lifting of foreign exchange controls on current transactions and capital movements, the liberalisation of interest rates, the abolition of direct credit controls, the de-specialisation of credit institutions and the permission of derivatives and the freedom to provide cross-border financial services within the EU.[696]

In the wake of these reforms, the banking landscape of Greece was altered, due to increased competitive pressures from foreign banks, with which Greek banks were now competing openly. The Greek banks responded through a number of mergers and acquisitions, which led to fewer but more competitive banks. This period corresponded to a political shift, wherein 'the dependency of the Greek economy moves away from US capital to come under the supremacy of European capital and aid'.[697]

One of the most fundamental elements in determining the type of fiscal system a country has is by distinguishing bank based and finance based systems. This distinction was initially employed within a VOC framework by Hall and Soskice, who distinguished the 'patient capital' of long term investments from the more dynamic, risk taking short term financing associated with market based financial systems.[698] Amable notes that a specific set of complementarities arises in a Southern European VOC, the most important of which is that 'underdeveloped financial markets slow down structural change'.[699] Amable referred explicitly to the complementarity between product markets

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[692] G. Hondroyiannis, S. Lolos and E. Papapetrou, 'Assessing competitive conditions in the Greek banking system', *Journal of International Financial Markets, Institutions and Money*, vol. 9, no. 4, 1999, pp. 378-379

[693] F. Pasiouras*, Greek Banking. From the Pre-Euro Reforms to the Financial Crisis and Beyond*, Palgrave Macmillan, New York, 2012, p.1

[694] G. Hondroyiannis, S. Lolos and E. Papapetrou, 'Financial markets and economic growth in Greece 1986-1999', *Journal of International Financial Markets, Institutions and Money*, vol. 15, no. 2, 2005, p. 177

[695] F. Pasiouras*, Greek Banking. From the Pre-Euro Reforms to the Financial Crisis and Beyond*, Palgrave Macmillan, New York, 2012, p.1

[696] Ibid.

[697] V. Foukas and C. Dimoulas, *Greece*, *Financialisation and the EU. The political Economy of Debt and Destruction*, Palgrave Macmillan, London, 2013, p. 111

[698] P. Hall and D. Soskice, *Varieties of Capitalism. The Institutional foundations of comparative advantage*, Oxford University Press, Oxford, 2010, p. 22

[699] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 113

and the financial sector, but in light of a far and deep reaching reform agenda, this interaction did not receive sufficient attention by the mission and the Greek government. Additionally, this insight is empirically supported Luka Katselli, who deplored the low and insufficient levels of investment in the Greek economy.[700]

Prior to the crisis, the financial sector in Greece remained largely bank based, meaning that banks were the predominant source of capital, as opposed to more market based financial systems, where the stock exchange was the primary source of capital. Petrakis assessment left little doubt in this regard: 'If we wanted to study the particular characteristics of the Greek financial system, we could easily conclude that the Greek economy is based almost exclusively on the intermediary function of the banking system and much less on the "invisible hand" of the market'.[701] This assertion was confirmed by a study conducted by the IMF in 2006, which analysed the sources of funding across a large number of countries and over time.[702]

The IMF report indicated that Greece displayed the second largest dependence on bank based finance in 1995, second only to Austria. As the following decade was globally characterised by wide-reaching financialisation and the spread of market based finance, Greece could have decreased its reliance on bank based finance, as almost every other country in the sample did. Yet, analysing the figures for 2004, Greece actually increased its dependence on bank based finance slightly.[703] Additionally, the Greek financial market displayed a lower level of maturity and less sophisticated financial instruments than in many other advanced economies.[704] This can be framed in VOC terms as a path dependent development, where complementarities from a stable bank based financial system were deemed to outweigh the benefits of liberalising the financial sector in Greece.[705]

This argument is further supported by findings regarding the ratio of GDP and Greece's stock market, which is one of the key indicators of whether a fiscal system is bank based or finance based. Data showed that Greece reached a peak of stock market capitalisation of 119% in 1999, but the average growth of stock market capitalisation stood at 46% in Greece, significantly lower than the EU-15 average of 70%.[706] This is a strong indication that the Greek fiscal system is indeed bank based, as higher ratios of stock market capitalisation indicate finance based systems.[707]

A further indication was the size of the banking sector itself. The size of the sector is measured as the value of total assets held by credit institutions relative to the total GDP of a country. In this regard, Pasiouras notes that the Greek banking sector expanded considerably in the period from 1994 till 2009, the last year unaffected by the global crisis.[708] Looking at the respective figure for Greece in comparison to other EMU countries, it became abundantly clear that the Greek financial sector remained small. In terms of bank assets as a percentage of GDP, Greece featured 157%, which was the lowest percentage of all the countries examined, with France having 373%,

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[700] Luka Katselli, former Minister for Labour Greece, interviewed by Benjamin Klos, 2015
[701] P. Petrakis, *The Greek Economy and the Crisis. Challenges and Responses*, Springer, Heidelberg, 2012, p. 177
[702] IMF, 'World Economic Outlook September 2006', *Financial Systems and Economic Cycles,* International Monetary Fund, 2006
[703] Ibid.
[704] G. Hondroyiannis, S. Lolos and E. Papapetrou, 'Financial markets and economic growth in Greece 1986-1999', *Journal of International Financial Markets, Institutions and Money*, vol. 15, no. 2, 2005, p. 174
[705] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 23-25
[706] F. Pasiouras, *Greek Banking. From the Pre-Euro Reforms to the Financial Crisis and Beyond*, Palgrave Macmillan, New York, 2012, p.2
[707] For an assessment of the increasingly blurred line between consumer and investment banking see:
P. De Grauwe, 'The Future of Banking', in A. Watt and A. Botsch (eds.), *After the crisis: towards a sustainable growth model*, European Trade Union Institute, 2010, p. 25
[708] F. Pasiouras, *Greek Banking. From the Pre-Euro Reforms to the Financial Crisis and Beyond*, Palgrave Macmillan, New York, 2012, p.2

Germany 314% and the Netherlands 382%. Even other Southern European countries which could be qualified as belonging to the Southern European VOC had significantly higher percentages: Spain 280%, Portugal 240% and Italy 220%.[709] More recent data put the total assets of credit institutions in Greece at 205%.[710] Yet, the average of the EU 15 for the same year was 485%. Both values showed a slow upward trajectory prior to the crisis. Thus, the Greek financial sector is small both in absolute terms and relative to the size of the Greek economy.

This said, the Greek financial sector had changed dramatically in three crucial respects, due to a process of catching up in the decade leading up to participation in the EMU and lessening of prohibitive regulations regarding loans. The first major change can be measured in the amount of assets held by Greek banks according to data from the Bank of Greece. Assets held by Greek banks increased from about €50 billion in 1990 to about €200 billion in 2000 and were just short of €400 billion in 2007.[711] Secondly, the amount of money given to enterprises as corporate loans went up from €10 billion in 1990 to €60 billion in 2000 and finally to €95 billion in 2008.[712] Thirdly, the amount of branches within Greece increased from 1,700 in 1990 to 2,800 in 2000 and finally reached 3,800 in 2008.[713] The latest pre-crisis figure put the number of branches at 4,078 in 2009.[714]

Some scholars have linked particularly the increased capitalisation of banks to increased lending to enterprises, and here especially small enterprises which were previously effectively excluded from bank loans by artificially high interest rates and prohibitive regulations.[715] One can take this argument further and claim that the regulatory regime of the financial sector has been the most drastically transformed out of the five institutional areas examined before the crisis, as a result of 'the deregulation of the financial services sector that had been initiated by a reform-minded liberal ND government until 1993 was successfully completed by the Simitis government during the EMU accession'.[716]

Despite this drastic transformation of the financial sector, this shift did never alter Greece's VOC. Mediterranean VOCs in Bruno Amable's framework have the most pronounced bank based financial systems out of all VOCs in his typology.[717] Greece prior to the shift of banking regulations in the 1990's can be regarded very much as an outlier from the entire typology as excessive levels of bank regulations and credit restrictions were a remainder of Greece's non democratic past and resulted from the regime's desire to control cash flows within the country.[718] Arguably, the removal of direct and indirect interventions by the state placed Greece in Amable's matrix for financial sectors for the first time.

Another crucial feature of the banking sector is the degree of concentration. A good indicator for this concentration is the market share of the five largest credit institutions. Here, pronounced

[709] P. Hall, 'The Economics and Politics of the Euro Crisis', in *German Politics*, vol. 21, no. 4, 2012, p. 362
[710] F. Pasiouras, *Greek Banking. From the Pre-Euro Reforms to the Financial Crisis and Beyond*, Palgrave Macmillan, New York, 2012, p.2
[711] Bank of Greece, 'Statistical Bulletin Bank of Greece (1990-2008)', *Bank of Greece*, 2008
[712] Ibid.
[713] Ibid.
[714] F. Pasiouras, *Greek Banking. From the Pre-Euro Reforms to the Financial Crisis and Beyond*, Palgrave Macmillan, New York, 2012, p.6
[715] N. Christodoulakis, 'Market reforms in Greece, 1990-2008: external Constraints and Domestic Limitations', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 107
[716] M. Mitsopoulos and T. Pelagidis, 'The 2010 Greek Economic Crisis and the Conditionality Programme', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 213
[717] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 15
[718] F. Birtek and T. Dragonas, *Citisenship and the Nation-state in Greece and Turkey. Social and Historical Studies on Greece*, Routledge, New York, 2005

changes could be detected, from 56% in 1997 to 69.2% in 2009, which constituted an increase of 23.57% for this twelve-year period.[719] However, this seemed to reflect a broader trend in the EU and OECD countries towards higher levels of concentration in the banking sector. To illustrate this point, the increase in concentration in the EU 15 was 24. 77% for the same period.[720]

An assessment of the Greek banking sector based on the five largest institutions thus identified Greece as an economy with a more concentrated banking system. In the Netherlands the five largest financial institutions held a market share of 83.47%, in Finland the figure was 83,14%, in Belgium 77.47%. In Greece the corresponding figure was 66.82%.[721] An alternative assessment method for banking concentration is the CON5 method, which produced a value of 1,099 for Greece, which according to the scale used implies a moderately concentrated banking sector.[722] Both statistical assessment methods indicate that Greece featured a relatively concentrated banking sector. Other statistical sources confirmed these findings and further indicate that the level of concentration remained fairly constant in the decade prior to the crisis, with concentration levels in 2007 slightly higher at 67.7% than in 2001, with 67%.[723] In Amable's typology, a high degree of ownership concentration in the banking sector is an essential feature, as it distinguishes Mediterranean VOCs from the other four VOC models.[724] Greece conformed to this theory-based approximation in this regard.

An interesting aspect of the Greek banking system was the market share falling to foreign banks. Here, Greece was distinguished by the dominant role domestic credit institutions play in the market. At the end of 2009, domestic credit institutions together accounted for a market share of 79.8%.[725] The vast majority of the non-domestic banks and credit institutions were based in other EU member states, while non EU credit institutions held only a share of 0.2%. Thus, from these figures it emerges that the Greek financial sector was dominated to an unusually high extent by domestic banks.

VOC approaches tend to assume that banking based financial systems are less conductive to innovation through small start-ups than financial markets based models.[726] This theoretical insight is empirically supported by a study from 2008, which found that 30% of prospective young entrepreneurs had difficulty finding the necessary funding,[727] indicating the 'inability of the Greek financial system to channel funds to finance the most dynamic part of the business sector'.[728]

The protection of external shareholders and investor rights also mark an important feature distinguishing national financial systems. According to Bruno Amable's insight, a low level of protection for external shareholders is an identifying feature of the financial sector in a Southern European VOC. Here, Greece did indeed achieve very low scores. The 2008 World Bank Doing Business report indicated that in this respect Greece achieved 3.0 on a scoreboard where 0 represents the lowest level of shareholder protection and 10.0 the highest.[729]

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[719] F. Pasiouras, *Greek Banking. From the Pre-Euro Reforms to the Financial Crisis and Beyond*, Palgrave Macmillan, New York, 2012, p.5
[720] Ibid.
[721] Ibid.
[722] Ibid., p.7
[723] European Central Bank, 'EU Banking Structures September 2010', *European Central Bank*, 2010
[724] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 175
[725] F. Pasiouras, *Greek Banking. From the Pre-Euro Reforms to the Financial Crisis and Beyond*, Palgrave Macmillan, New York, 2012, p.4
[726] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 253-256
[727] S. Ioannides and A. Tsakanikas, *Entrepreneurship in Greece, 2007-2008*, Foundation for Economic and Industrial Research, Athens, 2008
[728] P. Petrakis, *The Greek Economy and the Crisis. Challenges and Responses*, Springer, Heidelberg, 2012, p. 179
[729] World Bank, 'Doing Business in Greece 2008', *World Bank Publications*, 2008, p. 32

This score translated into 158th place out of all the countries examined in the report. A similar study by the World Bank on governance produced comparable results. In the aggregate category 'rule of law', Greece achieves 0.783 for the period from 1996-2010, which indicated a much lower degree of contractual enforcement and investor and shareholder protection than the 1.498 of the EU 15 for the same period.[730] In terms of Amable's typology, Greece appears to be a fairly congruent with an ideal typical Southern European VOC.[731]

The last feature of the Greek fiscal system before the crisis to be examined here was the market for mergers and acquisitions. Mergers and acquisitions increased in intensity and number in the 1990's, and reached a peak in 1999.[732] This can be explained by the need for small to medium size financial institutions to merge in order to increase their competitiveness in a more open European fiscal market. Alliances with fiscal institutions from other European banks also played an important role in pursuing this role. Particularly after 2001, however, activity in this area subsided and if mergers and acquisitions occurred they took the form of deals with specialist financial institutions and had a negligible effect on market share.[733]

Mergers and acquisitions on a meaningful scale did therefore occur, but they took place in the decade prior to Greece joining the EMU and were strongly linked to efforts to consolidate the domestic fiscal market to make it more competitive. After Greece's accession to the EMU, mergers and acquisitions subsided significantly to an overall low level. Yet, the period of intensified mergers and acquisition further accentuated the high level of ownership concentration in the economy as a whole, as most of the large Greek enterprises belonged to banking groups, as Petrakis points out.[734] Patterns of mergers and acquisitions of Greece were broadly congruent with the financial sector of a typical southern European VOC as outlined by Bruno Amable,[735] with the possible caveat that mergers and acquisition were more common in the period leading up to Greece joining EMU. Looking at the financial sector in Greece as a whole, it can be concluded that it resembled the ideal typical model of a Southern European VOC very closely.

The indicator of loan to deposit ratio exemplified the fundamental difference between Greek and Irish financial structures. Here, Greece had in 2008 a ratio of 0.79, whereas the Irish sector had a ratio of 1.52,[736] indicating a higher level of loan activity with a correspondingly higher risk. This difference in loan to deposit ratio was to gain importance at the onset of the crisis, which in Ireland turned a banking crisis in a sovereign debt crisis, whereas Greece can be described as a sovereign debt crisis which spilled over in the banking sector. In both cases though, there were clear signs of systemic over-lending by banks at the European level.[737]

At the beginning of the first economic adjustment programme in May 2010, the situation in the Greek financial sector was particularly critical, in no small part due to considerable delays prior to the initialisation of the programme.[738] The predominant fear among EU and IMF officials was that the sovereign solvency crisis would have a detrimental effect on the functioning of the fiscal system

[730] F. Pasiouras, *Greek Banking. From the Pre-Euro Reforms to the Financial Crisis and Beyond*, Palgrave Macmillan, New York, 2012, p.31
[731] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 148
[732] F. Pasiouras, *Greek Banking. From the Pre-Euro Reforms to the Financial Crisis and Beyond*, Palgrave Macmillan, New York, 2012, p.8
[733] Ibid.
[734] P. Petrakis, *The Greek Economy and the Crisis. Challenges and Responses*, Springer, Heidelberg, 2012, p. 178
[735] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 148
[736] European Central Bank, 'EU Banking Structures September 2010', *European Central Bank*, 2010
[737] M. Mathijs and M. Blyth, 'Introduction. The Future of the Euro and the politics of embedded currency areas', in M. Matthijs and M. Blyth (eds.), *The Future of the Euro*, Oxford University Press, New York, 2015, p. 5
[738] J. Pisani-Ferry, *The Euro Crisis and its Aftermath*, Oxford University Press, Oxford, 2011

of the EU as a whole. Concerns over contagion dominated the political debate at the time of the inception of the EAP and thus had a bearing on it.

Fear of contagion was not limited to the sectoral level within Greece, but also concerned fears of negative consequences for subsidiary banks through the fragile fiscal situation in parent banks. Here, the report made explicit that 'the main concern is that problems in parent banks could spill over to subsidiaries with consequences for countries in which Greek banks had a significant presence (Romania, Bulgaria, Serbia, Albania and FYROM). Parent banks could have difficulties to provide the appropriate capital for their subsidiaries or might repatriate liquidity'.[739]

This negative assessment of potential spill-overs from the fiscal position of the Greek state into the banking sector led to immediate action in this area. In the initial stage of the first economic adjustment programme, the focus of the programme was on providing fiscal assistance to Greek banks to enable them to continue lending: 'The immediate challenge is to tackle the tight liquidity conditions of banks'.[740] In the mission's reasoning, this was indispensable to increase and restore investor confidence within the country and to contain the crisis. Yet, apart from these immediate goals, it became increasingly apparent as the crisis dragged on, that the high level of debt itself constituted a significant source of investor uncertainty, as it might trigger a new set of emergency measures at an unspecified point in the future.[741]

In the light of immediate liquidity concerns, the EU decided to establish the Fiscal Stability Fund (FSF), which would henceforth provide capital directly to Greek banks. This was explicitly referred to in the first economic adjustment programme report, together with increased supervision of the Greek banking sector.[742] This strengthened supervision was to be conducted jointly by the Bank of Greece, which had its staff augmented to be able to fulfil this extended function, and the 'Troika'. Crucially, the supervisory function now also extended to the insurance sector. The extension of Troika powers and scope was justified through the urgency of the situation and the systemic importance of the banking sector of one country for the entire Eurozone. Hence, intrusive conditionality was justified as the only means of restoring market confidence.[743] However, one policy maker has pointed out that despite the expanded scope of the Troika, there are significant practical limitations on what can be achieved through conditionality alone.[744] As stressed previously, market confidence was highly dependent on Greece's sovereign debt.

The passing of legislation by the Greek parliament for the Hellenic Fiscal Stability Fund (HFSF) was seen very positively by both the Greek government and its international partners.[745] On a structural level, the fund was set up from the beginning as a temporary measure, due to expire on the 30th of June 2017,[746] although this was later shortened when the fund was absorbed by the ESM. From a 'Troika' perspective, emphasis was placed on the fact that the new fund was given a strong governance structure, to make it 'independent of the politics'.[747] However, despite the focus

[739] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, May, 2010, p.11
[740] Ibid., p.23
[741] Georges Siotis, Senior Economic Advisor, Task Force for Greece, interviewed by Benjamin Klos, 2015
[742] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, May, 2010, p.24
[743] J. Magone, B. Laffan and C. Schweige ,*Core-Periphery Relations in the European Union. Power and conflict in a dualist political economy*, Routledge, New York, 2016, p. 7
[744] Lasslo Andor, former EU Commissioner, interviewed by Benjamin Klos, 2014
[745] European Commission, [Occasional paper 68] *Economic Adjustment Programme for Greece*, First Review, European Commission, August, 2010, p.36
[746] Ibid.
[747] Ibid.

of governance on transparency and accountability, delays occurred in the implementation of the board of directors of the fund, which became operational only in October 2010.[748]

A strategic review of the government's options for all state owned banks was to be conducted by the Greek ministry of finance until October 1st,[749] with particular emphasis on ways in which the state could use its voting power in state owned banks to reform these individual banks. The mission stressed especially the need to 'adopt best practices of corporate governance'. [750] The purpose of these reforms was twofold: on the one hand there was a desire by the government to modernise structures in order to enhance the asset value of the shares it holds in Greek banks. On the other hand, the state ownership of banks also presented a unique opportunity to alter their governance system on a micro economic level.

By doing so, a crucial prediction derived from the VOC framework regarding reforms in the banking sector could be confirmed. Amable's framework indicates that there is a difference in the typical model of corporate governance between the Southern European VOC which features a 'bank-based corporate governance' model[751] and the market based VOC model, where 'managers have a strong incentive to act in the shareholders' interest'.[752] The mission's urging to adopt 'best practice' for corporate governance signified a shift towards corporate governance along the lines of a typical market based VOC. However, the demand for the adoption of 'best practice' needs to be qualified as such, as it refers exclusively to the practices adopted in the most liberalised and deregulated countries, whereas Amable stipulates that 'there is no such thing as a "one best way"'.[753]

On the size of the Greek banking sector, the mission noted that 'with an aggregate balance sheet at 210 percent of GDP, the size of the Greek banking system is not excessive compared to other countries'.[754] However, the report pointed to issues relating to funding, and an increasing reliance on borrowing from the ECB. These funding issues in combination with broadly overlapping branch networks and business models pointed to a necessary downsizing of the Greek banking sector.[755] The reduction in size of the Greek banking sector ran contrary to what one would expect in a country undergoing a transformation towards a more liberal economic model,[756] which are generally characterised by larger and more sophisticated financial markets than can be found in Southern European VOCs.

In line with the recommendation of a downscaling of the Greek financial system, the mission requested a detailed plan for reducing the Greek banks' dependency on ECB lending.[757] The downscaling plans were to be conducted largely without negative impact on lending levels to the real economy, although the achievement of both goals simultaneously in extremely negative macro-economic circumstances was unrealistic. Apart from practical issues, the prescription of lending levels was also incompatible with the mission's usual reliance on market forces, and thus

[748] European Commission, [Occasional paper 72] *Economic Adjustment Programme for Greece*, Second Review, European Commission, December, 2010, p.2
[749] European Commission, [Occasional paper 68] *Economic Adjustment Programme for Greece*, First Review, European Commission, August, 2010, p.39
[750] European Commission, [Occasional paper 72] *Economic Adjustment Programme for Greece*, Second Review, European Commission, December, 2010, p.25
[751] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104
[752] Ibid., p. 100
[753] Ibid., p. 23
[754] European Commission, [Occasional paper 77] *Economic Adjustment Programme for Greece*, Third Review, European Commission, February, 2011, p.31
[755] Ibid.
[756] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 173
[757] European Commission, [Occasional paper 77] *Economic Adjustment Programme for Greece*, Third Review, European Commission, February, 2011, p.31

raises question marks about the theoretical coherence of the EAP in Greece.[758] In this instance, the mission urged the attainment of the goal of stabilising the financial sector in Greece[759] using the instrument of state intervention, which it ostentatiously set out to reduce.[760]

Capitalisation of Greek banks and dependence on borrowing from the ECB further worsened as a result of the private sector involvement in the restructuring of Greek debt, as a mission report in October 2011 noted.[761] Due to strong exposure of Greek banks to government bonds, Private Sector Involvement (PSI) concerned the already weakened Greek banks very directly and negatively. The six largest Greek banks announced their intention to participate in the scheme, which was crucial for their capitalisation, as they held 32.4 billion, or 21% of Greek bonds maturing up to 2020.[762] The loss incurred by Greek banks through PSI (Private Sector Involvement) therefore amounted to approximately 5.5 billion euro, although recent research indicated that PSI contributed significantly by reducing the interdependence of the banking sector and the Greek sovereign.[763]

A reform of the legal framework for the Greek financial sector came about in October 2011. Under the new banking law, available intervention techniques were significantly strengthened and expanded, and enabled a transfer of assets and a subsequent division into 'good' and 'bad' banks, both of which would then be managed by the Hellenic Deposit and Investments Guarantee Fund (HDIGF).[764] The new fund was also given creditor preference in order to increase its ability to recover funds. However, while these were fundamental changes to the operation of the Greek banking system, these measures were first and foremost measures to help the Greek state deal with the imminent crisis rather than systemic alterations.

The supervision of the Greek banking system at the national level, in contrast to Ireland, had never been criticised by EU official channels and was in fact one of the very few Greek institutions to escape the blame game ensuing in the aftermath of the crisis.[765] The initial resilience of the Greek banking sector can be conceptualised through the unusually dominant role of domestic banks and the sector’s comparatively low level of integration with the financial sectors of other EU member states. This crisis resilience of bank based financial systems is an important feature which is somewhat neglected in Amable’s analysis. Using research conducted by Allen and Gale,[766] Amable asserts that ‘bank-based and financial-markets based systems have very different abilities at intertemporal risk smoothing. (…) Intertemporal risk smoothing is much better provided by long-lived institutions accumulating reserves over time’.[767] However, this observation is not systematically incorporated in his typology. Perhaps the reason for this is VOC’s overall focus one

[758] S. Theodoropoulou and A. Watt, ‘An Evaluation of the Austerity Strategy in the Eurozone: Was the First Greek Bailout Programme bound to fail?’, in G. Karyotis and R. Gerodimos (eds.), *The Politics of extreme austerity. Greece in the Eurozone crisis*, Palgrave Macmillan, New York, 2015, pp. 88-89
[759] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, May, 2010, p. 10
[760]Ibid.
[761] European Commission, [Occasional paper 87] *Economic Adjustment Programme for Greece*, Fifth Review, European Commission, October, 2011, p. 3
[762] Ibid., p. 16
[763] M.-P. Papafilis, M. Psillaki and D. Margaritis, ‘Interdependence between Sovereign and Bank CDS Spreads in Eurozone during the European Debt crisis- The PSI effect’, *MPRA Working paper*, Munich Personal RePEc Archive, 2015
[764] European Commission, [Occasional paper 87] *Economic Adjustment Programme for Greece*, Fifth Review, European Commission, October, 2011, p. 18
[765] J. Pisani-Ferry, *The Euro Crisis and its Aftermath*, Oxford University Press, Oxford, 2011, pp. 52-54
[766] F. Allen and D. Gale, *Comparing Financial Systems*, MIT Press, Massachusetts, 2000
[767] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 100

continuity over change, which makes the incorporation of crisis contingencies difficult theoretically.

In the face of further deteriorating economic circumstances in March 2012, the mission grew increasingly concerned over the ever expanding role of the state in the financial sector of Greece, via the Hellenic Fiscal Stability Fund (HFSF). This involvement grew due to the need for the HFSF to support so many banks and credit institutions financially, which in turn gave them far reaching powers to interfere in the banks' internal affairs, including a right to veto any decision. Here, the crisis and its management led to the, from a VOC point of view, paradoxical outcome that a neo-liberal reform agenda[768] led to massive state involvement in the financial sector.

Corporate governance reforms in the wider financial sector, excluding the temporarily state owned banks, were remarkably absent from the economic adjustment programmes. However, this absence has to be seen in conjuncture with initiatives taking place on the European level. Here, the European Commission transported into law the so called CRD 4 package in July 2011.[769] This package contained not only the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) for financial institutions, which consequently had a negative impact on Greek bank lending, but also proposals relating to corporate governance. The CRD strengthened supervisory power with regard to risk oversight by boards and by granting supervisors the power to apply sanctions'.[770] The lack of provisions for the alteration of corporate governance through national initiatives can thus be explained by the existence of legislation on the European level to this effect.

The legislation and consequent enforcement of the CRD 4 package in July 2011 constituted an attempt to harmonise banking regulation and supervision across the Eurozone. The coexistence of various financial market oversight regimes, always problematic given the highly interlinked and interdependent nature of the European banking system, was identified as one of the structural issues contributing to the severe impact of the banking crisis on the EU, as Danielle Nouy, chair of the ECB supervisory board, confirmed in a speech.[771]

The Greek banking system, being a largely typical case of a Southern European VOC financial sector, was less sophisticated but also less exposed to risky financial vehicles at the onset of the crisis.[772] A 2012 report requested by the Commission concluded that the risk of contagion in the European financial markets directly relates to the degree of sophistication of these markets, through 'excessive risk-taking-*often in trading highly complex instruments'.*[773] The 'excessive reliance on short-term funding in the run up to the financial crisis'[774] was another factor contributing to the instability of financial markets across the EU.

Analysing this from a VOC perspective, we can go beyond Peter Hall's assertion that the financial imbalances were as much the result of reckless lending as they were of reckless borrowing.[775] Amable's typology clearly associates short term investment by the financial sector with market

[768] M. Mathijs and M. Blyth, 'Introduction. The Future of the Euro and the politics of embedded currency areas', in M. Matthijs and M. Blyth (eds.), *The Future of the Euro*, Oxford University Press, New York, 2015
[769] F. Pasiouras, *Greek Banking. From the Pre-Euro Reforms to the Financial Crisis and Beyond*, Palgrave Macmillan, New York, 2012, p.67
[770] Ibid.
[771] D. Nouy, *Adjusting to new realities – banking regulation and supervision in Europe*, Speech by Danièle Nouy, Chair of the ECB's Supervisory Board, at the European Banking Federation's SSM Forum, Frankfurt, 6 April 2016, accessed on 10 May 2016, <https://www.bankingsupervision.europa.eu/press/speeches/date/2016/html/se160406.en.html>
[772] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 113
[773] E. Liikanen, *High-level Expert Group on reforming the structure of the EU banking sector*, Final Report, European Commission, Brussels, 2012
[774] Ibid., p. iv
[775] P. Hall, 'Varieties of Capitalism and the Euro Crisis', *West European Politics*, vol. 37, no. 6, 2014, p. 1225

based VOCs.[776] Equally, Amable repeatedly emphasises the high sophistication and diversification of financial instruments as a core identifying feature of the financial sector in a market based VOC.[777] Hence, the VOC model Greece was moving towards proved more vulnerable to the crisis than the pre-existing Southern European model. This, combined with the use of state interventionist methods to drive the reform agenda in the banking sector, made for some highly paradoxical outcomes.

The restructuring of Greek debt, as decided at the euro area summit of 26 October 2011, brought about significant changes to the legal status of the new bonds. As stated in the economic adjustment programme report from March 2012: 'The new bonds are governed by English law and contain standard market clauses such as *pari passu,* negative pledge, events of default, collective action clauses and a waiver of immunity. Holders of the new bonds will be entitled to benefit from a co-financing agreement among Greece, the new bond trustee and the EFSF by linking the servicing of their bonds to the EFSF loan (up to 30 billion)'.[778] In addition to enhancing the bonds security by tying them to the EFSF loan, these measures also changed the legal basis upon which the bonds are issued, to a governance system by English law.

From a Varieties of Capitalism perspective, the new measures, which amount to a massive strengthening of investor and shareholder rights, are an integral part in altering the institutional features of the Greek financial system and bringing it closer to the Anglo Saxon VOC.[779] Simultaneously, it is also in line with the overarching goal of protecting the interests of creditor nations and potential new investors.[780]

In the spring of 2013, a major alteration of the mission's approach towards the Greek financial system took place. The alteration was triggered by the spiralling costs of attempting to sustain the entire Greek banking sector, which proved unsustainable within the fiscal sector programme envelope of €50 billion.[781] Worse than expected macroeconomic developments and heavy losses incurred by the Greek debt restructuring made comprehensive capitalisation of the Greek financial sector no longer feasible. Instead, as the then Governor of the Bank of Greece, George Provopoulos, stated in a paper there were efforts to 'implement a new business model'.[782] The express purpose of this new business model was the eventual disentanglement of the state and banking sector. To achieve this in a timely manner, the means were 'eliminating excess capacity, exploiting synergies and economies of scale'.[783] This roughly translated into a considerable downsizing of the financial sector as well as a reduction of smaller competitors through mergers and acquisitions.

In order to sustain the previous approach to the Greek banking sector, additional funding on a large scale would have been required. Yet, as numerous observers of the crisis have pointed out, this would not be acceptable to most core member states, particularly Germany, which was due to hold elections in September 2013.[784] This effectively ruled out any increase in the funds available

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[776] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 108
[777] Ibid., p. 147
[778] European Commission, [Occasional paper 94] *Second Economic Adjustment Programme for Greece*, European Commission, March, 2012, p. 47
[779] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 174-175
[780] Y. Varoufakis, *The Great Greek Bank Robbery*, Social Europe, 15 December 2015, accessed 23 December 2015, < https://www.project-syndicate.org/commentary/latest-greek-bank-bailout-by-yanis-varoufakis-2015-12?barrier=true>
[781] European Commission, [Occasional paper 148] *Second Economic Adjustment Programme for Greece*, Second review, European Commission, May, 2013, p. 37
[782] G. A. Provopoulos, 'The Greek Economy and Banking System: Recent Developments and the way forward', *Journal of macroeconomics*, vol. 39, no. PB, 2014, p. 248
[783] Ibid.
[784] C. Simitis, *The European debt crisis. The Greek case*, Manchester University Press, Manchester, 2012, p.278

for the capitalisation of the Greek banking sector. Hence, the Bank of Greece was tasked with conducting an assessment of policy options within the current fiscal means. The result of this assessment was then to focus on four 'core' banks which were of systemic importance.[785] This was elevated to a 'new business model' by George Provopoulos, then Governor of the Bank of Greece.

In explaining the need for this alteration of strategy, a Troika report explicitly pointed to the measures introduced by the CRD4 package, and their progressive increase in minimum capital requirements to 9% in March 2013,[786] which Greek banks, due to the negative economic environment, found difficult to comply with. Yanis Varoufakis, after his departure from government, pointed out that a very large share of the €40 billion raised from 'private sources' were speculative short term investments by hedge funds, seeking to capitalise on the significant discount of 80% enjoyed by investors in the second capitalisation round in Autumn 2013, compared to the price paid by the HFSF and thus the European taxpayer just six months earlier.[787]

This established a resolution mechanism which enabled banks to be recapitalised and then sold in order to create fewer but more robust banks and to create synergy effects for the sector as a whole, as has happened with Geniki Bank which was recapitalised and then sold to Piraeus Bank. A similar process took place for Emporiki Bank, which was capitalised by the mother company, Credit Agricole and then sold to Alpha Banks. This took surprisingly little time to conclude, given that in many cases state aid is involved and the procedure thus had to be approved by the EU DG Competition, in addition to the HFSF.[788]

Hence, it appears that these mergers were not only accepted by the relevant EU institutions and the HFSF, but actively encouraged. Thus, the shrinking of the financial sector in the short term might be understood as an attempt to create fewer but larger banks, which could in a post-crisis recovery offer the more 'sophisticated' financial vehicles which are associated with finance based financial systems.[789] Yet, the mission's emphasis on fewer but larger banks was most likely not motivated by considerations of growth potential post-crisis, but rather by strictly fiscal consideration in creditor countries.

Particularly the argument that larger banks would be more competitive seemed spurious as the report on reforming the European banking sector illustrated: 'Some economies of scale and scope may exist, but only up to a given level, as diseconomies become increasingly important beyond a given size and scope. (…) Diversification at the bank level can make banks more similar to each other and the system as a whole less diversified and vulnerable to shocks'.[790] Therefore, the reduction of the size of the Greek banking sector was driven by considerations of limiting the cost of the EAP for creditor countries as well as reducing the overall size of the European banking sector. This being the case, it seems that the weight of this adjustment was exclusively borne by countries in EAPs, while creditor country banks were subsidised through the bail out itself, where exposure of German and French banks was an important factor in triggering the bail out.

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[785] European Commission, [Occasional paper 148] *Second Economic Adjustment Programme for Greece*, Second review, European Commission, May, 2013, p. 37

[786] Ibid.

[787] Y. Varoufakis, *The Great Greek Bank Robbery*, Social Europe, 15 December 2015, accessed 23 December 2015, < https://www.project-syndicate.org/commentary/latest-greek-bank-bailout-by-yanis-varoufakis-2015-12?barrier=true>

[788] European Commission, [Occasional paper 148] *Second Economic Adjustment Programme for Greece*, Second review, European Commission, May, 2013, p. 38

[789] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 148

[790] E. Liikanen, *High-level Expert Group on reforming the structure of the EU banking sector*, Final Report, European Commission, Brussels, 2012, p. 32

Research suggests that large banks have a destabilising effect on the financial system as a whole,[791] as they were oriented more towards investment banking and thus contribute less, relative to their size, to the provision of credit to the real economy. In the EU, the ten largest banks, which each had over €1 trillion in assets, played a particularly dominant role. Yet, as four of them were British, four French, one German and one Spanish,[792] they remained untouched by direct restructuring efforts at the EU level. This was a particularly paradoxical outcome, as some of these ten, particularly the German, French and Spanish ones, would have collapsed if the much lauded 'market forces' had been allowed to operate in the absence of state intervention.[793]

In July 2013, with a view to setting an example for the remaining Greek banks then not under HFSF control, the fund further augmented its monitoring arrangements for these four banks, through the establishment of monitoring trustees.[794] The stated intention behind this measure was the further enhancement of shareholder protection, although this might be attributed to a certain degree of self-interest, as at that point in time, the HFSF was of course the majority shareholder. Yet, Bruno Amable's framework identifies the degree of shareholder protection as a crucial feature distinguishing Southern European VOCs from market based VOCs. However, this has to be contextualised, as the crisis has brought about a situation where shareholders and policy makers determining the degree of shareholder protection were closely linked or even identical.

This Greek section of this chapter has demonstrated that Greece was a fairly typical example of a Southern European financial system.[795] Low protection of external shareholders, bank based corporate governance and low sophistication of financial markets in an overall bank based financial sector were all found to be applicable in the Greek case. More importantly perhaps, this section has outlined inconsistencies in the design and execution of the EAP for the financial sector in Greece. The planned transition of Greece towards an economy driven by market mechanisms featured elements of state intervention in the real economy, such as the fixing of lending levels by the state.

The Irish Financial Sector

The Irish banking system has undergone fundamental changes from the early 1990's onwards, in tune with the rise of the Celtic Tiger economic phenomenon. This is hardly surprising as the Irish financial system provided crucial complementarities for the economy as a whole, the credit to fund first economic expansion and then the housing bubble.

One important feature of the financial sector during the Celtic Tiger period was regulation, or lack thereof. Prior to the economic crisis, Irish banks, foreign and domestic alike, adopted a wide range of questionable practices, such as the disappearance of lending thresholds on mortgages, whereby 'first-time buyers were being offered mortgages of 100 per cent and above'.[796] Additionally, bank lending was increasingly based on the somewhat vague concept of 'affordability' rather than a clearly defined income to loan ratio. The former concepts would include expected rental revenue

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[791] P. De Grauwe, 'The Future of Banking', in A. Watt and A. Botsch (eds.), *After the crisis: towards a sustainable growth model*, European Trade Union Institute, 2010

[792] E. Liikanen, *High-level Expert Group on reforming the structure of the EU banking sector*, Final Report, European Commission, Brussels, 2012, p. 32

[793] M. Blyth, *Austerity. History of a dangerous idea*, Oxford University Press, Oxford, 2013, p. 5

[794] European Commission, [Occasional paper 159] *Second Economic Adjustment Programme for Greece*, Third review, European Commission, July, 2013, pp. 36-37

[795] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 148

[796] F. O'Toole, 'Regulation and Competition Policy', in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland: National and Sectoral Policy Issues*, Twelfth Edition, Gill and Macmillan, Dublin, 2014, p. 122

as well as bonus payments in addition to the basic salary. This allowed the bank to issue larger loans but also constituted a much higher risk for both debtor and creditor.

The key to understanding these practices, which became increasingly common from 2000 onwards, lies in the 'light touch' approach to regulation practiced in Ireland. Many scholars have stressed the fatal impact of solely relying on market forces in the financial sector to regulate themselves as one crucial cause for the economic crisis in Ireland.[797] O'Toole stresses the failure of the Irish Central Bank and the Financial Regulator (previously known as the Irish Financial Services Regulatory Authority) to enforce the already very liberal regulation regime in place.[798] Yet perhaps more crucial than the failure of individual institutions to fulfil their mandate was the overarching 'culture of self-regulation'.[799]

In a report by the Governor of the Central Bank to the Minister of Finance, usually referred to as the Honohan report, both the light touch regulatory approach and the failure to enforce it were confirmed: 'Even if armed with the necessary information, to be effective there would have to be a greater degree of intrusiveness and assertiveness on the part of the regulators to challenging the banks. Although management of the FR (Financial Regulator) would not accept that their 'principles based approach' ever implied 'light touch' regulation, the approach was characterised as being user-friendly in presentations aimed at expanding the export-oriented financial services sector'.[800] This deliberate policy can be understood in VOC terms as the recognition that the attraction of capital and the corresponding financial institutes is an indispensable complement to the Irish economic model based on export driven growth and foreign direct investment (FDI).[801]

The 'light touch' regulation essentially referred to the manner in which the existing principles based approach was implemented. Kirby identifies a 'code of behaviour' which the regulator trusted the financial institutes to uphold themselves.[802] This regulatory approach provided advantages during economic expansion but entailed significant risks as well. The incentive structure of such a system of regulation was problematic, as the best strategy for an individual financial institute and the best interest of the sector or economy as a whole might not necessarily be identical. This is a classic example of the collective action problem.[803] Amable's framework regarding financial sector regulation is insufficiently developed and defined, as it contains only one indicator capturing the rigidity and intrusiveness of regulatory systems.[804]

There are two institutional factors at play in the regulatory regime of Ireland. Firstly, the way in which supervision and regulation were conducted was altered fundamentally in 2003. Previously, financial supervision was within the domain of the Central Bank, where a special department conducted it.[805] In the period leading up to the introduction of the Euro and thereafter, the issue of

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[797] M. Blyth, *Austerity. History of a dangerous idea*, Oxford University Press, Oxford, 2013

[798] F. O'Toole, 'Regulation and Competition Policy', in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland: National and Sectoral Policy Issues*, Twelfth Edition, Gill and Macmillan, Dublin, 2014, p. 121

[799] C. Schweiger, *The EU and the Global Financial Crisis. New Varieties of Capitalism*, Edward Elgar, Cheltenham, 2014, p. 157

[800] Central Bank, *The Irish Banking Crisis: Regulatory and Financial Stability Policy 2003-2008,* A Report to the Minister for Finance by the Governor of the Central Bank, 31 May 2010, accessed on 23 December 2015, p. 9, < http://www.bankinginquiry.gov.ie/The%20Irish%20Banking%20Crisis%20Regulatory%20and%20Financial%20Stability%20Policy%202003-2008.pdf>

[801] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 143-149

[802] P. Kirby, *Celtic Tiger in Collapse. Explaining the Weaknesses of the Irish Model*, 2nd edn., Palgrave Macmillan, London, 2010, p. 143

[803] M. Olsen, *The Logic of Collective Action. Public Goods and the Theory of Groups*, Harvard University Press, Massachusetts, 1965

[804] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 278

[805] D. Donovan and A. Murphy, *The Fall of the Celtic Tiger: Ireland and the Euro Debt Crisis*, Oxford University Press, Oxford, 2013, p. 83

which supervisory structure to implement was a hotly contested one. There were essentially two competing models to choose from, both of which were already successfully implemented in the other Member States and compatible with the overall ECB monetary framework.

The first option was to retain supervisory power within the Irish Central Bank; the second would have been to create an independent regulatory body. The influential McDowell Report recommended, not unanimously but by majority vote, the creation of an independent regulatory agency, in line with changes to that effect being implemented in the UK at the time. However, this recommendation was not followed and instead Ireland chose to implement a 'hybrid arrangement',[806] by which a separate agency was created within the new framework of the Central Bank and Financial Services Authority of Ireland (CBFSAI). Both institutions had independently appointed boards, but a majority of the board of the regulator simultaneously sat on the board of the CBFSAI.

A second institutional factor is closely related to this. The policy outlook of the regulatory body was biased towards consumption: 'The emphasis of the regulator's focus was primarily on issues affecting consumers rather than on prudential matters such as liquidity and funding affecting banks and their lending practices'.[807] This bias was further exemplified in the composition of the board of the regulator, where the consumer director was represented, whereas the prudential director, responsible for ensuring prudential bank lending, was not.[808]

The shift in the regulatory regime through the creation of a hybrid supervisory body was highly significant. It was an institutional manifestation of the Irish economic model transitioning from a hybrid model with strong Continental VOC elements to a more clear-cut market based model. With the benefit of hindsight, the practical implications of this decision for a weaker supervisory and regulatory regime, which borrowed heavily from the UK model of 'financial oversight', was to prove a contributing factor to the emergence of the crisis in Ireland, particularly as the decision occurred at the precise moment when the economy transitioned from real economic growth into growth fuelled by a housing bubble.[809]

James Wickham notes that this structural cause is often overlooked: 'The fundamental political commitment to an 'Anglo-Saxon' financial system in a liberal market economy stacked the cards against any effective banking regulation'.[810] This effect was further accentuated by the overall structure of the EMU, where the ECB's vigorously defended independence coupled with its focus on inflation targets and preference for light touch regulatory systems,[811] increased the vulnerability of the Irish banking system. Implicitly, light touch regulatory systems are a logical extension of an overall very liberal, open financial sector which incorporates a belief in self-adjusting markets.[812] As previously stated however, Amable's framework fails to incorporate regulatory systems to a sufficient degree.

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[806] D. Donovan and A. Murphy, *The Fall of the Celtic Tiger: Ireland and the Euro Debt Crisis*, Oxford University Press, Oxford, 2013, p. 82

[807] S. Carswell, `Reforms spell end of light-touch era', *The Irish Times*, 19th June 2009, Business This Week supplement, p. 5

[808] P. Kirby, *Celtic Tiger in Collapse. Explaining the Weaknesses of the Irish Model*, 2nd edn., Palgrave Macmillan, London, 2010, p. 143

[809] J. Wickham , Irish paradoxes: the bursting of the bubbles and the curious survival of social cohesion' in S. Lehndorff (ed.), Divisive *integration. The triumph of failed ideas in Europe- revisited,* European Trade Union Institute, Brussels, 2015

[810] Ibid., p. 134

[811] S. Auer, 'Will the Centre hold? Germany, Ireland and Slovakia and the crisis of the European project', in J. Magone, B. Laffan and C. Schweige (eds), *Core-Periphery Relations in the European Union. Power and conflict in a dualist political economy*, Routledge, New York, 2016, p. 75

[812] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104

The financial sector in Ireland was significantly liberalised with regard to the regulation it was subject to after 2001, which Murphy explains through lobbyist pressure from the building and property development industry.[813] This shift in government policy actively promoted increased and ever riskier lending, thereby expanding the financial sector in Ireland significantly. It has also been emphasised that the expansion of the financial sector in Ireland formed a policy goal in itself,[814] which opened the possibility of a conflict of interest on the side of the regulator.

Growth in Ireland was slowing down significantly from 2001 onwards. The economic growth model was increasingly reliant on an expansionary financial sector. In 1998, the volume of exports of Irish goods and services grew by an impressive 23.1% and was still at 21.1% in 2000. In 2001 growth in the export of goods and services decreased to 8.2% and reached a mere 0.8% in 2003.[815] This contrasted sharply with the growth in mortgage lending between 2003 and 2008, which accumulated to a 108% increase in total.[816]

This shift from export led growth to property driven growth is partially explained through changes proposed in the 2002 budget, which was the result of extensive lobbying and the government's desire to stimulate an economy which had begun to slow down significantly. Thus, the Finance Act of 1998 was effectively revoked, and borrowed monies for the repair, purchase or improvement of real estate became tax deductible.[817] Naturally, this fuelled further lending, thus contributing to a credit bubble already well underway.

Some commentators have directly linked the size of the Irish financial sector to the government's hotly debated decision to issue a blanket guarantee for the banking sector in 2008. According to proponents of this view, the large size of the financial sector meant that it had become 'too big to fail'.[818] However, the allegations of undue Commission pressure on the Irish government to issue the banking guarantee in 2008[819] have been refuted by Brian Hayes in an interview as 'false'.[820]

The significant change of the Irish banking sector in the early 2000's explains Amable's classification of Ireland in a loosely bank based cluster with Finland, Korea, Norway and Switzerland.[821] This categorisation might now seem somewhat peculiar, particularly in light of the recent Irish banking crisis. A closer look reveals that the cluster itself is singularly ill defined, and its only distinguishing indicator seems to be a large number of foreign banks operating in the respective countries.[822] Here, recent econometric research seems to indicate that financial integration via foreign banks can in fact be a significant destabilising factor.[823]

Yet, the cluster allocation is also indicative of a shift in the structure of the Irish financial system, which rapidly grew in size and influence in the decade before the crisis and after Bruno Amable published his seminal book. The trajectory of the change was clearly towards a more market based financial system. Another caveat to the categorisation of Ireland as belonging to a bank based cluster comes from Bruno Amable himself, who asserts that due to the more widespread use of

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[813] D. Donovan and A. Murphy, *The Fall of the Celtic Tiger: Ireland and the Euro Debt Crisis*, Oxford University Press, Oxford, 2013, p. 60

[814] F. O'Toole, 'Regulation and Competition Policy', in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland: National and Sectoral Policy Issues*, Twelfth Edition, Gill and Macmillan, Dublin, 2014, p. 124

[815] Central Statistics Office (CSO), Dublin

[816] D. Donovan and A. Murphy, *The Fall of the Celtic Tiger: Ireland and the Euro Debt Crisis*, Oxford University Press, Oxford, 2013, p. 67

[817] Ibid., p. 64

[818] P. Legrain, *Aftershock. The reshaping of the world economy after the crisis*, Abacus, London, 2010, p. 33

[819] P. Legrain, *Aftershock. The reshaping of the world economy after the crisis*, Abacus, London, 2010

[820] Brian Hayes, MEP, interviewed by Benjamin Klos, 2016

[821] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 148-149

[822] Ibid., p. 149

[823] A. Winkler, *Finance, Growth and Crisis- A European Perspective*, Intereconomics, 2014, p. 88

venture capital schemes and the emergence of financial markets in virtually all OECD countries in the 1990's, the lines between the polar cases of bank based systems and financial market based systems are increasingly blurred.[824]

The economic adjustment programme prioritised the reform of the financial sector, as it was identified correctly as one of the root causes of the crisis which led to the programme in the first place. The first report noted that the expansion of the financial sector played a key role through 'an over extension of credit, over-investment in physical capital and excessive increases in asset prices, as well as overly buoyant consumer expenditures'.[825] According to the mission, this housing bubble was largely driven rapid expansion of available consumer credit and tax incentives for property investments.[826]

The mission concurred with the assessment produced in the previous section with regard to the role of light touch regulation in the build-up of imbalances and risks in the Irish banking sector.[827] This overextension of credit, which according to the mission's own data reached a staggering 320% of Irish GDP in 2006, was at the root of the deterioration of asset quality on the banks' balance-sheet and the collapse of the housing market.

The same report also discussed the Irish government's decision to issue a two-year guarantee on bank liabilities through the Credit Institutions Financial Support Scheme (CIFS). In assessing the impact of the CIFS, the report merely remarked that 'while the guarantees have provided some relief to banks, they have not allowed them to restore their access to term market funding'.[828] Significantly, although hardly surprising the report omitted the role that other Member States, here primarily Germany, and the Commission played in forcing Ireland to issue the guarantee in the first place.[829] It does acknowledge however, that 'the solvency of the Irish sovereign and the banking system have become inextricably linked',[830] without mentioning that it was the guarantee that reinforced this link in crucial measure.[831] The economic adjustment programme gave very high priority to the reform of the financial sector, which becomes clear after even a cursory look at the programme objectives, which list as the first point: 'A financial sector strategy comprising fundamental downsising and reorganisation of the banking sector'.[832]

In outlining its approach to reforming the financial crisis, the mission revealed very clearly that it continued to be committed to the neo-classical economical approach, according to which a global banking crisis, such as the one which occurred in 2007-08 should not have been possible in the first place.[833] Its continued stress on 'investor confidence' and 'market sentiment'[834] is strongly indicative of a belief in self-regulating markets, although the very existence of the programme seems to be evidence to the contrary.

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[824] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 143
[825] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 6
[826] Ibid.
[827] Ibid., p. 9
[828] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 13
[829] V. Boland and P. Spiegel, 'ECB threatened to end funding unless Ireland sought bailout', *Financial Times online*, 6 November, 2014, accessed on 27 December 2015, <http://www.ft.com/cms/s/0/1f4ed1fa-65ac-11e4-aba7-00144feabdc0.html?siteedition=uk>
[830] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 15
[831] F. Scharpf, 'Monetary Union, Fiscal Crisis and the Pre-emption of Democracy', *MPIfG Discussion Paper,* November, 2011, pp. 163-198
[832] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, pp. 19
[833] M. Blyth, *Austerity. History of a dangerous idea*, Oxford University Press, Oxford, 2013, pp. 38-45
[834] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 23

The first report gave an outline of the preliminary financial framework, which would amount to €35 Billion, and was destined to be used for the reform of the banking sector. The goal of these reforms was to produce smaller but financially self-sufficient banks, which would of course alleviate significant financial burdens from the Irish state.[835] In this context, a first set of capitalisation measures, worth €10 billion, would be used to re-capitalise banks. The core Tier 1 capital requirements were augmented from originally 8% to 10.5%. Particularly the increase in capital requirements pre-empts a central reform demand voiced in the 'High-level Expert Group on reforming the structure of the EU banking sector' from October 2012, which demanded 'stronger capital requirements' in order to enhance the crisis resilience of financial institutions.[836] A further step in improving 'market sentiment' was the continued transfer of toxic commercial loans to NAMA, a state funded bad bank which was set up by the Irish government in December 2009. It has been pointed out in this context that two-thirds of toxic assets came from the Anglo Irish Bank, which was not even part of the bank clearing system.[837]

A complementary step involved in-depth reviews of the banking sector, to assess the health of banks' balance-sheets and to evaluate their capitalisation needs in the future. In this context, there were two primary policy tools to achieve this, both to be put in place by the end of the first quarter of 2011: Firstly, an enhanced Prudential Capital Assessment Review (PCAR). This PCAR offered in-depth insight in the asset quality of the banks under examination. The responsibility for conducting these reviews, which were scheduled to take place annually, lay with the Irish Central Bank, which was to conduct the reviews in cooperation with the Commission, ECB and IMF.[838] However, recent research and empirical evidence from the European stress tests raised some doubts about the validity of these assessments, which focused on assessing current risk levels whilst neglecting 'the risk of changing risks'.[839]

The second policy tool was the Prudential Liquidity Assessment Review (PLAR). This review was intended to identify measures necessary for the ongoing deleveraging of the banking sector. This review also set target funding ratios for each bank in the Irish financial sector individually, which were to be met by 2013. In the words of the Troika: 'Ambitious target loan-to-deposit ratios will be established for each bank. These targets will be designed to ensure convergence to Basel III standards'.[840] In this manner, the mission did not only promote the sustainability of the Irish banking sector, but also the compliance with EU wide banking standards, thus harmonising the European banking sector. Yet, emphasis on the downsizing of the Irish banking sector stemmed also from the recognition that the financial sectors across the European Union had become significantly too large, with a pre-crisis level of 350% of EU GDP in 2008.[841]

There have also been significant legislative steps, particularly the Credit Institutions (Stabilisation) Act 2010, which was enacted in December of that year. This piece of legislation gave the Minister of Finance far reaching, albeit time-limited powers to 'act on financial stability grounds to effect restructuring actions and recapitalisation measures envisaged in the programme'.[842] This

[835] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 23
[836] 'E. Liikanen, *High-level Expert Group on reforming the structure of the EU banking sector*, Final Report, European Commission, Brussels, 2012
[837] B. Connaughton, 'Confronting interrelated crises in the EU's Western Periphery', in 'J. Magone, B. Laffan and C. Schweige (eds.), *Core-Periphery Relations in the European Union. Power and conflict in a dualist political economy*, Routledge, New York, 2016, p. 167
[838] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 24
[839] V. Acharya, R. Engle and D. Pierret, 'Testing macro prudential stress tests: The risk of regulatory risk weights', *Journal of Monetary Economics*, vol. 65, 2014, pp. 36-53
[840] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 24
[841] E. Liikanen, High-level Expert Group on reforming the structure of the EU banking sector, Final Report, European Commission, Brussels, 2012, p. 11
[842] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 25

legislative act strengthened the executive powers of the government significantly, but at the same time explicitly mentioned that the Minister was bound to act within the parameters outlined in the programme. The above mentioned policy tools were used to require banks to streamline their operations and sell non-core assets in order to 'enhance market trust and facilitate the access of Irish banks to international capital markets'. [843] These measures were necessitated by the government's earlier decision that 'no bank can be allowed to fail',[844] as it transferred a number of economically non-viable banks into state ownership.

A last vital point mentioned in the reform agenda outlined in the first report involved provisions for the resolution of non-viable banks, namely the Anglo and INBS, for which the report mentioned that a resolution plan would be established and subsequently submitted to the Commission for approval. The question of burden sharing of the losses suffered as a consequence of these resolution was answered by the mission as follows: 'For legal reasons, but also to avoid contagion to other parts of the financial system both in Ireland and elsewhere in the euro area, the measures agreed with the Irish authorities do not include steps that would affect senior debt holders'.[845] The commitment to refrain from 'bailing in' senior bondholders actually preceded the negotiations leading to the signing of the MOU and has been partly traced to pressure exercised by the US government.[846]

On the 31 March 2011, the Irish Central Bank then presented its Financial Measure Programme (FMP), which outlined the exact bank capital requirements, specifically for each individual bank. The values for these capital requirements were based on the two reviews mentioned above, the PCAR and the PLAR.[847] All in all, four domestic banks participated in the programme: Allied Irish Bank, Bank of Ireland, Educational Building Society and Irish Life & Permanent. Two banks, Anglo-Irish Bank and Nationwide Building Society, did not partake in the exercise as they were in the process of being resolved at the time.

The FMP identified € 73 Billion worth of assets that these banks needed to dispose of in order to meet the specified target of a loan to deposit ratio of 122.5%.[848] The findings of the PLAR and PCAR indicated that the capital requirement of these four banks under examination would amount to 24 Billion euro, in order to meet the liquidity targets. Furthermore, the announced restructuring of the entire banking sector also took shape. In the future, the Irish banking system was to consist of 'a domestic banking system centred around two pillar banks, AIB and BOI'.[849] Incidentally, it was a fear of collapse of these 'pillar banks' which triggered the issuance of the Irish state's bank guarantee,[850] thereby assuming responsibility of € 485 billion or 271% of GDP.[851]

The aforementioned resolution of the Anglo-Irish Bank and Irish Nationwide Building Society (INBS) was to take the form of a merger between the two institutes. In this context, a specific plan outlining the necessary steps was submitted to the Commission at the end of January 2011. The merger was to be conducted through a transfer of the assets of INBS to Anglo. This would reduce

[843] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 25
[844] P. Nyberg, 'Misjudging Risks: Causes of the Systemic Banking Crisis in Ireland: Report of the Commission of Investigation into the banking sector of Ireland', Government Publications, Dublin, 2011
[845] European Commission, [Occasional Papers 76] *The Economic Adjustment Programme for Ireland*, February, 2011, p. 26
[846] D. Donovan and A. Murphy, *The Fall of the Celtic Tiger: Ireland and the Euro Debt Crisis*, Oxford University Press, Oxford, 2013, p. 250
[847] European Commission, [Occasional Papers 78] *The Economic Adjustment Programme for Ireland*, May, 2011, p. 12
[848] Ibid., p. 13
[849] Ibid.
[850] A. Fraser, E. Murphy and S. Kelly, 'Deepening Neoliberalism via Austerity and 'Reform': The case of Ireland', *Human Geography*, vol. 6, 2013, p. 42
[851] P. Drudy and M. Collins, 'Ireland: from boom to austerity', *Cambridge Journal of Regions, Economy and Society*, vol. 4, no. 3, 2011, pp. 339-354

the number of banks in the market, making the Irish banking sector smaller and its actors less numerous. This runs contrary to what Amable's framework suggests would happen if a country is to transit into a market based VOC, which is heavily reliant on a large, highly competitive and market finance based financial sector.

Given the genesis of this crisis as a banking crisis, this step is hardly surprising or unexpected. Yet, research into the role of financial sectors in the crisis finds that 'the lack of competition in the banking sector and a regulatory regime that favours big institutions over smaller ones are two factors that serve to encourage speculative and destabilising behaviour'.[852] Thus, reducing the size of the sector through the merger of smaller banks would have a decidedly negative effect.

The legislation providing the legal basis for early intervention in distressed banks was put before the upper house of the Irish parliament, the Seanad, at the end of February 2011. In connection with the possibility of the Troika pursuing an agenda of top down integration, the last sentence of the paragraph was highly significant: 'The bill is in line with similar initiatives ongoing at EU level'.[853] It becomes apparent from this quote that many of the reforms within the banking sector have to be seen in the broader context of reforms at the EU level with regard to the possible formation of a banking union.

In a departure from the previous light-touch approach to supervision, the Central Bank proposed a so-called action plan, 'based on more pro-active supervision, more prudent loan loss provisions, enhanced disclosures by banks, publication of new guidelines for the valuation of bank collateral and the introduction of a central credit registry'.[854] Complementary to this action plan, the newly proposed Central Bank (Supervision and Enforcement) Bill would also enhance the Central Banks executive powers to improve its ability to enforce compliance with the new rules. These powers comprised extended data gathering powers, the right to issue binding regulations and to attend relevant meetings of the banks' boards.[855]

In a parallel initiative, the Irish government made efforts to improve the governance structure of those banks that were in public ownership as a result of the government asset guarantee. This initiative is understandable given considerable public pressure: 'Overall, it is envisaged that Irish banks which have received taxpayer support will become more accountable to the government'.[856] In this context, the Department of Finance was given new powers to monitor potential systemic threats to the financial sector, for which a new special unit within the department would be responsible. In this way, it was hoped, the government could execute the new 'hands on approach', which was to be adopted across the entire sector.

This plan went beyond what the mission had planned for the Irish banking sector, which constituted a very significant development: 'In assessing the proposed governance framework, programme partners observed that the role of the Department for Finance in the proposed framework appeared to be more direct and hands-on than initially agreed, but the authorities considered that such a model was necessary'.[857]

This was a significant concession, as the neo-liberal policy paradigm prescribes, according to Bruno Amable, that 'the most fundamental rules of economic competition (and public finance

[852] S. Kapoor, 'Principles for financial system reform', in A. Watt and A. Botsch (eds.), *After the crisis: towards a sustainable growth model*, European Trade Union Institute, 2010, p. 17
[853] European Commission, [Occasional Papers 78] *The Economic Adjustment Programme for Ireland*, May, 2011, p. 13
[854] European Commission, [Occasional Papers 84] *The Economic Adjustment Programme for Ireland*, September, 2011, p. 13
[855] Ibid., pp. 13-14
[856] Ibid., p. 15
[857] Ibid.

orthodoxy) must be shielded from bureaucrats and politicians'.[858] Hence, the concession to the Irish government points to deep internal contradictions and failures of the economic approach of the EAPs, namely its reliance on state intervention to introduce 'free market' policies. This difference of approaches indicates that the Irish government was willing to depart further from the previous approach to banking regulation than the mission, which appeared to continue to embrace the belief in the self-regulating forces of the financial sector.

This policy stance becomes even more clearly exposed with regard to the temporary nature of the state ownership of banks, where the mission was eager to stress that 'it is important that publicly owned banks do not become a conduit for quasi-fiscal operations or directed lending'.[859] This reflects a deep distrust of public ownership, but also a paradox inherent in this approach: 'On the one hand, it is claimed that public officials cannot be entrusted with running the banking industry. On the other hand, the same public officials can apparently be entrusted with the vital function of running the regulatory system of that industry efficiently'.[860]

The subsequent report, dating from December 2011 noted that bank capitalisation was progressing according to the pre-determined schedule and that capitalisation levels of Irish banks were 'amongst the highest in the EU'.[861] In a similar vein, the report noted that financial dependence on Central Bank funding had stabilised, albeit at a very high level of just under 120 billion euros.[862] This was a reduction from the peak of almost 160 billion euros in February 2011.

The mission noted that 'banks have agreed to about 70% of the new narrative and numerical disclosures requested by the CBI'.[863] It was not immediately apparent why this process needed to be subject to consultation with the banks, as the Central Bank certainly had the necessary expertise to advise the legislator on the necessary data it requires from banks. There was also no clarification on which aspects were included in the rather random specification of 70%, as the most sensitive and relevant data could be contained within the remaining 30%. Furthermore, the Central Bank had made operational its new risk assessment system PRISM, which evaluated all financial firms operating in the Irish market, both foreign and domestic ones.

The loan to deposit targets, previously set at 122.5% were announced to be potentially revised in the March 2012 report. This would constitute a major shift in policy, indicating that the emphasis on a stable and sustainable banking sector was only ever meant to be temporary for the duration of the crisis. The report gave three interlinked reasons for this possible revision: Firstly, it argued that the LDRs might lead banks to over compete for deposits, thus increasing their costs. Secondly, it argued that could potentially encourage banks to dispose of core assets and thirdly it did not take account of recent PCAR mobilisation of funding.[864]

However, the loan to deposit ratio is secondary to the EAPs failure to separate investment banking from consumer banking.[865] The enormous size of the financial sectors in EU countries, amounting

[858] B. Amable, 'Morals and politics in the ideology of neo-liberalism', *Socio-Economic Review*, vol. 9, no. 1, 2011, p. 17
[859] European Commission, [Occasional Papers 84] *The Economic Adjustment Programme for Ireland*, September, 2011, p. 18
[860] Y. Kitromilides, 'Should banks be nationalised?', in A. Watt and A. Botsch (eds.), *After the crisis: towards a sustainable growth model*, European Trade Union Institute, 2010, p. 30
[861] European Commission, [Occasional Papers 88] *The Economic Adjustment Programme for Ireland*, December, 2011, p. 15
[862] Ibid., p. 17
[863] Ibid., p. 21
[864] European Commission, [Occasional Papers 93] *The Economic Adjustment Programme for Ireland*, March, 2012, p. 21
[865] H. Schuberth, 'Making finance serve society', in A. Watt and A. Botsch (eds.), *After the crisis: towards a sustainable growth model*, European Trade Union Institute, 2010

to 350% of GDP prior to the crisis,[866] and the highly interconnected nature of the European financial system mean that the loan to deposit ratios in one member state have little impact on systemic stability of the financial sector in the EU as a whole. Ironically, the 1990's study of potential costs and benefits of EMU, *One market one money* listed the enhanced growth potential accruing to the European financial sectors as one of the core benefits of EMU.[867] Yet, more recent research requested by the Commission indicated that far from needing larger banks, the EU featured a banking sector which was 3.5 times as large as the EU's GDP in 2010. By comparison, the US banking sector only accounted for 78% of national GDP in the same year.[868] Perhaps more worrying, the top ten banks alone accounted for 122% of GDP, compared to 44% in the US.[869]

With regard to the reform of the credit union sector, the commission which was specifically set up for this purpose published a report on the 18th of April 2012.[870] This commission recommended a voluntary approach to restructuring of the sector, although the recommendation was rather vague on details as an overview of the cost for the Irish state was not yet possible at the time. However, the Irish state had already set aside €250 million in anticipating such an event in the dedicated credit union resolution fund and had announced that a further €250 million would be made available later in 2012.[871]

The alteration of the measurement and assessment of necessary minimal deposit requirements was announced in the September 2012 report, with the stated aim to 'minimise any potential distortions of deposit rates- and attendant pressure on profitability- and mitigate possible risks to lending, the programme monitoring framework for deleveraging has been modified, reducing reliance on LDRs'.[872] The change was further justified in the reports in terms of the successful deleveraging process of the four main banks in the Irish banking sector thus far and as a necessary measure to support the slight economic recovery taking place at the time. However, all these qualifications aside, it meant a significant increase in lending at constant deposit rates, thus increasing the systemic risk in the sector once again.

The report of January 2013 outlined that quick progress has been made in the three main reform areas for the financial sector: 'Banks are well capitalised, system deleveraging is ahead of plan, and the supervisory framework is being enhanced'.[873] In light of this progress, the Troika and the Irish government aimed for Ireland to withdraw from the Eligible Liabilities Guarantee Scheme (ELG), which was the successor guarantee to the one given in 2008, as early as 2013. This was also partially due to the fact that the mission expected the sector as a whole to return to 'modest profitability'.[874] Yet the prioritisation of a return to profitability above all other policy goals raised questions about 'letting a crisis go to waste', as the nationalised banks could have been utilised to provide a stimulus to the real economy through directed lending.[875]

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[866] E. Liikanen, High-level Expert Group on reforming the structure of the EU banking sector, Final Report, European Commission, Brussels, 2012, p. 11
[867] European Commission, *One market, one money. An evaluation of the potential benefits and costs of forming an economic and monetary union,* Task Force Study, European Economy, no. 44, 1990, p. 11
[868] E. Liikanen, High-level Expert Group on reforming the structure of the EU banking sector, Final Report, European Commission, Brussels, 2012, p. 12
[869] Ibid.
[870] European Commission, [Occasional Papers 96] *The Economic Adjustment Programme for Ireland*, June 2012, p. 34
[871] Ibid., p. 35
[872] European Commission, [Occasional Papers 115] *The Economic Adjustment Programme for Ireland*, September 2012, p. 25
[873] European Commission, [Occasional Papers 127] *The Economic Adjustment Programme for Ireland*, January 2013, p. 31
[874] Ibid., p. 33
[875] Y. Kitromilides, 'Should banks be nationalised?', in A. Watt and A. Botsch (eds.), *After the crisis: towards a sustainable growth model*, European Trade Union Institute, 2010, p. 30

In one of the last reports before the scheduled exit from the economic adjustment programme, the mission emphasised that there continued to be a significant and in the long term unsustainable number of mortgages in arrears on the banks' balance-sheets.[876] Throughout the programme, progress in the resolution of these arrears had been slow,[877] and consequently, the resolution of these bad assets through debt restructuring or insolvency proceedings was given high priority, as the last two reports prior to the conclusion of the programme made clear. In the October 2013 report, the mission concluded that the banks begun to tackle the mortgage resolution process'.[878]

Progress had also been achieved in the review of legal provisions for the repossession of houses by the banks. The new legal codes were hoped to provide improved clarity. However, there might be new issues arising through the high number of cases expected in courts, which raised serious doubts about the capacity of the legal system to deal with them all in a timely manner.[879] The administration was at the time working on preparing the non-judicial personal insolvency mechanism, through which the mission hoped the Irish government could achieve an increase in the number of repossessions, which it deemed insufficient thus far.[880] In part this slow pace of progress could be attributed to the sheer volume of mortgages in arrears, which independent research found to stand at 31% of mortgaged properties.[881]

The mission subsequently rephrased its emphasis on the need for banks to return to profitability by linking it to the achievement of proposed loan-to-deposit ratios: 'A return to profitability is essential for the banks to meet future capital thresholds under the Capital Requirements Regulation and Directive (CRR/ CRD IV)'.[882] This argument was somewhat surprising as the Regulation and Directives mentioned by the mission merely regulated the deposit requirements to be observed by the banks. Therefore, the profitability of banks was not necessarily linked to the banks observing these requirements.

In the first post programme surveillance report, the findings of the Balance Sheet Assessment (BSA) were outlined. This assessment was completed at the end of 2013 and found that there were additional capital requirements met by any of the banks, meaning that they all met and in some cases exceeded the 10.5% threshold specified by the Central Bank.[883] In addition to reviews and assessments undertaken at the national level the post programme surveillance report also announced that a Comprehensive Assessment was undertaken by the ECB. This was a measure undertaken in no small part to enhance confidence in the European banking system and due to be published before the Single Supervisory Mechanism (SSM) became operational in November 2014.[884]

This is a strong indication of efforts by the mission to harmonise the European banking sector and suggests that the mission pursued the additional goal of driving forward European integration. From a Varieties of Capitalism standpoint, the EAP in the Irish financial sector entrenched the neo liberal model of financial sector regulations, with some peripheral refinement regarding the

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[876] European Commission, [Occasional Papers 154] *The Economic Adjustment Programme for Ireland*, July, 2013, p. 25
[877] B. Connaughton, 'Confronting interrelated crises in the EU's Western Periphery', in J. Magone, B. Laffan and C. Schweiger (eds.), *Core-Periphery Relations in the European Union. Power and conflict in a dualist political economy*, Routledge, New York, 2016, p. 174
[878] European Commission, [Occasional Papers 162] *The Economic Adjustment Programme for Ireland*, October, 2013, p. 25
[879] Ibid.
[880] Ibid.
[881] G. Kennedy and T. McIndoe Calder, 'The Irish Mortgage Market: Stylised Facts, Negative Equity and Arrears, *Quarterly Bulletin*, no. 1, 2011, p. 4
[882] European Commission, [Occasional Papers 167] *The Economic Adjustment Programme for Ireland*, December, 2013, p. 29
[883] European Commission, [Occasional Papers 195] *The Economic Adjustment Programme for Ireland*, June, 2014, p. 23
[884] Ibid.

necessary loan to deposit ratios. Crucially, the likely failure to legally separate investment banking operations from traditional bank activities either at the EU or national level would in effect entrench the financial market based model.[885]

The Varieties of Capitalism model suggests that this has significant implications for other institutional areas as well. Amable emphasises particularly the emerging complementarity between a lightly regulated financial sector and a newly deregulated labour market: 'By imposing short-term constraints on firms, it makes them depend on flexible labour markets for their competitiveness'.[886] The far reaching transformation of the Irish labour market through the abolishment of the social partnership model, suggests that the successful Irish recovery can be explained through the emergence of new complementarities between a 'liberalised' labour market and a restored but not structurally altered financial sector. While this complementary between financial markets and labour market reforms explains part of the comparatively swift recovery, it also highlights long term issues of stability, as the withdrawal of credit from the economy in the case of a future banking crisis would have an even more immediate impact on employment levels.

The restructuring of core banks appeared to be well on track at the time of writing, as the Commission had already approved the restructuring of AIB in May 2014.[887] The dissolution of the National Asset Management Agency (NAMA) progressed well, particularly in light of improving demand for Irish real estate. The mission declared in this context that unsold assets would no longer be transferred to NAMA but instead be privately auctioned in the second half of 2014. The acceleration of demand for Irish real estate suggests that the Irish recovery was based on similar drivers as the previous and unsustainable boom.

Conclusion

The role of the financial sector in the economic crisis of the EU is a crucial but controversial one. Controversial also because the sector played different roles in each country, which became most starkly apparent in the cases of Greece and Ireland. Ireland was regarded as an exemplary performer compared to most of its EU peers, but the country was hit by a banking crisis which was in turn triggered by the collapse of an overheated real estate market. The ill-advised issuance of a blanket guarantee for the Irish banking sector then triggered a sovereign debt crisis which forced Ireland to apply for a bail out in November 2010 and forged a link between banking and sovereign debt.[888] Conversely, Greek public finances, due to systemic overspending coupled with strong exposure of the Greek banking sector to Greek bonds led to a sovereign debt crisis which ultimately spilled over into a banking crisis. These differences were explicitly recognised by the Troika in their crisis assessment of Greece: 'While not at the origin of financial stress, the banking sector was affected by the economic and confidence crisis'.[889]

Regardless of these differences in the crisis geneses, the EAP approach in both cases is remarkably similar. The EAP in both countries prescribe the restoration of market confidence as the principal

[885] B. Amable, 'A change of model requires a new balance of power', in A. Watt and A. Botsch (eds.), *After the crisis: towards a sustainable growth model*, European Trade Union Institute, 2010, p. 152
[886] Ibid.
[887] European Commission, [Occasional Papers 195] *The Economic Adjustment Programme for Ireland*, June, 2014, p. 24
[888] B. Connaughton, 'Confronting interrelated crises in the EU's Western Periphery', in J. Magone, B. Laffan and C. Schweige (eds.), *Core-Periphery Relations in the European Union. Power and conflict in a dualist political economy*, Routledge, New York, 2016 pp. 170
[889] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, May, 2010, pp.7

goal,[890] which is in both cases to be achieved through financial sector policies aimed at stabilising the economy. However, in both countries, this quest for 'market confidence' is fatally hampered by the failure to restructure debts in a sustainable way, so that high levels of public debt continue to be a deterrent to investment and thus growth.

While some scholars can confidently assert that 'In the current crisis there is a similar tendency towards rethinking and re-evaluating some of the fundamental assumptions and conclusions of orthodox economic theory, in particular those relating to the efficiency of financial markets', this re-evaluation seems to not yet have permeated EU policy making circles.[891] Another way to explain the continued adherence to neo-liberal policies on the one hand and the refusal to take genuine steps to increase market confidence through the restructuring of debt in EAP countries to sustainable levels on the other is to consider the emphasis on intergovernmental negotiations as a means to crisis resolution. The cases of Ireland and Greece demonstrate the precedence given to creditor country interests even over the promotion of the neo-liberal policy paradigm.

The application of the EAP's to the financial sectors of Ireland and Greece also suffered from internal contradictions of this same neo-liberal paradigm. This paradigm is centred on the reliance of market forces as the chief remedy to economic imbalances. The arrival of the financial crisis at European shores left Member States and EU institutions to resolve a situation which should not have happened in the first place. They did so through state intervention on an unprecedented scale. As a result, the majority of banks in both countries were transferred to public ownership. Yet, due to the ideological opposition to state involvement in the economy, although Ireland obtained some minor concessions, the mission refused to permit directed lending, which could have provided an essential stimulus for growth. After all the banks are already paid for, why not use them?

The EAPs for the financial sectors of Greece and Ireland also offers insights in the particular strengths and weaknesses of the VOC approach. In this chapter, Bruno Amable's VOC approach produced particularly interesting insights with regard to the interdependence of various policy areas. Here, the interdependence of deregulated labour markets and the financial sector is paramount, as it suggests that the entrenchment of financial market based systems complements the newly deregulated labour markets in Ireland, thus contributing to the economic recovery.

However, this is both a strength and a weakness. Bruno Amable's VOC approach marginalises the impact of sound regulatory framework, which in turn means that if applied to the analysis of financial sectors, this shortcoming needs to be kept in mind and corrected for. When due weight is given to the quality of regulatory frameworks, it becomes clear that that in the event of a future crisis, the financial markets would adjust through the withdrawal of the, mostly short-term credit to the economy, which in turn would lead to the drastic reduction of the workforce in the affected companies. This effect would be further strengthened through adherence to fiscal austerity, which effectively prohibits anti-cyclical investment.

Yet, this chapter also uncovered other weaknesses of Amable's approach. The most crucial of these shortcomings is its bias towards continuity, which leads it to 'underestimate the importance of the state in stabilising and sustaining economic activity, particularly at times of crisis'.[892] Therefore, it is vital to distinguish structural alterations to the *modus operandi* of the financial sector and temporary measures aimed at restoring investor confidence.

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[890] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, May, 2010, p.10

[891] E. Posner and N. Veron, 'The EU and Financial Regulation: Power Without Purpose', *Journal of European Public Policy,* vol. 17, no. 3, 2010, pp. 400-415

[892] C. Schweiger, *The EU and the Global Financial Crisis. New Varieties of Capitalism*, Edward Elgar, Cheltenham, 2014, p. 9

A second shortcoming is specific to the conceptualisation of the banking sector in Amable's framework. While the framework is very detailed and contains a myriad of indicators as outlined in the introduction to this chapter, it marginalises the importance of regulation for the financial sector. There are a total of 122 individual indicators for the financial sector, only one of which concerns the regulatory framework.[893] Said indicator is itself a composite of several indicators,[894] aimed at 'capturing the capacity of the state to implement sound policies'.[895] This seems insufficient for the analysis of a financial crisis which brought the merits and shortcomings of different regulatory regimes to the forefront of the debate.

Yet, bearing these conceptual in mind, Amble's framework produces valuable insights in the country specific features of each country. In the case of Ireland, Bruno Amable's categorisation of Ireland as a country with a comparatively small financial sector. This categorisation seems slightly peculiar now, but it serves to underscore the important transformation the Irish banking sector underwent since Amable conducted his comparative study over a decade earlier. While Ireland might indeed have been a bank based financial system prior to the onset of the Celtic Tiger period, this changed dramatically if incrementally. After 2000 at the latest, the Irish banking system became ever more reliant on market finance, resembling more and more the British or US financial systems.

In the approach to personal insolvency, the mission clearly took a more business friendly stance than the Irish government, which proposed higher levels of secured loans than approved by the mission. This is also visible on the administrative level, where the mission was eager to accelerate procedures for the quick repossession of real estate by creating special legal processes.

On an institutional level, the shift of bank supervision from a partly separate hybrid supervisory agency to the oversight power held by the Central Bank is an important reform. This shift was accompanied by various measures to enhance the executive power of the Central Bank to not only detect systemic imbalances and risks at individual companies in the financial sector, but also to intervene once certain risks are detected.

When connecting the various reform initiatives, it becomes clear that despite the desired and executed downsizing of the entire sector and the much enhanced supervision, there seems to be no fundamental alteration of the Irish financial sector, which was, as outlined above, essentially a market based one at the onset of the crisis. With regard to the emerging banking union at the European level, it is too soon to draw definite conclusions. However, it is likely that there will be 'vertical complementarities', between the fiercely independent ECB with its low inflation bias and the recovering Irish financial sector, which will make the Irish economy more pro-cyclical, particularly in conjuncture with the economy's reliance on foreign direct investment and export driven growth.[896]

In summarising the findings on the financial system of Greece, there is a rich body of evidence to support the claim that Greece features a bank based financial system, which relies primarily on bank loans, as opposed to financial markets, for credit. The EAP in the Greek financial sector was primarily driven by the imperative of securing the interests of creditor nations, which resulted in the increase of shareholder protection and changes in the governance structure of government owned banks. Yet, these reforms should be seen through the prism of protection of creditor nation

[893] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, Appendix, pp. 272-283
[894] D. Kaufmann, A. Kraay and P. Soido-Lobaton, 'Aggregating Governance Indicators', *Policy Research Working Paper 2195*, The World Bank, 1999
[895] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, Appendix, pp. 278

interests, rather than as an attempt to alternate the institutional structure of the Greek financial system.

Despite the fact that the Greek banking sector proved comparatively resilient in the crisis, the mission 'let a crisis go to waste' through its failure to comprehensively overhaul the Greek financial sector. In the case of an eventual economic recovery, the Greek bank based system will likely fail to provide sufficient credit to complement the newly deregulated product and labour market. However, the completion of the EU banking union would mean that in a more harmonised and integrated financial market, this credit might be provided by other sources. The next chapter of this dissertation will now examine the institutional area of social protection.

Chapter 7

After the EAP reforms

Fare-well to the welfare state?

Introduction

The area of social protection in Bruno Amable's analytical framework is broadly congruent with core features of the welfare state, specifically the institutional provisions for health care, pensions and unemployment benefits.[897] Amable's approach to distinguishing different types of welfare provision rests on two essential components; compounding overall public spending on welfare provision and a detailed examination of the disaggregated welfare budget, which provides insights into the relative emphasis of main budgetary positions.

Bruno Amable's typology identifies three clearly discernible clusters, although he concedes that these can be further subdivided, which would produce a total of six clusters. In the interests of parsimony, this chapter utilises the three cluster typology, but makes reference to internal discrepancies within each cluster where necessary. Amable identifies a 'private welfare system',[898] which closely resembles the 'liberal welfare model' identified by Gosta Esping-Andersen.[899] Ireland belongs to this group, but is not a clear cut case, as Amable acknowledges: 'Australia and Ireland have more common characteristics with the private welfare system of cluster 2 than with the Continental European public system'.[900] This cluster is characterised by a low share of total old age expenditure in GDP, whereby Ireland and Australia are further distinguishable through their particularly low levels of public expenditure on old age and disability provisions.[901]

In another similarity to Esping-Andersen's seminal work, Amable identifies an unambiguous 'Nordic' cluster with Sweden, Finland, Norway and Denmark. The emphasis on a distinct 'Nordic' group is shared by most works of comparative welfare state research, and is indicative of a model of welfare provision which is both distinct and internally (relatively) homogenous.[902] Bruno Amable confirms that his cluster analysis for social protection 'leads us to three or six groups which are broadly compatible with the typology of Esping-Andersen'.[903] Here, Greece forms a sub-group of the Continental European cluster with Italy, which is distinguished by moderate overall levels of welfare spending. Within these moderate welfare expenditure levels, the share of old age expenditure is large.[904]

The cluster analysis shows a dichotomy with regard to the expenditure level of old age provision and whether they are privately or publicly provided between both case studies of this thesis. Bruno Amable's VOC approach would suggest that in order to transform the economic model of Greece and Ireland towards a more market based model, Ireland should be faced with significantly fewer

[897] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p.150
[898] Ibid, p.154
[899] G. Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Princeton University Press, New Jersey, 1993, p. 26
[900] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p.154
[901] Ibid, p. 155
[902] See B. Ebbinghaus, *European Labor Relations and Welfare-State Regimes: A comparative Analysis of their "Elective Affinities',* Max Planck Institute for the Study of Societies, Cologne, 1998
[903] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 19
[904] Ibid, p. 154

structural reforms measures which should also be much less drastic in scope. In Greece on the other hand, we would expect the EAPs to request the drastic reduction of old age provisions and the eventual shift of provisions from the public to the private sector, although this would be very long term indeed.

The distinction between EU wide trends and country specific features is essential. Research into the EU input to Member States through CSR[905] (country specific recommendations) finds that 'very few member states are recommended to ensure the provision of encompassing and adequate social protection for their citizens',[906] despite the evident and increasing need for it in crisis hit countries. Thus, it is vital to place social protection reforms mandated in the EAPs in a wider EU policy making context, particularly as social policy constitutes a policy area where the EU level was, prior to the EAPs, only marginally involved.

Social Protection in Ireland

Pre-crisis

Any discussion of the Irish social protection system has to include the concept of social partnership, which as discussed in chapter five on the labour market, extended well beyond wage setting. The first agreement concluded under the social partnership model in 1987[907] was innovative in that it contained, within a three-year time frame, not only minimum wage agreements, but also tax reforms, provisions for welfare spending and social policies.[908] Subsequent agreements maintained a three-year timeframe and became broader in scope and included more elements not directly related to wage setting.

The expansion of the social partnership model also serves to explain new patterns in wealth distribution. In the mid 1990's during the early period of the Celtic Tiger boom, the social partnership model successfully restrained income inequality which so often accompanies rapid economic expansion, as Wickham notes: 'overall income inequalities in the mass of the population seem to have remained relatively constant even as incomes rose'.[909] As outlined in chapter five, the social partnership model was essential to the success of the Celtic Tiger period because it enabled wage moderation and thereby preserved the competitiveness of Irish exports. Employing Amable's VOC approach, however, we would expect the remnants of the social partnership model to be removed in the EAP for Ireland, which would lead to a lowering of social protection standards.[910]

Public expenditure on social protection systems in Ireland actually decreased from 14.3% of GDP in 1985 to 10.7% in 2007.[911] Admittedly, this was against the background of rapid economic expansion for most of the intervening period, but it is representative of a decline of overall government expenditure in the same period, from 53.2% of GDP in 1985 to 45.2% in 2007. This

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[905] S. Clauwaert, *The country specific recommendations (CSRs) in the social field - An overview and (initial) comparison to the CSRs 2011-2012 and 2012-2013 and 2013-2014, Background Analysis*, European Trade Union Institute, Brussels, 2013

[906] C. Degryse, M. Jepsen and P. Pochet, 'The Euro crisis and its impact on national and European social policies', *ETUI Working Paper*, European Trade Union Institute, 2013, p. 22

[907] J. House and K. McGrath, 'Innovative Governance and Development in the New Ireland: Social Partnership and the Integrated Approach', *Governance Journal*, vol. 17, no. 1, 2004

[908] P. Kirby, *Celtic Tiger in Collapse. Explaining the Weaknesses of the Irish Model*, 2nd edn., Palgrave Macmillan, London, 2010, p. 43

[909] J. Wickham, 'After the party's over: the Irish employment model and the paradoxes of non-learning', in S. Lehndorff (ed.), *A triumph of failed ideas – European models of capitalism in the crisis,* European Trade Union Institute, Brussels, 2012

[910] B. Amable, *The Diversity of Modern Capitalism*, Oxford, Oxford University Press, Oxford, 2009, pp. 104-105

[911] P. Lane, 'Role of Government: Rationale and Issues' in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2011, p. 81

development seems to be indicative of a deliberate political commitment to a small public sector and welfare state. However, this very long term perspective conceals not only the shift to a more liberal state model featuring a small public sector and lower levels of social services, but also the fact that the period from 2000 till the onset of the crisis has been characterised as 'somewhat expansionary' with regard to welfare provision.[912]

The small government sector in Ireland had some rather important implications. The public sector in Ireland before the crisis was small, although public sector workers were comparatively well paid.[913] Some scholars have linked the small size of the government sector directly to low observable levels of social protection. As Haughton states: 'The comparatively small government sector has a price too- less social protection, including relatively modest spending on health, education and pensions'.[914] In this regard, the observable expenditure levels in Ireland before the crisis are fully compatible with a market based VOC social protection system, which is above all distinguished by featuring the lowest overall expenditure levels of all VOCs.[915]

The Irish health sector is composed of a private segment, which accounts for approximately 20% and a public sector accounting for the remaining 80%. The total expenditure on the health services was 12.4% of gross national income (GNI) in 2009. This figure corresponds to 12.4 % of overall employment in the health sector in 2009.[916] The Irish system was characterised by emphasis on regional administration from the 1970's onwards.[917] Yet, this system was subsequently identified as a source of inefficiency and from the mid 2000's, Health Service Executive (HSE) took charge of the health budget, thereby centralising the health care system. Despite stronger centralisation, employment in the health service continued to grow, reaching its peak only in 2007.[918]

Examining the development of expenditure over the last two decades allows some interesting observations: While public health expenditure in Ireland in 1990 stood at approximately €3 billion, correcting for inflation it barely increased at all until 1995, when it stood at marginally over €4 billion. Thereafter, a sharp increase is observable to about €7.5 billion in 2000.[919] In the time from 2000 to 2009, when cut backs reduced the health budget for the first time since 1990, the budget for public health more than doubled from €7.5 billion in 2000 to just under €16 billion in 2009.[920]

The Irish public health sector underwent a major reform in 2003, as a result of which three main bodies emerged: The Department of Health and Children, the abovementioned (HSE) and a regulatory body named Health Information and Quality Authority (HIQA). The Department of Health's principal function is to advise the Health Minister of the day on strategic planning and to develop legislation for this sector. The establishment of the HSE constituted an attempt to rationalise the delivery of health and social services in Ireland, which was previously conducted

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[912] F. Dukelow and M. Considine, 'Outlier or Model of Austerity in Europe? The Case of Irish Social Protection Reform', *Social Policy and Administration*, vol. 48, 2014, p. 414
[913] J. Haughton, `Growth in Output and Living Standards`, in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2011, p. 197
[914] Ibid, p. 198
[915] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 104-105
[916] A. Nolan, `Health: Funding, Access and Efficiency', in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2011, p. 324
[917] F. Stamati and R. Baeten, 'Health care reforms and the Crisis', *ETUI Report 134,* European Trade Union Institute, Brussels, 2014, p. 32
[918] S. Thomas, S. Burke and S. Barry, 'The Irish health care system and austerity: sharing the pain', *The Lancet*, vol. 383, no. 9928, pp. 1545-6
[919] A. Nolan, `Health: Funding, Access and Efficiency`, in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2011, p. 325
[920] Ibid.

by a myriad of regional and other agencies.[921] The HSE employed 110,000 staff in 2009 and had command of a budget of € 15.1 billion. Yet, the reform failed to significantly improve the provision of services and levels of coverage.[922]

Through the General Medical Services Scheme (GMS), all residents of Ireland are in principle eligible for public health care services. These patients are considered public patients or medical card holders. The GMS includes all services provided at public hospitals, full access to GP services and specialist treatment as long as it is provided at a public hospital.[923] For the remainder of the population, either private patients or non-medical card holders, most services are also available, but are subject to a surcharge. However, the award of a medical card is subject to means testing.[924] The result of this approach is a two tier health care system.[925] The result of this opposition is summarised by Kelleher: 'Rather than introducing a comprehensive system of care, the notion of means testing and the partial subsidy of health insurance for the more affluent taxpayer became the norm'.[926] In Ireland, this two tier approach had some decidedly negative consequences for the holders of medical cards, who although in principle entitled to most services accessible to private patients, were often subjected to excessive waiting periods of between two and four years for some of the busiest hospitals in Ireland.[927]

The means testing for social protection services is one of the identifying features of the market based VOC model of social protection.[928] It is typically the preferred method for the allocation of social benefits in a market based VOC, because through it, effective poverty alleviation can be achieved. While such a system has significant disadvantages in terms of economic equality and social cohesion, it is entirely compatible with a social protection system geared towards providing incentives to its citizens to make private provisions. Thus, we would expect the EAP to strengthen the private element in the health care sector, which stood at only 20% at the onset of the crisis.[929]

A closer look at the composition of the health care system is useful to underline the importance of this two tier system for health care outcomes: In 2007, 29.4 % of the Irish population were holders of the medical card, whereas 51.7% had private health insurance and 17.1% had no cover at all.[930] In terms of funding the health care system, this means that for 2007, the government covered 76.1 % of the overall expenditure, 9.2% were covered by private insurance or other similar private sources and 14.1 % derived from out-of-pocket payments.[931] In this regard, the high percentage of out of pocket payment appears to correspond closely with the high percentage of people with no health cover whatsoever, which is deeply troubling for a social protection system. However, from

[921] A. Nolan, `Health: Funding, Access and Efficiency', in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2011, p. 330

[922] F. Stamati and R. Baeten, 'Health care reforms and the Crisis', *ETUI Report 134*, European Trade Union Institute, Brussels, 2014, p. 32

[923] A. Nolan, `Health: Funding, Access and Efficiency', in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2011, p. 331

[924] Ibid., p. 332

[925] P. Kirby, *Celtic Tiger in Collapse. Explaining the Weaknesses of the Irish Model*, 2nd edn., Palgrave Macmillan, London, 2010, p. 58

[926] C. Kelleher, `Health and modern Irish society: The mother and father of a dilemma', in M. Cousins (eds.), *Welfare Policy and Poverty,* Institute of Public Administration, Dublin, 2007, p .205

[927] E. Donnellan, `The long waiting times for outpatients have not gone away', *The Irish Times*, 12 March 2016, < http://www.irishtimes.com/news/the-long-waiting-times-for-outpatients-have-not-gone-away-1.995338>, p.4

[928] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p.104

[929] A. Nolan, `Health: Funding, Access and Efficiency', in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2011, p. 324

[930] Ibid., p. 332

[931] OECD, *Health Data 2010*, Paris, 2010

a VOC point of view, universal health care provision is not identified as a requisite feature of a market based VOC social protection system.[932]

The structure of pension systems is another vital sub-category in Amable's typology. Prior to the crisis, the pension system of Ireland was characterised by a small amount of GDP dedicated to it, and this confirms Amable's assertion that low expenditure on pensions is a distinguishing feature of the Irish social protection system.[933] Here, the contrast between the Greek and Irish systems becomes particularly stark, as the Greek model distinguishes itself through exceptionally high provision of pensions relative to other social protection expenditure, whereas the Irish system is distinguished by its low levels of pension provision.[934]

This low expenditure level could partly be explained by Ireland's fairly young population, which 'meant that public expenditure on pensions is naturally lower'.[935] The demographic factor is illustrated in a report by the Irish government, which found that, in the period from 1961 to 2002, the total number of older people (65+) increased from 315.000 to 436.000, but their relative share of the population remained constant, even declining marginally from 11.2 to 11.1%.[936] In addition to demographic factors, Brian Hayes points to the fact that 'Ireland was a very poor country and became a very rich country'.[937] According to Hayes, this 'historical memory' of large segments of the population contributed to a lowering of expectations in the welfare state by the population.

A second factor contributing to the low level of public expenditure is the large role of the private sector in the financing of pensions.[938] Ireland's pension system before the economic adjustment programme consisted of three core components: The first was essentially a public pension, which was subject to means testing. The second consisted of a voluntary occupational pension, and the third of an also voluntary and private savings plan.[939] For the means tested public pension, a flat rate of € 166 per week was paid, for which no contribution was necessary. Past earning levels are thus not considered in the amount paid out to pensioners. The amount paid out would increase slightly for those over 80 to €172. The minimum age for receiving pensions was 66 and a 2004 study identified Ireland as one of the countries with the least (tax) incentive to retire early out of all OECD countries.[940]

There were no regulations for the provision of occupational pension plans, leading to a wide range of available options, such as contributory or non-contributory plans. Furthermore, these plans could be either contribution defined or benefit defined. According to OECD data, in 2004, 39.4% of people in work aged between 20 and 69 were covered by either an occupational pension plan or a combination of personal and occupational pension plan.[941] A study by OECD found that the global financial crisis had wiped out 20% or $ 5.4 trillion by 2008,[942] raising questions about the

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[932] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp.150-152
[933] Ibid., pp. 154-155
[934] Ibid., pp.155-156
[935] P. Lane, 'Role of Government: Rationale and Issues' in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2011, p 81
[936] T. Fahey, B. Maitre, B. Nolan and C. Whelan, *Housing, poverty and wealth in Ireland*, Combat Poverty Agency, 2004, p. 11
[937] Brian Hayes, MEP, interviewed by Benjamin Klos, 2016
[938] P. Lane, 'Role of Government: Rationale and Issues' in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2011, p 81
[939] OECD, *Ageing and Employment Policies Ireland*, 2006, p. 55
[940] P. Antolín and F. Stewart, 'Private Pensions and Policy Responses to the Financial and Economic Crisis', *OECD Working Papers on Insurance and Private Pensions*, No. 36, OECD Publishing, p. 12
[941] OECD, *Ageing and Employment Policies Ireland*, 2006, p. 55
[942] P. Antolín and F. Stewart, 'Private Pensions and Policy Responses to the Financial and Economic Crisis', *OECD Working Papers on Insurance and Private Pensions*, No. 36, OECD Publishing, p. 1

fiscal stability of some private pension schemes, particularly where previously no regulatory framework for private pensions was in place.

From a VOC perspective, the usage of means testing in the provision of state pensions is significant, as it is, as in the provision of health care, a typical feature of the market based VOC and as such would be expected to be retained without structural changes in the EAP for Ireland.[943] In addition, we would expect changes to the incentive structure of pensions aimed at encouraging private pension schemes and other measures to privately provide for old age, as reliance on private pension provision is a identifying feature of the market based VOC.[944] In the decade prior to the crisis, the usage of private pension schemes had increased, which some scholars have interpreted as evidence of path dependency patterns.[945]

Out of 34 OECD countries in a study on pensions, only Ireland and New Sealand had no legal requirement for second tier, i.e. occupational, pension schemes.[946] While this grants employees greater freedom to manage their financial resources independently, it also increases the risk of old-age poverty, particularly when coupled with relatively low levels of means tested state pensions. This issue has also been subject to considerable public debate.[947]

The third and last subcategory in the area of social protection is unemployment benefits. Unemployment benefits in Ireland, measured as a percentage of previous earnings have actually increased in Ireland. In 1997 the percentage was 29.0, compared to an OECD average of 30.2% for the same year, whereas in 2007 the figure in Ireland rose to 37.2% while the OECD average declined to 24.7%.[948] This rise took place in the context of steadily rising average wages during the boom period from 1997 to 2007. The rise of unemployment benefits during this period should be seen in context with the social partnership model, which was extensive in scope and contributed to the provision of more generous unemployment benefits.[949]

The comparatively generous unemployment benefits of the boom period can thus be traced to the role of the social partnership model, which had the overall effect of placing Ireland in a hybrid position between market based and Continental VOC.[950] However, in order to transition towards a 'pure' market based VOC, we would expect the Irish EAP to target the lowering of unemployment benefits, as they are typically very low in a market based VOC and allocated through means testing.[951]

However, the overall fiscal impact of these benefit transfers was only marginal, as Ireland experienced record low unemployment figures during this period. To illustrate this, the unemployment rate in Ireland declined from 14.3% in 1994 to a mere 4.2% in 2000, where it remained in 2005 with 4.4% only to rise with the onset of the banking crisis in 2009, when the figure climbed back to 11.9%.[952] It is thus fair to assert that the rising level of unemployment benefits in the 2000's had no significant adverse impact on public finances as attested by the very low public debt in Ireland. The period of moderate unemployment seems to coincide with the

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[943] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp.104-105
[944] Ibid, pp.104-105
[945] C. Pierson, *Beyond the Welfare State? The new political economy of Welfare*, 3rd edn., Polity, Cambridge, 2006
[946] OECD, *Reviews of Pension Systems*, 2014, p. 23
[947] OECD, *Ageing and Employment Policies Ireland*, 2006, p. 65
[948] J. O'Hagan and T. McIndoe-Calder, 'Population, Employment and Unemployment' in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2011, p. 164
[949] Allan Barret, Professor, interviewed by Benjamin Klos, 2016
[950] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp.173
[951] Ibid, p.104
[952] J. O'Hagan and T. McIndoe-Calder, 'Population, Employment and Unemployment' in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland. National and Sectoral Policy Issues*, 11th edn., Gill & Macmillan, Dublin, 2011, p. 152

emergence of the social partnership model, as the figures for the early 1990's and the previous decades are worse, featuring periodic unemployment spikes.[953]

Timonen has correctly observed that Irish expenditure on social services was among the lowest in the EU-15, when we look at the accumulated welfare transfers.[954] Furthermore, means testing formed the core component of welfare transfers, as Kirby has pointed out: 'Overall, means testing forms an important part of the Irish welfare state: throughout the 1990's the percentage of social benefits that were means-tested and paid out of general taxation fluctuated between 31 and 35 per cent whereas the EU average was around ten per cent'.[955] The extensive use of means-testing across all three subcategories of social protection indicates that Amable's placing of Ireland in the market based VOC cluster was justified.[956] However, his framework also proved useful for anticipating reforms in the EAP, particularly the lowering of unemployment benefits, the further extension of the use of means testing, and the promotion of private social protection schemes.

Social Protection in the Irish Economic Adjustment Programme

The outline of the reform agenda in the first programme report after its inception made little mention of the need to reform the social protection area, while focussing instead on the financial sector, the labour market and product market. This seems to indicate that this reform area did not constitute a high ranking priority or that there was little need for reform as it already displayed the desired features in Ireland.

The first progress report of the Irish EAP mentioned the need to curb overall expenditure on social protection: 'As the bulk of expenditures is on social benefits, compensation of employees and capital expenditures, any sizeable expenditure reductions inevitably will need to include cuts in these items'.[957] The same report noted that the total expenditure on social protection had doubled in the period from 2000 to 2007, although in the context of a rapidly expanding economy, this constituted a rise of the share of social expenditure of only 3 percentage points, from 25 % to 28% in 2007.[958]

The data analysis provided by the mission in this report is somewhat misleading, as an examination of Eurostat data for the same period reveals: While it is true that social expenditure doubled from 2000 to 2007, it did so from a very low base. In 2002, social expenditure was 16.4% in Ireland, compared to an EU average of 27.3%.[959] The decade prior to the economic crisis is thus better understood as a period of catching up, rather than one of runaway spending, as it was framed by the mission. To illustrate the point, on the eve of the crisis in 2008, Ireland still spent only 21.2% on social transfers, compared to a Eurozone average of 27.5%.[960]

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[953] C. Schweiger, *The EU and the Global Financial Crisis. New Varieties of Capitalism*, Edward Elgar, Cheltenham, 2014, p. 167

[954] V. Timonen, 'Irish Social Expenditure in a Comparative International Context', *Combat Poverty Agency*, Dublin, 2003, p.19

[955] P. Kirby, *Celtic Tiger in Collapse. Explaining the Weaknesses of the Irish Model*, 2nd edn., London, Palgrave Macmillan, 2010, p. 132

[956] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 173

[957] European Commission, [Occasional Papers 76], *The Economic Adjustment Programme for Ireland*, February 2011, p. 17

[958] Ibid., p. 17

[959] Eurostat accessed 01.August 2016 <http://ec.europa.eu/eurostat/statistics-explained/images/4/48/Expenditure_on_social_protection%2C_2002%E2%80%9312_%28%25_of_GDP%29_YB15.png>

[960] Eurostat accessed 01 August 2016 <http://ec.europa.eu/eurostat/statistics-explained/images/4/48/Expenditure_on_social_protection%2C_2002%E2%80%9312_%28%25_of_GDP%29_YB15.png>

Under the objectives for structural reforms, the second report made mention of the reform of the unemployment benefits system.[961] As specified later in the document, this meant specifically a reduction in payments made: 'Unemployment and social assistance benefits have been reformed to generate savings, reduce disincentives to take up work, and improve targeting of activation policies'.[962] The justification for removing disincentives to take up work needs to be scrutinised further however, as recent research found no correlation between low unemployment and less developed welfare systems.[963] In terms of the VOC analysis, the demand for lowering unemployment benefits in particular was expected, as this was a sub-area where Ireland deviated somewhat from a typical market based VOC and opted to provide marginally more extensive unemployment benefits.[964]

The cuts to social expenditure meant specifically that the mission demanded that job seeker allowances were reduced, as well as increasing the working age. The eligibility criteria for job seeker allowance were also tightened, so that fiscal penalties for those not in compliance with these criteria could be imposed. Child benefits were cut in general, with specific additional cuts applicable to one parent families, which were limited to those families with the youngest child being under 14 years of age. In the area of housing benefits, the contribution rates of some recipients were increased.[965] The conditionality principle for the recipients of social transfers has thus been maintained, although the criteria have been tightened and the amounts paid reduced.

A strong reliance on means testing as a way to allocate welfare resources is explicitly a feature of the economically liberal market based VOC,[966] as it is the natural instrument of choice in a welfare model aimed at poverty alleviation, as opposed to the continental European model, intended to achieve a measure of maintenance of standard of living.[967] The reduction of benefits as well as the tightening of eligibility criteria suggests the mission's adherence to 'internal adjustment', by which competitiveness is primarily achieved through the lowering of social protection standards and deregulation. This is supported by a series of comparative studies of country specific recommendations (CSRs) by the EU to its Member States: 'The CSRs convey ideas associated with a particular 'model' of the EU, insofar as they are focused on growth and competitiveness while totally neglecting what constitutes the principal role of social policies, namely, to ensure social cohesion and some degree of redistribution'.[968]

The approach to unemployment benefits mirrored the policy paradigm outlined above. Consequently, unemployment benefits were framed as a permanent risk to the flexibility of the labour market, by providing, in the Troika terminology 'disincentives to work'.[969] From a VOC point of view, the language employed in connection is very significant, as it pre-supposes highly flexible labour markets with an extensive low wage segment and low overall levels of worker specialisation: 'Liberal Welfare State does not protect against unemployment, liquid labour

[961] European Commission, [Occasional Papers 78], *The Economic Adjustment Programme for Ireland*, May 2011, p. 3
[962] Ibid., p. 15
[963] K. Armingeon and L. Baccarro, 'Do Labor market liberalisation reforms pay off?', University of Geneva, 2012, retrieved 10 March 2016, < https://www.researchgate.net/profile/Klaus_Armingeon/publication/267842361_Do_Labor_Market_Liberalisation_Reforms_Pay_Off/links/54afb6e20cf29661a3d5d33c.pdf>
[964] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 155
[965] European Commission, [Occasional Papers 78], *The Economic Adjustment Programme for Ireland*, May 2011, p. 15
[966] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 149
[967] G. Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Princeton University Press, New Jersey, 1993, p. 27
[968] M. Jepsen, 'The modernisation of Europe's social agenda in a global perspective: 'rebooting the social'', in C. Barnard and E. Barón (eds.), *A Europe of achievements in a changing world,* Directorate General Education and Culture, Brussels, 2009
[969] European Commission, [Occasional Papers 88], *The Economic Adjustment Programme for Ireland*, December 2011, pp. 31-33

markets are necessary, minimal safety net against poverty favours the existence of a low-wage labour market'.[970]

Persistently high unemployment and the associated costs to the Irish state induced the mission to focus on social protection again at a relatively late stage of the programme, in the summer of 2012: 'Welfare reform is acquiring increasing priority given the very high unemployment rate and the increasing share of long-term unemployed'.[971] In this context again the mission reiterated its conviction that 'it is also important to ensure that the welfare system encourages a prompt return to active job search'.[972]

In the climate of a slightly improving employment environment, the mission focus shifted increasingly on the long term unemployed. An independent survey, commissioned by the Irish government, found that out of the total number of job seekers, 60% could be considered long-term unemployed in 2012. Out of these, 18% had been continuous recipients of unemployment benefits for 18 months, whereas 6% had not been in employment for 6 years or longer.[973]

The report stressed that despite recent reforms which resulted in the reduction of unemployment benefits by 8%, there would be a need for further cuts in the future. In a passing mention, the report acknowledged that the difficult labour market played a role it focuses on two elements for further reform: 'While demand-side factors are obviously at play the numbers have increased sharply also due to Ireland's traditionally weak job-search conditionality regime and essentially unlimited duration of unemployment assistance'.[974] At the EU level, research into the effects of social protection regimes on unemployment levels has challenged the existence of a link between low welfare provision and low unemployment.[975] Given the limited scope of active employment policies, as discussed in chapter 5 more pressure to take any available job was bound to lead to a misallocation or loss of skills.

At the time of the publication of the report in June 2012, a job seeker allowance of €815 per month was paid, which became means-tested after the duration of one year. The report recommended that these benefits should be linked to the duration of unemployment, i.e. decline over time. It further advised that the component of eligibility testing, although present in the previous system, should be strengthened and conditionality on compliance enforced more rigorously.

This is entirely in line with what Amable identified as the liberal model of the welfare state, which 'is characterised by low and means-tested assistance, flat-rate benefits providing incentives to seek income from work'.[976] On a more abstract level, the application of eligibility testing and conditionality implies a rejection of notions of entitlement through past taxes and contributions paid and the goal of partial income maintenance through state provisions. Instead, state provisions in the liberal welfare model are associated with 'social stigma'.[977]

Importantly, the authorities also announced a cross-departmental report, which was due to be published by the end of June 2012: 'The authorities will also explore the scope of attenuating adverse employment incentives arising from the structure of the social payments'.[978] This initiative

[970] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 108
[971] European Commission, [Occasional Papers 96], *The Economic Adjustment Programme for Ireland*, June 2012, p. 39
[972] Ibid.
[973] Ibid., p. 40
[974] Ibid.
[975] C. Degryse, Jepsen, M. and Pochet, P., 'The Euro crisis and its impact on national and European social policies', *ETUI Working Paper*, European Trade Union Institute, 2013, p. 14
[976] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 19
[977] Ibid., p. 157
[978] European Commission, [Occasional Papers 96], *The Economic Adjustment Programme for Ireland*, June 2012, p. 40

was clearly aimed at reinforcing the element of means-testing by examining the interplay between different social welfare transfers. In this context, the mission discussed with the Irish authorities the introduction of a 'single working age assistance payment',[979] designed to counter possible imbalances arising from various small payments from different departments.

In a subsequent report, the Troika announced that housing benefits would also be subject to reform. In the mission's own words, this would 'have the effect of lowering effective replacement rates for some claimants'.[980] This measure has to be seen in conjuncture with the development of high long term unemployment and the mission's conviction that 'excessive' benefit payments would provide disincentives to find new work quickly. However, a closer examination of recipients of housing benefits in Ireland shows that single parents and couples with children are significantly overrepresented in this group, and the average income of people in social housing in Ireland was 62% of the median income.[981] These economic circumstances made the cuts in housing benefits particularly severe for their recipients.

The following reports then duly focussed on the engagement with unemployment and improving activation into the active labour market, as outlined in chapter five. However, measures designed to penalise non-participation in activation measures can have a pronounced negative effect on the overall level of benefits paid to one individual, particularly with the Social Welfare and Pensions (Miscellaneous Provisions) Act 2013, according to which unemployment benefits or pensions can be withheld for up to nine weeks. Additionally, the imposition of a diminished 'penalty' rate of benefits is also possible.[982]

Whether or not the mission was aware of the issues surrounding attempts to 'increase work incentives' through simply lowering benefit levels is difficult to ascertain. However, as demonstrated in Chapter 5 on the labour market, the rejection of comprehensive active employment policies, which would have entailed higher expenditure levels and state involvement,[983] few alternative policy options remained available to the mission.

Relatively late in the programme, the mission began to envisage reforms of the Irish health care system, primarily due to expenditure overruns, which were specifically quantified in the report of September 2012, which stated that the 2012 budget included projected savings of € 543 million.[984] The late initiation of reforms in the health care sector of Ireland is significant in the sense that traditional IMF policy stressed the importance of 'frontloading' of structural reforms, in order to allow structural reforms time to bear fruit.[985]

However, in the case of health care provision, the absence of specific structural reforms can be traced to the government's decision to introduce a universalistic, single-tier health care system in 2012.[986] Complementary to this, the Irish National Recovery Plan for 2010 transferred some

[979] European Commission, [Occasional Papers 96], *The Economic Adjustment Programme for Ireland*, June 2012, p. 19
[980] European Commission, [Occasional Papers 115], *The Economic Adjustment Programme for Ir*eland, September 2012, p. 31
[981] K. Scanlan, M. Fernandes Arrigoitia and C. Whitehead, 'Social Housing in Europe', *European Policy Analysis*, vol. 17, 2015, p. 5
[982] European Commission, [Occasional Papers 167], *The Economic Adjustment Programme for Ireland*, December 2013, p. 33
[983]B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104
[984] European Commission, [Occasional Papers 115], *The Economic Adjustment Programme for Ireland*, September 2012, p. 22
[985] C. Ban, 'Is there more room to negotiate with the IMF on fiscal policy?', *GEGI working paper*, 2014
[986] S. Burke, C. Normand, S. Barry and S. Thomas, 'From universal health insurance to universal health care? The shifting health policy landscape in Ireland since the economic crisis', *Health Policy*, vol. 120, no. 3, 2016

competences from hospitals to other, primarily community based services.[987] The ambitious aim of these measures was to provide equal access to health care in an age of austerity: 'Despite a retrenchment in the ability of health resources to meet growing need, the government promised a universal, single-tiered health system, with access based solely on medical need'.[988]

In Esping-Andersen's welfare typology, the liberal welfare state is one 'in which means-tested assistance, modest universal transfers, or modest social-insurance plans predominate'.[989] Bruno Amable deviates somewhat from Esping-Andersen's typology in that he asserts that 'the state encourages market-based protection, both by providing only minimal assistance and by subsidising private schemes'.[990] Thus, while the measure by the Irish government to introduce universal health care is compatible with Esping Andersen's conceptualisation of a liberal welfare model, this is not the case for Amable's market based VOC.

Several pieces of legislation initially envisaged to be implemented in 2012 were subsequently delayed or cancelled. Most prominent among these legislative changes was perhaps the charge on all private patients in public hospitals, the introduction of which was postponed until 2013. Ultimately, the impact of the EAP on hospital services was most felt with regard to the number of hospital beds, which halved from 2000, when slightly over 600 beds were available per 100,000 inhabitants to just under 300 in 2011.[991] Further delays stemmed from missing quotas on substituting generics for brand drugs and reference pricing.

The measures to counter this budget overrun were primarily one off measures, but the Troika warned that permanent structural measures might be necessary if the deficits in this area continued. This was in line with the overall reform trajectory across the EU: 'Overall, we can conclude that EU guidance on health system reforms primarily focuses on improving the cost-effectiveness of the systems by strengthening the governance role of health authorities. For countries subject to a financial assistance programme, this is combined with policies generating short term savings'.[992]

In Ireland, due to the existence of a bipartisan consensus across party lines, the mission's focus was even more on the reduction of costs than in other policy areas, as the government was legislating and implementing structural reforms in the health care sector on its own initiative. Given the fairly liberal thrust of these reforms, the relative silence of the mission on these structural issues is understandable. Additionally, these reforms were also an example of Irish ownership of the programme. Similarities in economic thinking between the mission and Irish governments has frequently aided successful reform implementation and policy formulation.[993]

The Irish government did for instance manage to veto the inclusion of the notorious 'inability to pay clause' on the grounds that 'it would send a very strong negative signal about the future viability to the markets'.[994] The mission accepted this line of reasoning and conceded the exclusion of the clause. By contrast, similar demands by Greek authorities, based on arguments of social hardship were rejected.[995]

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[987] The Irish National Recovery Plan 2010, retrieved on 11 March 2016 <http://www.budget.gov.ie/The%20National%20Recovery%20Plan%202011-2014.pdf>
[988] S. Burke, C. Normand, S. Barry and S. Thomas, 'From universal health insurance to universal health care? The shifting health policy landscape in Ireland since the economic crisis', *Health Policy*, vol. 120, no. 3, 2016, p. 235
[989] G. Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Princeton University Press, New Jersey, 1993, p. 26
[990] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 157
[991] F. Stamati and R. Baeten, 'Health care reforms and the Crisis', *ETUI Report 134*, European Trade Union Institute, Brussels, 2014, p. 19
[992] Ibid, p. 30
[993] Brian Hayes, MEP, interviewed by Benjamin Klos, 2016
[994] European Commission, [Occasional Papers 78], *The Economic Adjustment Programme for Ireland*, May 2011, p. 16
[995] Louka Katselli, former Greek Minister of Labour, interviewed by Benjamin Klos, 2015

While the significance of concessions obtained by the Irish government can and has been challenged,[996] the two lines of reasoning by the Greek and Irish authorities and the results they produced were instructive from a VOC perspective. The Irish argument was grounded in a free market logic and employed language very similar to that of the mission. However, the different lines of reasoning were also indicative of fundamental differences in the economic logic of the Mediterranean and Market based VOCs.[997] Ireland, through its pursuit of export-led growth and strong presence of international companies,[998] was much more dependent on market confidence than the Greek model, where the government derived more of its legitimacy from its perceived role of shielding its electorate from precisely these free market forces.

A report from January 2013 noted the persistence of systemic overspending in health care.[999] Estimates given in this report indicated that the mission expected a possible budget overrun of € 700 million for the following year in the absence of additional measures. In order to address this shortfall, the government outlined proposed savings in pay through flexibility arrangements through the Croke Park Agreement of € 308 million, the charging of private patients in public hospitals, which was estimated to bring a revenue of € 65 million, and the agreement on the usage of generic drugs with the pharma industry, which was estimated to save € 145 million.[1000]

In addition to the implementation of the above mentioned measures, which had in principle been already agreed upon, there were also some new, structural measures to be implemented. Most notably among them was extended use of co-payments, which also included medical card holders and was expected to save an estimated € 90 million per annum. Increased use of co-payments was 'a key driver of health financing privatisation'.[1001] Another structural measure introduced was related to the Primary Care Reimbursement Service (PCRS), which reduces the fees payable to health professionals. The savings generated through this measure were expected to be around € 163 million.[1002] In VOC terms, these measures strengthened the private element in the Irish health care system and were therefore in line with a strengthening of the market based element of the Irish VOC.[1003]

The mission further proposed the overhaul of the financing system in health care and to replace it with the 'money follows patient' (MFTP) principle, which it expected to provide more efficient and transparent care'.[1004] In this context, the mission recommended a compulsory prescription system by active ingredient, which would further reduce cost in the health system. Lastly, a reduction of fees and salaries for medical professionals was envisaged. There had already been movement towards achieving this, as the Irish government announced that it had entered negotiations with contracted specialists, and the salaries of newly employed specialists were to be cut by 30%.[1005]

These demands for cost reductions can be contextualised, and they are by no means specific to Ireland. Degryse, Jepsen and Pochet, identify these recommendations as recurrent components of the message the EU sends to its Member States: 'The cost of health care and pension systems

[996] Mark Boyle, Professor, interviewed by Benjamin Klos, 2016
[997] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 102-103
[998] F. Barry, 'Convergence is not Automatic: Lessons from Ireland for Central and Eastern Europe', *The World Economy*, vol.23, no. 10, 2000
[999] European Commission, [Occasional Papers 127], *The Economic Adjustment Programme for Ireland*, January 2013, p. 20
[1000] Ibid, p. 21
[1001] F. Stamati and R. Baeten, 'Health care reforms and the Crisis', *ETUI Report 134*, European Trade Union Institute, Brussels, 2014, p. 38
[1002] European Commission, [Occasional Papers 127], *The Economic Adjustment Programme for Ireland*, January 2013, p. 21
[1003] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 104-105
[1004] European Commission, [Occasional Papers 127], *The Economic Adjustment Programme for Ireland*, January 2013, p. 21
[1005] Ibid., p. 24

should be pegged or even reduced. (…) Social benefit systems create disincentives to labour market participation'.[1006] This strongly suggests that there are efforts at the EU level to streamline welfare systems along liberal lines.

The July 2013 report clarified the implications of the announced eHealth strategy, which 'is based on stepped-up reliance on IT to improve allocation of resources and ultimately strengthen incentives for efficient outcomes at all levels'.[1007] The report stressed that the implementation of this measure, in conjuncture with previously announced measures was vital for the curbing of health care spending. The improved monitoring and data collection in this sector was also expected to play a vital role in this regard. In a similar vein, the newly legislated Health Act is expected to significantly reduce government spending on pharmaceuticals. However, the presentation of a comprehensive strategy for the design and execution of this strategy was delayed slightly till end of September 2013 instead of end of June as initially planned.[1008] Crucially, the eHealth strategy sought to improve the efficiency of the existing system and is thus best understood as a form of adaptation of the existing VOC.[1009]

In the last stages of the economic adjustment programme, the Irish government had begun to reform the financial management of the Health Service Executive (HSE). Thus, the primary focus was on the streamlining and standardisation of the various regional financial systems which 'have remained highly fragmented'.[1010] This fragmentation can be traced to well before the onset of the crisis, when Stamati and Baeten asserted that 'The Irish system contained an opaque mix of public (tax-based) financing and private provision'.[1011] In the first post-programme monitoring report, the mission concluded somewhat moodily that 'progress is uneven on structural reform begun under the programme'.[1012] While the eHealth strategy seemed to be well under way at the time of writing, the financial reform of HSE appeared to be behind schedule, which might partly be due to the very late starting point of this particular reform.

In the area of health care, the mission's primary concern was the reduction of the overall health care budget, as measures such as the mandatory prescription of generic drugs, the eHealth strategy and the reduction of hospital beds indicated. The late introduction of measures in healthcare also indicated that this area was not considered a priority in the early stage of the programme.

Reform of the Irish pension system, virtually absent from the Irish EAP, occurred only in areas where it overlapped with other reform areas. One such instance was the introduction of new legislation regulating the pension entitlements of new civil servants in September 2011. Severe cuts to pension levels were envisaged. The reduction of pensions in the public sector was brought about by linking the average level of earnings to the pensions paid out, which, the report estimated, would reduce the overall public sector pension expenditure by 35% in the long run.[1013]

Additionally, the retirement age was gradually to be increased from 65 to 68 by 2028. The mission did not insist on 'automatic stabilisers', by which the retirement age would be linked to life

[1006] C. Degryse, Jepsen, M. and Pochet, P., 'The Euro crisis and its impact on national and European social policies', *ETUI Working Paper*, European Trade Union Institute, 2013, p. 38
[1007] European Commission, [Occasional Papers 154], *The Economic Adjustment Programme for Ireland*, July 2013, p. 19
[1008] European Commission, [Occasional Papers 162], *The Economic Adjustment Programme for Ireland*, October 2013, p. 32
[1009] W. Streeck and K. Thelen, *Beyond Continuity. Institutional Change in Advanced Political Economies*, 2nd edn., Oxford University Press, Oxford, 2010, p.9
[1010] European Commission, [Occasional Papers 167], *The Economic Adjustment Programme for Ireland*, December 2013, p. 35
[1011] F. Stamati and R. Baeten, 'Health care reforms and the Crisis', *ETUI Report 134*, European Trade Union Institute, Brussels, 2014, p. 32
[1012] European Commission, [Occasional Papers 195], *The Economic Adjustment Programme for Ireland*, June 2014, p. 29
[1013] European Commission, [Occasional Papers 84], *The Economic Adjustment Programme for Ireland*, September 2011, p. 21

expectancy and automatically adjusted, as happened in Greece.[1014] This might be attributed either to the lesser degree of demographic pressure on pension funds in Ireland than in Greece, or it might stem from higher levels of confidence in the Irish government to tackle pension imbalances in the future. The latter seems plausible in light of the greater levels of ownership of the reform agenda and trajectory by successive Irish governments.[1015] From a VOC perspective, the absence of significant and comprehensive structural reforms in the area of pensions confirms the predictions derived from Amable's framework, which asserted that Ireland featured very low pension levels, even by the standards of a market based VOC.[1016]

Social Protection in Greece

A discussion of social protection systems should firstly delineate their extent relative to the size of the economy of the state, i.e. the share of GDP that is spent on social protection provisions. In this respect, Greek overall expenditure levels were average, with 25.5% of GDP in 1999 roughly in line with other EU member states, with the EU average for the same year being 27.6%.[1017] The country started from a low level of spending in the early 1980's of around 12% and expanded gradually thereafter.[1018] However, the social outcomes of these policies failed to reduce poverty and promote equality to the degree the spending level would have suggested due to an absence of social and financial planning'.[1019]

In order to gain a balanced insight into the priorities of the Greek social protection system, it is vital to look at its exact composition. Most importantly, it became immediately apparent that pensions were by a very large margin the most significant expenditure in social protection, accounting for over 70% of expenditure. Despite the fact that generous old age benefits are a distinctive feature of Southern European VOC's,[1020] this number still appeared to be exceptionally high. Health care accounted for 20% of the expenditure, whereas unemployment benefits were rather insignificant with 2.1% of GDP. This was even more surprising if one considers Greece's traditionally rather high unemployment figures, which were around 11% and youth unemployment at 29.6% in 2000.[1021] Greece, prior to the crisis, spent a comparatively very high 12.5% of its total GDP on pension provisions.[1022]

For a VOC analysis of the Greek social protection system, the fiscal emphasis placed on pensions is an important, but not the only feature. The Southern European VOC model typically also displays a welfare system geared towards poverty alleviation within overall moderate social spending levels, the aforementioned focus on pensions and a high degree of state involvement in all three institutional subcategories of health care, pensions and unemployment benefits.[1023]

[1014] C. Hermann, 'Crisis, structural reform and the dismantling of the European Social Model(s)', *Economic and Industrial Democracy*, 2014, p. 4
[1015] Alan Barrett, Professor, interviewed by Benjamin Klos, 2016
[1016] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 155
[1017] D. Sotiropoulos, 'The EU's Impact on the Greek Welfare State: Europeanisation on Paper?', *Journal of European Social Policy*, vol. 14, no. 3, 2004, p. 4
[1018] M. Petmesidou, 'Is social protection in Greece at a crossroads?', *European Societies*, vol. 15, no 4., 2013, p. 599
[1019] D. Venieris, 'Crisis Social Policy and Social Justice: the case for Greece', *GreeSE Paper,* no. 69, 2013, p. 17
[1020] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 175
[1021] D. Sotiropoulos, 'The EU's Impact on the Greek Welfare State: Europeanisation on Paper?', *Journal of European Social Policy*, vol. 14, no. 3, 2004, p. 4
[1022] P. Tinios, 'The Pensions Merry-Go-Round', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 117
[1023] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 175

Given this large share of social expenditure dedicated to pensions, their organisational structure was surprisingly inadequate and inefficient. The entire pension sector lacked structural coherence as 'a multitude of regimes leads to a patchwork of cross-subsidisation, and high non-wage costs'.[1024] The number of insurance funds grew in the decades after the Second World War and reached a peak of 325 in 1997.[1025] Due to the outflow of contributors to the many competing social insurance schemes in pensions and health care, the Greek system became unable to cover its expenses in the mid-1980's and became increasingly reliant on direct government intervention, so that 'by 2009 around 30 per cent of all pensions were financed by ad hoc government hand outs'.[1026] The recurrence of ad hoc government payments to the various pension funds is a consequential instrument of the Greek pension system, as they led to a considerable degree of state involvement in the provision of pensions.[1027]

An OECD report from 2009 on the status of the Greek economy confirmed the fragmentation of the pension system. This was the case not only across the respective sectors of employment but also spanned separate types of protection, so that pensions were usually composite of primary and supplementary payments as well as separation payments.[1028] This co-existence of a number of different pension funds created not only a degree of inequality between and in some cases within professions, but it also led to entirely unnecessary additional administrative costs.[1029] It also led to the uneven provision of pensions: 'In general, pension rules favoured the self-employed over wage earners, public over private sector employees, middle–aged contributors over younger ones, standard over non-standard workers, and men over (most) women'.[1030]

The pre-crisis pension system in Greece offered a number of incentives which lowered participation rates of older workers in the labour market, thereby increasing pressure on the multitude of pension funds. Once the maximum of 35 years of contributions was reached, there was no additional fiscal gain from continuing to work.[1031] The regular contribution of 35 years could further be circumvented in a number of ways, for instance by women with dependents who could retire at 50 or by people who could prove that they had worked in 'arduous or unhygienic' conditions, who could also retire early on full pension at the age of 55.[1032]

Bruno Amable's typology identifies the high proportion of social expenditure on pensions as a characteristic feature of the Mediterranean VOC,[1033] although in Greece this emphasis on pension provision is pronounced, even by the standards of this VOC. The high level of fragmentation the Greek pension system cannot be conceptualised in terms of Greece's VOC model, but was a distinct national feature.

In terms of institutional efficiency, there were remarkable similarities between the Greek national pension scheme and the provision of health care. The national health care service (ESY) was

[1024] P. Tinios, 'The Pensions Merry-Go-Round', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 118
[1025] Ibid. 120
[1026] Ibid.
[1027] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 155
[1028] OECD, 'Pensions: a comprehensive reform is urgently required', *Economic Surveys of Greece 2007*, OECD, Chapter 3, 2007, p. 68
[1029] Ibid., 69
[1030] M. Matsaganis, 'Social policy in hard times: The case of Greece', *Critical Social Policy*, vol. 32, no. 3, 2012, p. 414
[1031] OECD, 'Pensions: a comprehensive reform is urgently required', *Economic Surveys of Greece 2007*, OECD, Chapter 3, 2007, p. 72
[1032] Ibid., p. 75
[1033] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 105

explicitly modelled on the British NHS.[1034] The National Health System (NHS), established in the early 1980's, 'indicated a path shift that, however, remained incomplete (private health expenditure kept growing and multiple health funds with inequalities in coverage continued to operate'.[1035] The increased expenditure on private healthcare suggested systemic issue with the national health system. This was not due to underfunding, but rather 'the fact that Greece lags behind other countries in terms of nurses is indicative not of 'underdevelopment' as usually understood, but rather of 'largesse'- or a general tendency to substitute expensive inputs into less expensive ones, causing what economists call allocative inefficiency'.[1036]

A 2005 OECD study concluded that while overall health care spending by the population was high, with 9.5% of GDP, compared to an EU 15 average of 8.5%, this was largely due to above average spending on private health care.[1037] By International comparison, the Greek health care system performed rather well and better than the OECD average. Life expectancy at birth, infant mortality, life expectancy for men and women were all significantly above the OECD average[1038]. However, as indicated above, this was largely due to private health expenditure, which had a further social deteriorating effect, as it did not affect all classes of society equally, with the poorest fifth of society spending 13% of their income on health care, whereas this figure was only 7 % in Spain.[1039] This inequality was further exacerbated by the frequent payment of bribes, which skewed the provision of services towards the wealthier segments of society.[1040]

The Greek state was characterised by a low level of social assistance in other respects, most importantly regarding unemployment benefits.[1041] There was strikingly low expenditure on unemployment benefits, which in 2003 only amounted to 2.1% of the total social protection expenditure.[1042] This was partially compensated for by more extensive employment protection legislation, as demonstrated in chapter five. To a certain extent this absence of more extensive state assistance was also due to a 'reliance on other sources of non-state support'.[1043] These forms of non-state assistance were usually tied to the family and thus limited geographical mobility of the work force. Additionally, the entire pre-crisis social protection regime was centred on a 'male breadwinner' model.[1044]

[1034] M. Matsaganis, 'Prerequisites to the Revival of Public Health Care in Greece', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 135

[1035] M. Petmesidou, 'Is social protection in Greece at a crossroads?', *European Societies*, vol. 15, no 4., 2013, p. 601

[1036] M. Matsaganis, 'Prerequisites to the Revival of Public Health Care in Greece', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 135

[1037] OECD, *Economic Surveys of Greece 2005,* OECD, 2005, p. 54, figure 2.4

[1038] OECD, 'Improving the performance of the public health care system', *Economic Surveys of Greece 2009*, OECD, Chapter 3, 2009, p. 86

[1039] M. Matsaganis, 'Prerequisites to the Revival of Public Health Care in Greece', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 139

[1040] OECD, 'Improving the performance of the public health care system', *Economic Surveys of Greece 2009*, OECD, Chapter 3, 2009, p. 89

[1041] K. Featherstone and D. Papadimitrou, 'Assessing Reform Capacity in Greece. Applying Political Economy perspectives', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 42

[1042] D. Sotiropoulos, 'The EU's Impact on the Greek Welfare State: Europeanisation on Paper?', *Journal of European Social Policy*, vol. 14, no. 3, 2004, p. 4

[1043] K. Featherstone and D. Papadimitrou, 'Assessing Reform Capacity in Greece. Applying Political Economy perspectives', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 42

[1044] M. Petmesidou, 'Is social protection in Greece at a crossroads?', *European Societies*, vol. 15, no 4., 2013, p. 600

In VOC terms, Bruno Amable conceptualises this connection as follows: 'The Southern European or Mediterranean model of capitalism is based on more employment protection and less social protection than the Continental European model'.[1045] As Greece can be placed in a large cluster with the Continental VOC countries or in a very small, separate one with Italy,[1046] this distinction is highly relevant. While they share an emphasis on pension provision, they differ on the overall extent of welfare provisions. However, in this context it is mostly a distinction by degree.

Concluding the pre-crisis section of the Greek social protection system, it can be asserted that the Greek welfare system produced poor results for its citizens, largely due to structural inadequacies and clientelistic structures, rather than a lack of funding.[1047] The level of institutional fragmentation was exceptional also in comparison with other Southern European countries, as Glatser and Petmesidou find in a comparative study of Greece and Portugal.[1048] Thus, while Greece displayed the ideal typical features of a Southern European VOC, it also showed some country-specific features, such as the high level of fragmentation of its health care and pension system and the suboptimal policy outcomes brought about by this fragmentation.

Social Protection in the Greek Economic Adjustment Programmes

Based on the VOC analysis of the Greek welfare state prior to the crisis and the assumption that Greece is to be transformed into a market based VOC, we would expect pensions to be the single most important feature on the reform agenda for the welfare state. Here, the difference between the market based and the Southern European VOC could not be more pronounced: while ample pension provision relative to incomes is an identifying feature of Mediterranean VOCs, minimal provisions aimed at poverty alleviation only characterise the market based VOC.[1049] Therefore, implementation of the latter necessarily entails the drastic lowering of pensions.

Pensions featured in the first programme report in May 2010 as an area where reform was urgently needed. This assessment was justified through the unsustainability of the pensions system and the continuous need for governments to step in to prevent a collapse of pension funds.[1050] In addition to being unsustainable financially, the system featured a consistently high risk of old-age poverty and risk of social exclusion, comprising 28% of the elderly.[1051] The report suggested that Greece cut pensions over €1,400 per month by an average of 8%, and pensions of less than €2,500 are to have their Christmas and Easter bonuses cut and replaced by a flat bonus of €800.[1052]

In the first economic adjustment programme, the normal retirement age was increased to 65, which meant a drastic increase for women employed in the public sector. Furthermore, there were plans for a contribution based scheme, which should 'strengthen the link between contributions paid and

[1045] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 107
[1046] Ibid, p. 173
[1047] M. Matsaganis, 'Social policy in hard times: The case of Greece', *Critical Social Policy*, vol. 32, no. 3, 2012, p. 414
[1048] M. Petmesidou and M. Glatser, 'The Crisis Imperative, Reform Dynamics and Rescaling in Greece and Portugal', *European Journal of Social Security*, vol.17, no. 2, 2015, p. 159
[1049]B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 154-155
[1050] P. Tinios, 'The Pensions Merry-Go-Round', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 117
[1051] S. Theodoropoulou, 'Has the EU become more intrusive in shaping national welfare state reforms?', *ETUI Working Paper*, European Trade Union Institute, 2014, p. 23
[1052] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, 2010, p.15

benefits received'.[1053] This was a shift from a benefit-defined to a contribution-defined system.[1054] This measure was intended to break with deeply engrained patterns of resource allocation along clientelist fault lines,[1055] thereby also lowering the degree of state involvement in the Greek pension system.

The 2010 pension reform law contained several important features worth highlighting here. Firstly, it introduced a new basic pension of €360. This pension was intended for people not eligible for the contributory pension scheme. As the report pointed out, 'the basic pension is means tested, and provides an important social safety net'.[1056] The shift towards a means tested benefits system is crucial in terms of a VOC analysis, as this constitutes a core component of a market based social protection system[1057] and is associated with a more liberal approach to welfare provision.[1058] Further evidence for this shift is the very low sum of €360, which is clearly intended as poverty alleviation, so that the new system meets Esping-Andersen's criterion for a liberal welfare model of 'modest universal transfers'.[1059]

Secondly, the statuary retirement age was increased to 65, and the possibility of retirement at 60 with full pension was removed.[1060] In line with this increase, the full contributory period was increased from 35 to 40 years. The law also foresaw the adjustment of the retirement age in line with life expectancy from 2021 onwards. This measure was intended to prevent a deterioration of the fiscal situation of the pension system due to demographic pressure. It also had the effect of locking in reforms, as Greece's track record in the area of pension reform was particularly dismal.[1061]

The mission announced in February 2011 that 'the next phase of the reform concerns the supplementary pension schemes, which should become notionally-defined benefit schemes'.[1062] Notionally defined pension schemes are a clear departure from the past 'pay as you go (PAYG)' social insurance scheme, in that it 'mimics a defined contribution plan'.[1063] This was as a stepping stone towards a 'basic universal pension scheme from 2015 onwards'.[1064]

A vital feature of this first stage of the reform was the introduction of the so called sustainability clause, which stipulated that if the projected expenditure rises above a 2.5% threshold per annum, the pension scheme parameter will be automatically adjusted.[1065] This was indented to ensure that Greece's pension expenditure would not increase drastically over time due to the demographic

[1053] European Commission, [Occasional paper 61] *Economic Adjustment Programme for Greece*, European Commission, 2010, p.18
[1054] S. Theodoropoulou, 'Has the EU become more intrusive in shaping national welfare state reforms?', *ETUI Working Paper*, European Trade Union Institute, 2014, p. 25
[1055] M. Petmesidou and M. Glatser, 'The Crisis Imperative, Reform Dynamics and Rescaling in Greece and Portugal', *European Journal of Social Security*, vol.17, no. 2, 2015, p. 159
[1056] European Commission, [Occasional paper 68] *Economic Adjustment Programme for Greece*, First Review, European Commission, 2010, p.34
[1057] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 104-105
[1058] C. Pierson, *Beyond the Welfare State? The new political economy of Welfare*, 3rd edn., Polity, Cambridge, 2006, pp. 41-45
[1059] G. Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Princeton University Press, New Jersey, 1993, p. 26
[1060] European Commission, [Occasional paper 68] *Economic Adjustment Programme for Greece*, First Review, European Commission, 2010, p. 34
[1061] K. Featherstone, 'Soft co-ordination meets 'hard' politics: The European Union and pension reform in Greece', *Journal of European Public Policy,* vol. 12, no. 4, 2004
[1062] European Commission, [Occasional paper 77] *Economic Adjustment Programme for Greece*, Third Review, European Commission, 2011, p.27
[1063] World Bank, 'National defined contribution plans as a pension reform strategy', *WB National Accounts*, World Bank Pension Reform Primer, p.1
[1064] D. Venieris, 'Crisis Social Policy and Social Justice: the case for Greece', *GreeSE Paper,* no. 69, 2013, p. 24
[1065] European Commission, [Occasional paper 82] *Economic Adjustment Programme for Greece*, Fourth Review, European Commission, 2011, p. 36

composition of its population. This clause was clearly also designed to prevent future governments from giving in to public pressure and revert to the previous social protection model, thereby making the pursuit of a survival and return strategy very difficult to implement for future Greek governments, at least in the area of pensions.[1066] This 'sustainability clause' was introduced in October 2011.[1067] Designed as 'automatic stabilisers',[1068] the mechanism also served to limit political influence on the determination of pension levels.

Incorporating specific or 'closed' professions in the general pensions framework remained a key obstacle to further progress and one over which the completion of successive pension reform attempts failed ever since the introduction of the model in 1934.[1069] Successful reform of the pension system should in any case result in the curbing of ad hoc government intervention in the operating of the pension funds. This practice is difficult to quantify exactly, but data provided by Sotiropoulos shows that the category 'other' is composed of one off payments and exceptional arrangements. This amounted to a remarkably high 4.6% in 1998 and 4.7% in 2003.[1070] The first report of the second economic adjustment programme confirmed this by stating 'the supplementary pension schemes (including welfare-sum schemes) remained unreformed, though both auxiliary pension and lump-sum pensions of civil servants have been reduced in 2012'.[1071]

Efforts to unify and standardise pension funds is quite absorbing from a VOC perspective: pension systems in market based VOCs are rarely unified or standardised; therefore the mission's reform agenda in this area seems to contradict expectations based on Amable's framework.[1072] However, the fact that many of these funds were financially unsustainable made frequent state intervention necessary. Thus, in addition to the direct financial burden this imposed, it also constituted a crucial avenue for state influence, which in a market based VOC, should be curbed.[1073]

The supplementary pensions system was finally merged in one fund, the (ETEA), in winter 2012, almost three years after reforms in this area were first articulated.[1074] The final version of the fund was given the previously discussed 'notional defined contribution system' which was assumed to guarantee a strong link between contribution and pension. Further, the fund would, like the basic pension fund, also contain a sustainability clause and automatic adjustment mechanism.

In June 2013, two new electronic monitoring systems were introduced, with 'HELIOS' and 'ARIADNE' having been legalised and fully activated.[1075] HELIOS was an information system designed to gradually replace the existing 93 sectoral systems and provide statistical data about the number of pensioners and the amount of pension they receive, thus calculating the total amount of pensions paid out on a monthly basis. ARIADNE is designed to monitor demographic changes

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[1066] W. Streeck and K. Thelen, *Beyond Continuity. Institutional Change in Advanced Political Economies*, 2nd edn., Oxford University Press, Oxford, 2010, p. 9

[1067] European Commission, [Occasional paper 87] *Economic Adjustment Programme for Greece*, Fifth Review, European Commission, 2011, p. 35

[1068] C. Hermann, 'Structural adjustment and neoliberal convergence in labour markets and welfare: The impact of the crisis and austerity measures on European Economic and Social Models', *Competition and Change*, vol. 18, no. 2, 2014

[1069] P. Tinios, 'The Pensions Merry-Go-Round', in S. Kalyvas, G. Pagoulatos and H. Tsoukas (eds.), *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 119

[1070] D. Sotiropoulos, 'The EU's Impact on the Greek Welfare State: Europeanisation on Paper?', *Journal of European Social Policy*, vol. 14, no. 3, 2004

[1071] European Commission, [Occasional paper 94] *Second Economic Adjustment Programme for Greece*, European Commission, 2012, p. 37

[1072] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 174-175

[1073] Ibid., p. 174

[1074] European Commission, [Occasional paper 123] *Second Economic Adjustment Programme for Greece*, First review, European Commission, 2012, p. 40

[1075] European Commission, [Occasional paper 159] *Second Economic Adjustment Programme for Greece*, Third review, European Commission, 2013, p.23

in the Greek population by tracking births, deaths, marriages and divorces. These electronic systems are a crucial requisite for the functioning of the aforementioned sustainability clauses in both the basic and complementary pension schemes.

In April 2014, the last available report noted that significant progress had been made in altering the pensions system, but at the same time pointed to continuing systemic flaws in the system. The report stated in no uncertain terms that 'the main pension system remains highly fragmented, with four main funds and three smaller funds, relies on increasing financing from state transfer to cover for existing deficits, and pension rules still differ greatly across different categories of population with some elements of unfairness in the accrued benefits remaining'.[1076] Yet, it is worth pointing out here that the Greek social protection system had a relatively low redistributive effect and unusually high levels of poverty already at the onset of the crisis.[1077] With these structural weaknesses in mind, an increasing number of scholars have questioned 'the continuing ability of social protection systems to cope with the pressures generated by the recession and by rapid retrenchment'.[1078]

The 2012 reform of supplementary pensions still had to be implemented fully in 2014. Here, incomplete implementation of the 4052/2012 law significantly hampered the shift from the previous Southern European VOC pension model towards a more liberal welfare state model. In particular, 'the authorities have failed to rebuild contribution histories since 2001 for the calculation of the pro-rata as envisaged in the Law. As a result, the pro-rata calculation will now be done only as of 1 January 2014 and only for those that have been merged into ETEA'.[1079] This failure to consolidate the various funds was attributed to the government caving in to pressure from occupational funds in 2010.[1080]

Yet another crucial shortcoming in the reform implementation of pension reforms was the exclusion of lumps sum pensions from the scheme.[1081] The report indicated that implementation had started, after a two year delay, but that 'a number of lump sum schemes have been left out of the reform process'.[1082] This failure to fully implement pension reforms supports the claim that the government was either reluctant to relinquish control in this area or sought to revert to the previous model once the worst of the crisis has passed.[1083] Furthermore, this also meant the preservation of an important channel of state influence in the future. However, the overall reform trajectory was congruent with expectations derived from Amable's framework, particularly with regard to lowering the level of pensions provided and steps taken towards strengthening the private element of the pension system.[1084]

[1076] European Commission, [Occasional paper 192] *Second Economic Adjustment Programme for Greece*, Fourth Review, European Commission, 2014, p. 43

[1077] J. Dafermos,and C. Papatheodorou, 'The paradox of social policy in Greece: Why the increase of social expenditure has not reduced poverty', *OPISI Policy Paper*, Observatory on Poverty, Incomes and Social Inequalities, INE-GSEE, 2011

[1078] A. Lyberaki and P. Tinios, 'A Fair-weather welfare state? Formal and Informal Social Protection and the Greek Crisis', in G. Karyotis and R. Gerodimos (eds.), *The Politics of extreme austerity. Greece in the Eurozone crisis*, Palgrave Macmillan, London, 2015, p. 106

[1079] European Commission, [Occasional paper 192] *Second Economic Adjustment Programme for Greece*, Fourth Review, European Commission, 2014, p. 43

[1080] S. Theodoropoulou, 'Has the EU become more intrusive in shaping national welfare state reforms?', *ETUI Working Paper*, European Trade Union Institute, 2014, p. 24

[1081] European Commission, [Occasional paper 192] *Second Economic Adjustment Programme for Greece*, Fourth Review, European Commission, 2014, p. 44

[1082] Ibid., p. 44

[1083] W. Streeck and K. Thelen, *Beyond Continuity. Institutional Change in Advanced Political Economies*, 2nd edn., Oxford University Press, Oxford, 2010, p. 9

[1084] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 155-156

Reform of the health care system commenced at a much later stage than the reforms in the pensions sector. As this was not due to delays, we can assume that it ranked somewhat lower on the list of priorities of the authors of the economic adjustment programmes. From a VOC perspective, the sequencing of reforms in this manner is highly problematic, as Amable notes: 'The overall performance declines when one changes one institution, leaving the other unchanged'. [1085] However, due to issues of administrative capacity, simultaneous reforms pose a different set of problems and its empirical track record is ambiguous, as chapter two demonstrated with the examples of the post-communist transformations.

In December 2010, the establishment of an independent task force was announced. The objective of the task force was to devise 'a detailed blue print for an overall reform of the health system (both public and private)'.[1086] This blueprint was to be supplied to the mission by end of May 2011. Yet already in winter 2010, a preliminary assessment of the health care system stated that 'a large set of measures are needed to stabilise or even reduce the public health spending-to-GDP ratio to around 6%'.[1087] The impact of this cap, coupled with systemic inefficiencies would prove to have a decidedly negative impact on the provision of healthcare.[1088]

Subsequent reforms were brought under way in early 2011, with the reform agenda being dominated by the overarching goal of pushing health expenditure under 6% of GDP. The February 2011 report pointed out that in the short term, there would be a clear focus on expenditure control, while 'in the medium term, deeper structural changes will be needed to contain spending in the context of the medium-term fiscal strategy while improving the governance of the system'.[1089] This focus on cost control failed to take into account specific features of the Greek health care system, such as the already low hospital employment density, which was the second lowest of all EU countries in 2009,[1090] before the introduction of a cost cutting regime.

The immediate measures included an increase in co-payments for outpatient visits from €3 to €5, in order to reduce unnecessary healthcare, and all day functioning of hospitals was increased to include 65 out of 130 hospitals. This measure was projected to increase revenue by €40 million. Furthermore, an initial price list of medicines contained reductions of 20% in the prices of medicines and the publication of a negative list of medicines which would no longer be reimbursed, projected to lead to savings of €140 million in one year.[1091] Additionally, the reform defined the target usage of generics as 50% of prescriptions in NHS hospitals. The compulsory prescription by International non-propriety name (INN), was not a specific feature of the Greek programme, but rather a demand in all countries under financial assistance programmes,[1092] and thus a prime example of 'off the shelves reforms'.

Particularly the mission's insistence on co-payments by the patients is instructive from a VOC perspective. The introduction of co-payment spearheads the shift towards an insurance based,

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[1085] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 63

[1086] European Commission, [Occasional paper 72] *Economic Adjustment Programme for Greece*, Second Review, European Commission, 2010, p.20

[1087] Ibid., p.22

[1088] A. Kentikelenis, M. Karanikolos, A. Reeves, M. McKee and D. Stuckler, `Greece's health crisis: from austerity to denialism', *The Lancet*, vol. 383, no. 9918, 2014, p. 748

[1089] European Commission, [Occasional paper 77] *Economic Adjustment Programme for Greece*, Third Review, European Commission, 2011, p.28

[1090] F. Stamati and R. Baeten, 'Health care reforms and the Crisis', *ETUI Report 134,* European Trade Union Institute, Brussels, 2014, p. 19

[1091] European Commission, [Occasional paper 77] *Economic Adjustment Programme for Greece*, Third Review, European Commission, 2011, p.28

[1092] F. Stamati and R. Baeten, 'Health care reforms and the Crisis', *ETUI Report 134*, European Trade Union Institute, Brussels, 2014, p. 27

private healthcare system.[1093] Co-payments are incompatible with a health care system modelled on the British NHS, centred on free healthcare at the point of usage. Therefore, the introduction of co-payments constituted a genuine paradigm shift in Greek healthcare.

Procurement procedural reforms were also defined as key priorities in the reform of health care. Here, a reduction of the profit margins of pharmacies from 8 to 5.4% was envisaged, which was to be achieved through the introduction of a system of rebates. The shift of procurement from hospital based tenders to national one was to prove highly effective in lowering procurement costs.[1094] In addition to this measure, central procurement procedures were to be introduced. The reform of the pharmacy sector was also projected to profit from complementarities of the product markets, with opening hour extensions and the removal of restrictions on the establishment of new pharmacies.

From a VOC perspective, the mission's insistence on centralised procurement practices is revealing in the Greek and Portuguese programme,[1095] with the explicit aim of curbing systemic waste and corruption.[1096] Georges Siotis described the Greek economic model prior to the reforms as a 'very ineffective, but extremely stable local equilibrium'.[1097] This inefficiency stemmed, in his view, from the numerous possibilities to misappropriate funds. This in turn created groups within society which profited from these misappropriations and thus had an interest in sustaining it.

In spring 2011, a new law on health care was passed. A key component of this new law was the merging of the four largest health insurance schemes into one national organisation, the EOPYY.[1098] This was an important step in reversing the fragmentation of the Greek health care system outlined in previous sections of this chapter. Greece is the only country where the request for the merger of health care systems constituted part of the EAP,[1099] making this one of the very few areas where the mission took note of country specific circumstances, although this might be owed to the fact that the consolidation of healthcare funds is a necessary pre-condition for further reforms. The new legislation also introduced some of the reforms outlined above into law, namely the centralised procurement of medical goods and services and the indirect reduction of profit margins of wholesalers and pharmacies through a progressive rebate system.[1100] As with previous reform attempts in the health care sector, this was met with strong opposition from the medical professions.[1101]

Subsequent reports focused on issues of implementation. Particularly in the second economic adjustment programme, the authors of the reports became more and more outspoken about the differences between the desired market based social protection model centred on means tested benefits and the system which Greece continued to operate: 'a wide range of social benefits are allocated without means-testing to particular groups of society which are not subject to acute social

[1093] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 108
[1094] C. Kastanioti, N. Kntodimopoulos, D. Stasinopoulos, N. Kapetaneas and N. Polysos, 'Public Procurement of health technologies in Greece in an era of economic crisis', *Health Policy*, vol. 109, no. 1, 2013, p. 9
[1095] European Commission, [Occasional Paper 202], *Economic Adjustment Programme for Portugal*, 2014
[1096] M. Mitsopoulos and T. Pelagidis, *Understanding the Crisis in Greece. From Boom to Bust*, Revised Edition, Palgrave Macmillan, New York, 2012, pp.230-238
[1097] Georges Siotis, Senior Economic Advisor, Task Force for Greece, interviewed by Benjamin Klos, 2015
[1098] European Commission, [Occasional paper 82] *Economic Adjustment Programme for Greece*, Fourth Review, European Commission, 2011, p. 34
[1099] F. Stamati and R. Baeten, 'Health care reforms and the Crisis', *ETUI Report 134*, European Trade Union Institute, Brussels, 2014, p. 27
[1100] European Commission, [Occasional paper 82] *Economic Adjustment Programme for Greece*, Fourth Review, European Commission, 2011, p. 34
[1101] H. Symeonidou, 'Social Protection in Contemporary Greece', in M. Rhodes (ed.), *Southern European Welfare States. Between Crisis and Reform,* Frank Cass, London, 1997, p. 69

hardship'.[1102] The insistence on means-testing as the preferred method of resource allocation can also be read in another light: Prior to the EAPs, social policies were constrained by EMU rules, which focused on fiscal outcomes, but left the methods of achieving them in the domain of the Member States.[1103] The conditionality imposed through the EAPs combined stronger pressure with more specific policy prescriptions.[1104]

The Greek government adopted a new legislative package in November 2012 to address some of the implementation shortfalls previously outlined. Among these measures was the reactivation of the claw back procedures and the circulation of a list of active substance prescriptions and valid exemptions to this list. The 'claw back mechanism' was, beyond Greece, only introduced in Portugal,[1105] which suggests that the mission had identified issues surrounding pharmaceutical reimbursement in these Southern European VOCs. The merging of all health insurance funds into the new EOPYY fund received renewed attention and thus funds which had not joined by December would be forced to do so.[1106]

The reform of hospital administration was well under way in early 2013, and the report from May 2013 announced that 'the authorities have effectively merged the about 130 hospitals into 84 hospitals and in the process eliminated about 11,000 beds'.[1107] These figures do not tell the entire story however, as Greece featured approximately 500 beds for 100,000 people in 2009, which placed it in the lowest third of an EU wide comparative study.[1108] The cuts affected particularly remote and rural areas of Greece, including its many islands, where health care provision had always been less fiscally efficient for geographical reasons. The deterioration in the provision of healthcare is captured by Eurostat data on the subject, which shows that in 2005, 4.5% of healthcare users reported unmet needs for medical services, already a high figure by EU comparison. The figure increased to 8% in 2012, the highest figure in the EU by some margin.[1109]

Cumulative recessionary effects were felt particularly acutely in the least affluent segments of society, particularly the unemployed, increasing numbers of whom no longer had access to primary health care.[1110] To counteract this alarming development, the same report suggested the distribution of health vouchers as a possible remedy. The vouchers should be, according to the design of the scheme, targeted at unemployed people, families with children and people living below the poverty line.[1111] In VOC terms, this constituted a further strengthening of the elements of means testing, indicated by the targeting of the unemployed, and of poverty alleviation.[1112]

1102 European Commission, [Occasional paper 94] *Second Economic Adjustment Programme for Greece*, European Commission, 2012, p. 36
1103 S. Blavoukos and G. Pagoulatos, 'The limits of EMU conditionality: fiscal adjustment in Southern Europe', *Journal of Public Policy*, vol. 28, no. 2, 2008, pp. 229-253
1104 S. Theodoropoulou, 'Has the EU become more intrusive in shaping national welfare state reforms?', *ETUI Working Paper*, European Trade Union Institute, 2014, pp. 6-7
1105 F. Stamati and R. Baeten, 'Health care reforms and the Crisis', *ETUI Report 134*, European Trade Union Institute, Brussels, 2014, p. 27
1106 European Commission, [Occasional paper 123] *Second Economic Adjustment Programme for Greece*, First review, European Commission, 2012, p. 43
1107 European Commission, [Occasional paper 148] *Second Economic Adjustment Programme for Greece*, Second review, European Commission, 2013, p. 36
1108 F. Stamati and R. Baeten, 'Health care reforms and the Crisis', *ETUI Report 134*, European Trade Union Institute, Brussels, 2014, p. 19
1109 Ibid.
1110 European Commission, [Occasional paper 159] *Second Economic Adjustment Programme for Greece*, Third review, European Commission, 2013, p.35
1111 Ibid.
1112 B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 175

In April 2014, most health care reforms were largely implemented, although there remained vital areas where adjustment of the new system was needed.[1113] One area where significant 'fine tuning' was necessary concerns the monitoring and subsequent control of consumption and spending in the new EOPYY fund. In this area there was still widespread waste of resources, which in turn contributed to the still negative balance sheet of the fund. Yet, independent observers have drawn gloomier conclusions, particularly with regard with health care outcomes for patients: 'The MoU also include short-term cost savings that do not aim to improve the long-term cost-effectiveness of the system, but on the contrary risk hampering access to and quality of care'.[1114]

In terms of the reform of the hospital system, additional measures were needed to enable the efficient allocation of staff. Externally, as mentioned above, measures were prescribed to ensure continued basic health coverage for the entire population through the voucher scheme. Amable's VOC framework suggests that this agreement can be understood in terms of an overlap between the pre-crisis Southern European VOC model and the more liberal and market based model which appears to be the aim of reforms. Both models comprise an emphasis of poverty alleviation as a principal aim of their social policies, thus this rare occasion of agreement between Greece and its international partners can be conceptualised in VOC terms through congruency of Southern and market based VOC in this particular area.[1115]

More problematic was the insistence of the Troika to fix public spending on healthcare at or below 6%. This figure is seemingly arbitrary and not based on an assessment of what is needed for the system to function well, but rather driven by fiscal consolidation. This seeming arbitrariness had a pronounced detrimental effect on the social acceptance of the overall programme, as scholars have emphasised.[1116]

Unemployment benefits and the reform thereof were remarkable in the economic adjustment programme only through their absence. In the pre-crisis model of social protection as practiced in Greece before 2010, unemployment benefits were very low and played a very insignificant role in the overall social protection framework. The low priority given to unemployment benefits is partially understood to be compensated for by higher levels of employment protection in the Southern European VOC. However, even in comparison with other Southern European VOCs, Greek benefit levels were low.[1117] The market based VOC, which Greece is assumed to transition towards, also features low levels of unemployment benefits, although in this case compensated by a very flexible labour market with a significant low wage segment.[1118] Hence, the absence of reforms in the area of unemployment benefits is compatible with this transition.

In the last available report from April 2014, the mission stated its intention to promote a 'comprehensive review of social welfare'.[1119] Interestingly, this review was driven by the perception that social protection measures were insufficiently targeted.[1120] This was a very clear indication that the entire social protection system was to be moved towards a means tested system with only a very basic provision of services. This impression is supported by a statement in the same report

[1113] European Commission, [Occasional paper 192] *Second Economic Adjustment Programme for Greece*, Fourth Review, European Commission, 2014, p. 39

[1114] F. Stamati and R. Baeten, 'Health care reforms and the Crisis', *ETUI Report 134*, European Trade Union Institute, Brussels, 2014, p. 19

[1115] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, pp. 102-107

[1116] Kevin Featherstone, Professor, interviewed by Benjamin Klos, 2015

[1117] S. Theodoropoulou, 'Has the EU become more intrusive in shaping national welfare state reforms?', *ETUI Working Paper*, European Trade Union Institute, 2014

[1118] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 104

[1119] European Commission, [Occasional paper 192] *Second Economic Adjustment Programme for Greece*, Fourth Review, European Commission, 2014, p. 51

[1120] Ibid.

which speaks of the need to provide 'targeted support for vulnerable groups with the strongest need'. [1121]

Most of the reforms conducted in the Greek welfare state can be comprehensively conceptualised through Amable's VOC framework. The mission's insistence on unifying and standardising Greek healthcare and pension funds constitute a rare but noteworthy exception. Based on Amable's framework, we would not have expected these reform measures.[1122] However, these measures were perhaps included more due to the dysfunctionality of the system, rather than its specific structure. The frequent near bankruptcy of these funds was a source of considerable fiscal strain and thus targeted for reform.

Conclusion

This chapter provided a VOC based analysis of the social protection regimes in Greece and Ireland. Similar to the approach in the chapter five on the labour market, the broad topical scope suggested a further subdivision in unemployment benefits, pensions and healthcare. Beyond confirming the accuracy of Amable's framework in predicting structural reforms in the Economic Adjustment Programmes, a juxtaposition highlights the similarity in the type of policies mandated by the mission, although the particular emphasis of the EAPs was determined by the pre-crisis VOC of the country.

The sub-category of unemployment benefits provides strong support for this assessment. This feature played only a marginal role in the Greek VOC prior to the economic crisis, which is partly compensated for by the vital role of employment protection in ensuring social protection. Consequently, it barely featured in the Greek EAP. In VOC terms, this absence is understood through a feature shared by market based and Southern European VOCs: Both provide unemployment benefits at a very low level as a means to alleviate poverty, not to sustain skill levels or social standing as in other VOCs.

In Ireland, the overall reform volume was, as in every other institutional area, significantly lower than in Greece. Yet, the emphasis of the Irish reform agenda for social protection was clearly on reform of unemployment benefits. The type of reform was the anticipated strengthening of means testing and job search conditionality to reduce 'disincentives to work'. The reduction of these benefits took place in the overall weak social protection regime of a market based VOC welfare state.

Reform of health care systems in the Greek and Irish EAPs did not feature with the same urgency as pension reforms in Greece or unemployment benefit reductions in Ireland. In Ireland, health care reforms within the EAP framework were less vital due to reform efforts by the Irish government prior to and outside of the EAP. Furthermore, the Irish health care system had already used core policies of the market based VOC before the crisis commenced, such as means testing for eligibility of the medical card. Thus, the late commencement and limited scope of health care reforms derived from an overlap of pre-existing policies and the policies the mission sought to implement.

In Greece health care reforms introduced reforms aimed at the strengthening of the private component of health care provision, such as patient co-payments at the point of use. A feature of health care reform specific to Greece were efforts to unify and consolidate the highly fragmented landscape of health care funds. These reforms cannot be conceptualised as necessary steps for the

[1121] European Commission, [Occasional paper 192] *Second Economic Adjustment Programme for Greece*, Fourth Review, European Commission, 2014, p. 51
[1122] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 155

introduction of a market based VOC social protection regime. However, due to their dysfunctional operation, frequent state intervention to prevent fiscal collapse prior to the crisis constituted an important avenue for state involvement in the operation of these funds. Thus, these reforms should be understood as intended to reduce overall state involvement, which is compatible with the introduction of a market based VOC, where state involvement in the economy is minimal.The VOC literature suggests that both the liberal market based VOC and the Southern European VOC share an emphasis on poverty alleviation. In this context, and against the background of a generally sluggish reform pace in Greece, the introduction of so called 'health vouchers' for people who could no longer afford health care or the 'guaranteed minimum income scheme' is the result of a rare ideological consensus between the Greek government and the Troika.

The area of pensions is in some ways the mirror image of the unemployment benefit sub-category. Here, Greece featured extensive provisions prior to the crisis even by the higher standards of the Southern European VOC. As anticipated through Amable's framework, the EAP focused on reducing pension levels drastically. Additionally, the shift towards a contribution based system meant a structural change towards a more market based welfare state. The reforms consisted of an increase in the retirement age, an increase in the minimum contribution years and the extension of working years for women. Most importantly, it removed preferential pension arrangements for public sector employees. This encountered fierce resistance from interested parties, as demonstrated by the repeated and continued failure to create a single pension fund and failure to eliminate lump-sum payments once an employee reaches retirement age. The continued existence of such options left the door open for electoral hand-outs by future governments, thus undermining genuine institutional change towards a market based VOC and providing room for policies aimed at reversing VOC transition at a later stage, as conceptualised by Streeck and Thelen as 'survival and return'.

Similar to reforms observed in the health care sector and subject to similar reasoning, the mission promoted reforms aimed at the merging of various pension funds into one national fund. Incidentally, social protection was the only area where Greece did not fall within an unambiguous Southern European cluster, but could also be clustered within a larger group containing the Continental European countries as well as Italy. This close proximity is largely explained through the shared emphasis on pension provision within social protection expenditure. Ireland by contrast displayed traditionally low levels of public pension provisions, and reform of the pension system was largely absent from the Irish EAP reform agenda. This matches the expected pattern of reform derived from the analysis of the Irish pre-crisis VOC.

From an EU perspective the conditionality based reform agenda for social protection is a novelty. Under the EAPs in both countries, the European institutions have entered uncharted territory. While the EU had issued country specific recommendations before and formulated comprehensive policy goals before the onset of the crisis,[1123] these could be followed or ignored and the political fallout of the latter option was fairly minimal. During the crisis however, Frits Scharpf spoke of a 'radical extension of *hierarchical* European controls over national policy choices'.[1124] Additionally, the nature of EU level input changed. Where previously the EU confined itself broadly to the specification of fiscal targets,[1125] it has become significantly more specific under the EAPs. A good example of this shift is the mission's insistence on means testing as the principal instrument of welfare allocation.

[1123] C. Schweiger, *The EU and the Global Financial Crisis. New Varieties of Capitalism*, Edward Elgar, Cheltenham, 2014, p. 191

[1124] F. Scharpf, 'Monetary union, fiscal crisis and the disabling of democratic accountability', *ETUI Working Paper*, European Trade Union Institute, 2014, p. 137

[1125] S. Theodoropoulou, 'Has the EU become more intrusive in shaping national welfare state reforms?', *ETUI Working Paper*, European Trade Union Institute, 2014

Chapter 8

Education reform in the EAP

Missed opportunity or fatal flaw?

Introduction

Education is the last of the five institutional areas discussed in this thesis. Bruno Amable elevates the role of education by comparison to the earlier approach by Hall and Soskice,[1126] stressing a number of institutional complementarities arising from the interaction of education with the other four institutional areas.[1127] However, the precise nature of these complementarities crucially depends on the VOC of the country in question. Yet, Bruno Amable warns that 'Education systems tend to be highly country-specific because of their historical development and the lack of a converging trend'.[1128] Building on earlier research,[1129] Amable identifies the key dimensions in education as the degree of differentiation or stratification, whether educational programmes are primarily vocational or general, and the level of standardisation of curricula.

The principal components and cluster analysis in Amable's framework identifies five clusters. In the education institutional area, Ireland belongs to a cluster with the Netherlands, Belgium, France and Germany. This group has several identifying features, one of which is the existence of a strong education system with a pronounced focus on secondary education.[1130] The crucial feature in this regard is the ratio of expenditure distribution between primary and secondary education, which focuses heavily on secondary education. Another feature is the long duration of schooling years. Yet, Amable points to the high degree of standardisation of education in the countries in this cluster as the decisive indicator.[1131]

Cluster 1, to which Greece belongs, is composed of the Southern European countries, Italy, Spain, Portugal, Greece, and Austria. This cluster is distinguished by a small population of graduates. With the exception of Austria, Bruno Amable notes that 'all have the characteristics of a lagging education system'.[1132] Another aspect where this cluster displays a very high level of homogeneity is the attitude towards lifelong learning. Here, employers as well as employees display very low levels of initiative, and lifelong learning plays only a very marginal role in these countries.

This institutional area has been affected by global trends in education. Over the decade preceding the financial crisis, the tertiary education sector has seen a sharp increase in privately funded universities. Increasingly, universities have become 'powerful consumer-oriented corporate

[1126] P. Hall and D. Soskice, *Varieties of Capitalism. The Institutional foundations of comparative advantage*, Oxford University Press, Oxford, 2010
[1127] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 113
[1128] Ibid, p. 160
[1129] J. Allmendinger, *Educational systems and labour market outcomes*, European sociological review, Oxford University Press, 1989
[1130] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009
[1131] Ibid, pp. 167-168
[1132] Ibid, p. 167

networks'.[1133] For some researchers, this development has thrown up a conflict of interest between their mandate to provide a public good and the inherent desire to turn a profit.[1134]

This chapter will now set out to identify the educational systems of both countries, highlighting core features of the pre-crisis state of affairs in Ireland and Greece. Subsequently, the educational reforms mandated in the MOUs of both countries will be examined. Yet, beyond considerations of institutional complementarities, there are constitutional constraints on transforming the educational system of Greece, stemming from experiences during the country's transition to democracy.[1135]

The Irish Education Sector

Pre-crisis

In Ireland, the education sector was dominated by publicly provided education, complemented by a small private segment.[1136] The responsibility for the provision of education was divided. In primary and secondary education, the Department of Education and Skills was directly responsible, whereas the Higher Education Authority (HEA) oversaw the provision of higher education. The HEA was an independent body, which was nevertheless answerable to the Minister for Education and Skills.[1137]

Assuming that the EAP in Ireland brings it closer to an ideal typical market based VOC, we would assume reform efforts to strengthen the private component of education, most importantly in the tertiary sector. As Ireland finds itself in the loosely defined Continental European cluster,[1138] measures within the EAP would be expected to aim at the lowering of public expenditure on education.[1139]

It would be misleading to regard Ireland's pre-crisis education system as monolithic, as it was subject to significant change. Here, particularly the tertiary sector had received increased funding, as an OECD report from 2006 stressed.[1140] This increase in funding is closely connected to an increase in student numbers in higher education, which rose by 20% in the period from 2002 to 2010.[1141] The area of education which expanded most drastically was IT related studies, which was perhaps unsurprising, given the huge role of IT companies in the Celtic Tiger growth phenomenon.[1142] Over the past decades, expenditure in education had steadily increased in Ireland, ever since the introduction of free secondary education in 1967. A significant boost to education occurred in the early 1990's, when investment in higher education was increased.[1143]

[1133] J. Rutherford, 'Cultural Studies in the Corporate University', *Cultural Studies*, vol. 19, no. 3, pp. 297-317
[1134] K. Lynch, 'Neoliberalism and Marketisation: the implications for higher education', *European Educational Research Journal*, vol. 5, no. 1, 2006, p. 1
[1135] R. Clogg, *A Concise History of Greece,* 3rd edn, Cambridge University Press, Cambridge, 2013
[1136] C. Newman, 'Market Failure and Government Interventions', in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland: National and Sectoral Policy Issues*, Twelfth Edition, Gill and Macmillan, Dublin, 2014, p. 349
[1137] Ibid, p. 349
[1138] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 168
[1139] Ibid, p. 108
[1140] OECD, *Education in Ireland,* 2006, p. 14
[1141] C. Newman, 'Market Failure and Government Interventions', in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland: National and Sectoral Policy Issues*, Twelfth Edition, Gill and Macmillan, Dublin, 2014, p. 350
[1142] Brian Hayes, MEP, interviewed by Benjamin Klos, 2016
[1143] C. Newman, 'Market Failure and Government Interventions', in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland: National and Sectoral Policy Issues*, Twelfth Edition, Gill and Macmillan, Dublin, 2014, p. 357

The outcome of these initiatives to boost research in higher education was an improvement of Ireland's OECD for Higher Education research and development (HERD) ranking from 22nd place in 2000 to 14th in 2006.[1144] Kirby further notes that the increase in spending on higher education was broadly in line with the economic growth of the period from 1998 onwards, so that despite the significant acceleration in spending in absolute terms, in relative terms as a percentage of GNI, Ireland spent 1.53% in 2006, compared to 1.43% in 1996.[1145] This pattern is mirrored in other intuitional areas in Ireland, as highlighted in the previous chapter.

Yet, by international comparison, these spending levels are modest. A 2009 study found that the average expenditure per student was roughly € 10,000 per student in the EU 25, whereas the US spent an average of € 35,000 per student.[1146] Yet these figures need to be qualified, as higher levels of expenditure do not necessarily mean better educational outcomes across the entire student body. Additionally, there are inherent difficulties in comparing private and state funded systems, as private institutions need to achieve a fiscal surplus in order to be viable, leading to a certain capital outflow which is difficult to quantify.

The role of lifelong learning in the Irish educational system was somewhat surprising from a VOC point of view: Not only did the Irish system feature lower employer incentive (average) and lower individual initiative (limited) than the countries in the market based VOC, where lifelong learning is an important institutional feature, but these were also less pronounced than in all other Continental VOC countries, with which Ireland was grouped in the overall institutional cluster for education.[1147] From this, one would expect a significant reform effort to promote lifelong learning.

Overall, the number of students in full time education in Ireland increased since 2000, which is partly due to higher birth-rates and immigration and partly due to increased demand for higher education by the Irish economy. As a 2006 OECD report states: 'The Irish tertiary education system has increased its student body by about 2% per annum since the mid-1960s and has reached an age participation rate of 57%'.[1148] In 2010, 23 % of the population, roughly one million, were in full time education. This constitutes an increase when compared to the 2006 figure of 927,000.[1149] However, studies by the OECD found that there was only a weak link between higher education institutions and research and development (R&D).[1150]

In light of the findings presented in this section, Amable's assertion that Ireland features a 'strong public education system' seems justified.[1151] By his own assertion, the key indicator causing Ireland to be grouped in the Continental European cluster was the high level of standardisation of curricula, teacher certification and exam procedures these countries share.[1152] In Amable's cluster analysis for education, these countries are diametrically opposed to the liberal cluster of the USA and Canada.[1153] In terms of Ireland's overall reform trajectory, we would therefore expect a significant reform towards diversification of the education system.

[1144] Forfas, *The Higher Education R&D Survey 2006 (HERD),* Forfás Science and Technology Indicators Unit, Dublin, 2007
[1145] P. Kirby, *Celtic Tiger in Collapse. Explaining the Weaknesses of the Irish Model*, 2nd edn., London, Palgrave Macmillan, 2010, p. 156
[1146] P. Aghion, M. Dewatripont, C. Hoxby, A. Mas-Colell and A. Saphir, *Why reform Europe's universities?,* Bruegel Policy Brief, April, 2007, p. 101
[1147] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 162
[1148] OECD, *Education in Ireland,* 2006, p. 12
[1149] C. Newman, 'Market Failure and Government Interventions', in J. O'Hagan and C. Newman (eds.), *The Economy of Ireland: National and Sectoral Policy Issues*, Twelvth Edition, Gill and Macmillan, Dublin, 2014, p. 349
[1150] OECD, *Education in Ireland,* 2006, pp. 12-14
[1151] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 167
[1152] Ibid, p. 160
[1153] Ibid, p. 161

In terms of educational outcomes, a PISA study from 2009 found that skill levels for reading, mathematics and science were roughly equal to the OECD average. However, as the report also mentioned, this was a decline from previous levels, which surpassed the OECD average.[1154] The PISA study results are indicative of an overall trend in primary and secondary education, which, in terms of educational outcomes, appears to have stagnated, at a level slightly above the OECD average.[1155]

Education in the Economic Adjustment Programme of Ireland

The education sector was not mentioned in the first report, which gave a brief summary of the main programme objectives. This gave a first approximation of the importance attributed to this institutional area. In fact, the first indirect mention of education was merely in the form of an overview over the current expenditure structure of the Irish state. Here, a table specified that the Irish government was broadly on target regarding its education expenditure, with expenditure of € 4 billion for the period from January to June 2012, against a target of € 3.99 billion.[1156] Over time, a decrease in government expenditure on education was observable: World Bank data indicates that expenditure dropped slightly from 6.2% of GDP in 2009 to 5.8% in 2012.[1157]

Throughout the entire economic adjustment programme, the higher education sector of Ireland was not mentioned explicitly as an area for reform. This suggests that the overall reform volume in this institutional area would be comparatively low. From a VOC perspective, one would have expected the mission to demand a strengthening of the provision of higher education through private sources. Within a market based VOC, numerous, diverse and competing private universities are important for the provision of a well-educated workforce with a diverse but general skill set.[1158] While the complementarities between education and the other four institutional areas are apt to manifest only in the long term, failure to introduce reforms is likely to have negative consequences as 'the overall performance declines when one changes one institution, leaving the other unchanged'.[1159]

Lifelong learning is of crucial importance for the VOC analysis of education in Greece and Ireland because its increased use is vital for the successful shift towards a full-fledged neo-liberal, market based VOC. In mapping the incentive structure for both employee and employer, Aventur, Campo and Möbus found Ireland to provide average incentive levels for employers and low levels of incentive for individual employees. By contrast, the UK provided strong incentives for employers and employees alike,[1160] thus underling the importance of lifelong learning for market based VOCs.[1161]

The establishment of the Further Education and Training Authority (SOLAS) was envisaged as a means to make lifelong learning more effective and to provide 'Further Education and Training programmes which are responsive to the needs of learners and the requirements of a changed and

[1154] OECD, *Ireland Education Policy Outlook,* 2013, p. 5
[1155] Ibid., p. 6
[1156] European Commission, [Occasional Papers 115] *The Economic Adjustment Programme for Ireland*, September, 2012, p. 10
[1157] World Bank data, Accessed 13.07.2016, <http://data.worldbank.org/indicator/SE.XPD.TOTL.GD.SS?locations=IE>
[1158] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 108
[1159] Ibid p. 63
[1160] F. Aventur, C. Campo and M. Möbus, *Factors in the Spread of Continuing Training in the European Community,* Centre d'Etudes et de Recherches sur les Qualifications, France, 1999
[1161] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 163

changing economy'.[1162] Although the institution was introduced primarily with the aim of re-skilling the large pool of unemployed Irish workers, it also provided a platform for in-work education and training.

The primary aim of SOLAS is thus to provide strategic guidance and oversight for numerous Education and Training Boards (ETBs): 'Implementation of the establishment of SOLAS to better coordinate and direct the local Education and Training Boards (ETBs) is essential'.[1163] The institution became fully operational in October 2013, after a series of delays in its implementation. Its inception in October 2013, only two months before the country's exit from the bailout is highly suggestive, indicating that the Irish government was the driving force behind this policy.

SOLAS played an important role in the reform of further education and training facilities, as it was to effectively allocate funding to ETBs. These ETBS were not to be set up new, but are merely 'to be established through the amalgamation of existing Vocational Education Committees (VECs) and FAS training centres'.[1164] The project was not to receive any new funding, but had to operate within the existing budget for education.

SOLAS was to be a vital tool in enhancing the liberal policy orientation of the overall lifelong learning and re-skilling scheme in Ireland, as one report makes abundantly clear: 'FET programmes should become increasingly client-and market-oriented under SOLAS strategic guidance'.[1165] This strategic guidance was gradually expanded upon, as subsequent reports stressed that 'consideration should also be given to enhancing work-based apprenticeships in collaboration with the private sector'.[1166] Thereby the mission hoped to improve the employability of apprentices after the completion of their apprenticeship programme.

Overall, reform of the Irish education sector was marginal, with a very low number of reform initiatives. In terms of the transition towards a clear cut market based VOC model, we would have expected the mission to promote the private sector provision of university level education. However, this did not take place, most likely due to the fact that the education sector stayed within the budget set out by the mission, thus confirming the priority of fiscal consolidation over genuine structural reforms. It is also indicative of a myopic view of reforms, as educational reforms would, even if successful, only produce positive outcomes in the very long term.

On the other hand, the promotion of lifelong learning initiatives is fully congruent and expected from a VOC perspective, as it constitutes an essential part of the market based VOC, where skills are general at the beginning of one's working life, but then continuously upgraded.[1167] By contrast, no diversification of secondary education took place. However, Amable emphasises in this respect that greater standardisation of secondary education sends the employer reliable signals on student skills,[1168] which should produce positive complementarities, even in a market based VOC.

[1162] Quote by Minister for Education and Skills, T.D. Ruairí Quinn, Solas website, extracted 30/01/2015, <www.solas.ie>
[1163] European Commission, [Occasional Papers 127] *The Economic Adjustment Programme for Ireland*, January 2013, p. 40
[1164] European Commission, [Occasional Papers 131] *The Economic Adjustment Programme for Ireland*, April 2013, p. 29
[1165] Ibid.
[1166] European Commission, [Occasional Papers 154] *The Economic Adjustment Programme for Ireland*, July 2013, p. 30
[1167] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 108
[1168] Ibid, p. 161

The Greek Education Sector

Pre-crisis

There are two features of the Greek education sector, particularly the university sector, that are worth highlighting here. Firstly, the education sector in Greece is subject to considerable constitutional constraint. At the time of writing, private universities were not eligible to operate in Greece.[1169] Marietta Giannakou pointed to the difficulty in promoting the Bologna process, due to opposition from within universities.[1170] This independence was restricted in practice through the dependency of universities on the state for funding. While decisions were taken internally, they were subject to approval by the Ministry of Education. This provided the channel for the pattern of state influence already identified in other institutional areas. To change this, a constitutional amendment would be necessary, for which a three quarter majority is required. At no point since the onset of the crisis did a Greek government command the necessary majority for such an amendment. Under the Constitution from 1975, Article 16 was specifically indented to ensure the freedom of universities to teach and research.[1171]

Secondly, universities in Greece are highly politicised. Students enjoy a special status, due to their role in the downfall of the colonels' junta, which was fatally weakened by student protests in 1973. During the democratisation of the country, the students were given special status and rights. One such instance are the extensive co-decision making powers given to the students representative bodies, such as 'the right to vote in elections of university chancellors and university heads'.[1172]

A tendency to provide public universities with low levels of funding can be seen as a systemic feature of the Mediterranean VOC education system, as Amable asserts.[1173] Petrakis, drawing on OECD data from the mid 2000's, finds 'a significant shortfall of Mediterranean countries in the education of their overall populations'.[1174] While he speaks of a shortfall in comparison with Northern European countries, he nevertheless acknowledges low expenditure as a systemic feature of the Southern European countries. According to a 2009 OECD report on education, Greece spent just over $8,000, whereas the OECD average was just under $9,000.[1175]

This spending level on Greek education as a percentage of GDP of just above 4% was the lowest percentage of the countries in the OECD.[1176] Yet, the expenditure registered here is 94% state expenditure, with private universities being banned in Greece by the constitution. State funded higher education models tend to be less expensive for students, thus lowering their cost of living. It is therefore difficult to compare private and state funded models solely on the base of expenditure.[1177]

The education sector in Greece featured a high level of centralisation and resistance to reform by small veto players, in this case teachers' unions. Despite a considerable amount of reform, for the

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[1169] R. Clogg, *A Concise History of Greece,* 3rd edn, Cambridge University Press, Cambridge, 2013., p. 249
[1170] Marietta Giannakou, former Minister of Education, interviewed by Benjamin Klos, 2015
[1171] A. Smas, 'Financial crisis and higher education policies in Greece: Between intra and supranational pressures', *The International Journal of Higher Education Research*, vol. 69, no. 495, 2015, p. 2
[1172] Financial Times online, K. Hope, extracted 16. July 2014 <http://www.ft.com/cms/s/0/49628450-fde2-11e3-bd0e-00144feab7de.html?siteedition=uk#axss3AHhFgEB5>
[1173] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 106
[1174] P. Petrakis, *The Greek Economy and the Crisis. Challenges and Responses*, Springer, Berlin, 2012, p. 87
[1175] OECD, *Education at a Glance*, 2009, p. 188
[1176] OECD, 'Economic Surveys of Greece 2009', *Raising education Outcomes,* OECD, Chapter 4, 2009, p. 124
[1177] K. Lynch, 'Neoliberalism and Marketisation: the implications for higher education', *European Educational Research Journal*, vol. 5, no. 1, 2006

most part limited to the 1970's and 80's, the high level of centralisation was never altered.[1178] Veto players used their influence to sustain the status quo, and Dimitropoulos notes that while teachers' unions have had remarkable success in preventing for instance the implementation of staff appointments based on quality assessments rather than seniority alone, their role in shaping important reforms has been marginal at best.[1179]

In this context, interest mediation was helped by structural features of the education sector. While Smas pointed out that universities were supposed to be self-managed, this was subverted through fiscal dependency on state funding: 'the self-managed character of universities became weak in practice'.[1180] An OECD report on tertiary education stated that 'Greece stands out as having both a relatively low level of total spending on tertiary education and a high reliance on public funding'.[1181] In terms of allocation of this spending, a 2009 OECD study showed that 'Greece stands out with a very low spending on the compulsory part of its education system (pre-primary to lower-secondary education), which is about half of the OECD average. Spending is somewhat above the OECD average in upper secondary education and at average for universities'.[1182]

The constitution explicitly prohibits tuition fees with the exception of post-graduate studies,[1183] which makes a major source of revenue for other tertiary education models inaccessible. As pointed out previously, public sector employment, among other sectors in an overall growing economy, created demand for university graduates, as a result of which 'enrolment rates [in 2007] have doubled over the past ten years and are now approaching the OECD average'.[1184]

Above average performance in primary and secondary education was not quite matched in the tertiary sector. In quantitative terms, Greece was slightly below average for percentage of the population having university degrees. Eurostat data indicate that the number of people with higher education degrees was only marginally below the EU average in 2011: The EU average of people aged between 30 and 34 having tertiary education was 31% of men and 39% of women, whereas in Greece 25% of men and 32% of women in that age group had tertiary education.[1185] This would seem to be congruent with Bruno Amable's 2003 assertion that Greece had a small but rapidly growing graduate population.[1186]

Vocational and technical training was a fairly low ranking priority within the Greek education system, which was biased in favour of general programmes. This bias is reflected in the fact that only one third of students in upper secondary education chose to enrol in a vocational training scheme in 2006.[1187] There might be systemic causes for this, in particular a mismatch between existing vocational programmes and the demands of the labour market. About 12 % of graduates of vocational schemes were unemployed for 6.5 years after graduation.[1188] The average searching period for those who did find work was 2 years and only one quarter of students found employment in a profession that matched their training.[1189] The insignificant role played by vocational training

[1178] A. Dimitropoulos, 'Education Reforms in Greece: Aspects of Power and Politics', in *From Stagnation to Forced Adjustment. Reforms in Greece 1974-2010*, Hurst & Company, London, 2012, p. 152
[1179] Ibid, pp. 151-169
[1180] A. Smas, 'Financial crisis and higher education policies in Greece: Between intra and supranational pressures', *The International Journal of Higher Education Research*, vol. 69, no. 495, 2015, p. 3
[1181] OECD, 'Economic Surveys of Greece 2007', *Improving tertiary education,* OECD, Chapter 5, 2007, p. 112
[1182] OECD, 'Economic Surveys of Greece 2009', *Raising education outcomes,* OECD, Chapter 4, 2009, p. 125
[1183] OECD, 'Economic Surveys of Greece 2007', *Improving tertiary education,* OECD, Chapter 5, 2007, p. 107
[1184] Ibid.
[1185] Eurostat, 2011 < http://goo.gl/AANMO7>
[1186] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 167
[1187] OECD, 'Economic Surveys of Greece 2009', *Raising education outcomes,* OECD, Chapter 4, 2009, p. 140
[1188] P. Rouseas V. and Vretkou, *Survey of Employment of Upper Secondary School Graduates (TEE- Unified Lyceum)*, Pedagogical Institute, Ministry of Education and Religious Affairs, 2015
[1189] OECD, 'Economic Surveys of Greece 2009', *Raising education outcomes,* OECD, Chapter 4, 2009, p. 127

schemes is in line with characteristic features of the Mediterranean VOC, where greater emphasis is placed on the obtainment of more general skills by the education system.[1190]

While the core features of Greece's education system proved to be congruent with those of a Southern European VOC, the assumptions on industrial specialisation need to be qualified. Amable asserts that Greece, as a Mediterranean VOC, would specialise in non-mineral products, agriculture and other transport.[1191] Yet, the implication that this specialisation derives from the country's economic model alone is problematic. Policy makers stress Greece's geographic position as the key factor in making the country prominent in shipping freight for instance.[1192]

The analysis of characteristic features of the Greek educational sector found that, at the time of writing, Greece dedicated only a low share of its state budget, around 4%, to education. Within this budgetary envelope, most funds were directed towards primary and secondary education, whereas vocational training was not funded very well, as there seemed to be an emphasis on general, transferable skills rather than specific ones tied to a specific sector. This is in line with the pattern displayed in an ideal typical Southern European VOC.[1193]

Bruno Amable, using research conducted by Aventur, Campo and Möbus,[1194] finds that the absence of lifelong learning is a feature of the Southern European VOC. Distinguishing individual initiative and employer initiative, the category featuring the lowest level of initiative for both contains Italy, Spain, Greece and Portugal,[1195] hence all the Southern European VOC countries. The absence of lifelong learning measures from the Greek education system can in part explain the difficulty of the Greek labour force in adjusting to rapidly changing economic circumstances, leading to structural unemployment. From a VOC perspective, one would expect the mission to promote lifelong learning, which as mentioned, is typically absent from Southern VOCs but form an important element of the education system of market based VOCs.

Economic Adjustment Programme in the Greek Education sector

The first mention of any measures to be taken regarding education reform was in the December 2010 report, which announced the establishment of an independent task force of education policy experts 'whose task will be to produce, by end-June 2011, proposals for the public education reform (including higher education)'.[1196] The stated aim of this task force was to improve efficiency in line with 'international best practice'.[1197] As always when this term is used, it constitutes a synonym for neo liberal practice without clearly identifying which indicators this practice would be measured against. The explicit purpose of this new task force was to 'consider measures that increase the quality and effectiveness of the education system and fight waste'.[1198]

The report from February 2011 rejected proposals by the Ministry of Education for the hiring of additional teaching staff, on the grounds that these measures would not be compatible with the 5 to 1 rule, according to which only one public sector employee could be hired for each 5 leaving

[1190] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 167
[1191] Ibid., p. 209
[1192] Georges Siotis, Senior Economic Advisor, Task Force for Greece, interviewed by Benjamin Klos, 2015
[1193] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 113
[1194] F. Aventur, C. Campo and M. Möbus, *Factors in the Spread of Continuing Training in the European Community,* Centre d'Etudes et de Recherches sur les Qualifications, France, 1999
[1195] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 162
[1196] European Commission, [Occasional paper 72] *Economic Adjustment Programme for Greece*, Second Review, European Commission, December, 2010, p. 21
[1197] Ibid.
[1198] Ibid.

public service. In an additional note, the report remarked that 'available indicators show that Greek teachers and professors have a much lighter workload and teach substantially less hours than in other EU countries'.[1199] Unfortunately, the reports failed to indicate what these indicators were. Furthermore, an OECD study on education from 2014 also found that 'teachers in Greece earn less than their peers in other OECD countries'.[1200] This is strongly indicative of a biased provision of evidence by the mission.

The possibility of structural reforms in the education sector was not even touched upon, and education was only mentioned in the context of restrictions to further public sector employment. The first substantial discussion of structural reforms in the education sector took place in July 2011, over one year after the initial introduction of the programme. The report stated that the reason behind its proposed reforms of the education sector was predominantly the concern about the quality provided, as 'the education indicators of Greece lag behind the EU average'.[1201]

Yet, immediate measures to be taken seem to point more in the direction of expenditure reduction especially for primary and secondary education institutions. Here, a staggering 30% of schools were to be closed or merged with other schools.[1202] In terms of quality improvements, the report indicated that measures were already being implemented relating to the revision of curricula, the introduction of a mandatory teacher evaluation, recurrent training for teachers and an extension in the usage of all-day schools. As Marietta Giannakou points out, the mission's insistence on fixed and pre-determined levels of staff reduction drastically reduced the credibility of this measure.[1203]

Reforms of vocational training schemes were almost entirely absent from the reform agenda. The only mention of it relates to the lifting of restrictions on the provision of vocational training by private institutions,[1204] although this shift can also be understood in the context of a general effort to liberalise the Greek economy.

In the area of higher education, no exact measures had been taken at the time of writing, but the focus here seemed to be on the governance of universities, where the report suggested the introduction of non-academic managers into the governing boards of universities, in order to enhance the efficiency of their administration.[1205] This measure should be seen in the context of the introduction of market mechanisms into the education sector which took place over the past three decades.[1206] Within the constitutional constraints of the Greek education sector, this most likely also delineates the furthest extent to which free market principles could be introduced. From a VOC perspective, this measure takes Greece in the expected direction of further liberalisation, without constituting a genuine structural reform.

Furthermore, the report proposed that universities be given de facto the rights they already had de jure, namely to manage themselves with autonomous rights from the central government. Universities were legally entitled to this by Article 16 of the 1975 Constitution, but, as outlined

[1199] European Commission, [Occasional paper 77] *Economic Adjustment Programme for Greece*, Third Review, European Commission, February, 2011, p.41
[1200] OECD, *Education at a Glance*, OECD, 2014
[1201] European Commission, [Occasional paper 82] *Economic Adjustment Programme for Greece*, Fourth Review, European Commission, July, 2011, p. 42
[1202] Ibid.
[1203] Marietta Giannakou, former Minister of Education, interviewed by Benjamin Klos, 2015
[1204] European Commission, [Occasional paper 82] *Economic Adjustment Programme for Greece*, Fourth Review, European Commission, July, 2011, p. 50
[1205] Ibid, p. 42
[1206] OECD, 'Markets in Education: An Analytical Review of Empirical Research on Market Mechanisms in Education', *Education Working Papers*, OECD, no. 52

previously, these rights had in practice been undermined. Additionally, the 'Troika' suggested that a number of institutions should be merged to save costs and increase efficiency. The removal of the central government's political influence is a recurring theme of the EAP, which occurred in a number of other institutional areas and EAPs in other member states.[1207] This trend is difficult to conceptualise in the VOC framework, as none of Amable's indicators capture the degree of centralisation of the education system.[1208] However, the driving force is most likely the mission's desire to reduce political influence in this area.

The passing of a framework law on education in August 2011 marked an important next step. The content of the law related to the devolution of decision making powers from the central government to the universities. The law, as the report was quick to point out 'provides a radical overhaul of the tertiary education sector, including higher autonomy, but also higher performance-related funding, of universities'.[1209] This can surely be seen as a step towards a competitive university and higher education sector as can be found in market based VOC countries.

The allocation of more decision making powers to the university level might well increase efficiency at the individual institutional level, but research into education typologies also shows that this is commonly associated with a lower level of standardisation,[1210] an effect which would be augmented by the introduction of performance related funding, which would inevitably widen the gap between low and high performing universities.

On primary and secondary education, the report was much less guarded about its advocacy of private institutions. Under the aims for a forthcoming reform in this sector, the report listed, as major challenges 'excessive' centralisation and a lack of teaching evaluation.[1211] In May 2013, the respective report stated that the internationalisation of curricula, part of project ATHINA.[1212] Amable identifies 'non-homogenised secondary education' as a characteristic feature of the market based VOC,[1213] so that the Troika's efforts to curb 'excessive' centralisation in this area can be understood in VOC terms as necessary steps to aid the transition towards a market based VOC.

Another aspect of the ATHINA project, the reduction in the number of higher education institutions and departments was finalised in July 2013. The reduction was targeted to result in a reduction of institutions from 40 to 36 and from 528 departments to 408.[1214] This rationalisation of institutions and departments was expected to lower operational costs for the state, but had no immediate impact on the institutional framework in which higher education institutions operate. The same report conveyed the opinion of the mission that there was further scope for rationalisation. Importantly, the respective authorities worked on a new framework for organisational charts and internal regulations of the higher education institutions.[1215] These measures were intended to enhance intra-institutional competition and thus aimed at transforming

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[1207] M. Fontoura and P. Fernandes, 'Decentralisation of public services in continental Portugal', *Tourism & Management Studies*, vol. 11, no. 2, 2015

[1208] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 284

[1209] European Commission, [Occasional paper 87] *Economic Adjustment Programme for Greece*, Fifth Review, European Commission, October, 2011, p. 39

[1210] D. Hannan, D. Raffe and E. Smyth, 'Cross-National Research on School to Work Transitions: An Analytical framework', in P. Wequin, R. Breen and J. Planas (eds), *Youth transitions in Europe: Theories and Evidence*, Cereq, Document, 120

[1211] European Commission, [Occasional paper 87] *Economic Adjustment Programme for Greece*, Fifth Review, European Commission, October, 2011, p. 39

[1212] European Commission, [Occasional paper 148] *Second Economic Adjustment Programme for Greece*, Second review, European Commission, May, 2013, p. 37

[1213] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 106

[1214] European Commission, [Occasional paper 159] *Second Economic Adjustment Programme for Greece*, Third review, European Commission, July, 2013, p.35

[1215] European Commission, [Occasional paper 192] *Second Economic Adjustment Programme for Greece*, Fourth Review, European Commission, April, 2014, p. 44

the Greek higher education system into the more competition oriented environment found in market based VOC education systems.

Conclusion

Despite the overall very low volume of reforms in Greece and Ireland in this institutional area, a comparison highlights important features of their education systems. While Greece was found to belong to the Mediterranean VOC cluster, Ireland was grouped with Continental VOC cluster due to the shared high level of standardisation of secondary education. Particularly regarding standardisation, this cluster is diametrically opposed to the market based VOC cluster.

The education system of an ideal typical VOC is characterised by low public expenditure on education. Amable's VOC approach would therefore suggest that the transition of Greece and Ireland towards this VOC would be accompanied by reductions to the education budget in the case of Ireland, where expenditure levels were roughly equivalent to the EU average and the entrenchment of already low expenditure levels in the case of Greece.

However, a closer examination of the EAP measures shows the reverse: In Greece, drastic expenditure cuts were observable, including the closure or merging of approximately 30% of secondary schools, the dramatic reduction of teaching staff and other funding cuts. Some of these cuts were spill overs from other austerity measures, such as the application of the one in five rule for the replacement of retired civil servants discussed above. However, from a VOC perspective, these findings remain surprising. A possible explanation might be found in the fact that the Irish EAP was overall much less harsh, so that drastic expenditure cuts to education were not deemed necessary in Ireland. This in turn suggests that the Troika applied its austerity regime indiscriminately without taking account of pre-crisis expenditure levels, which were lower in Greece than in Ireland prior to the crisis.[1216]

Another important feature of the market based VOC education system is the existence of a university sector in which private universities compete for students and research funding. As the respective sectors in both countries were dominated by publicly funded institutions, a significant push for a greater role of private universities was expected. In Ireland, this simply did not take place. In Greece, such measures were made near impossible due to the constitutional restraints outlined in this chapter. However, with regard to the management of public universities, the mission took steps compatible with a transition towards a market based VOC. The EAP introduced decentralised management at the university level and performance based funding.

With regard to reforms of vocational training regimes, the EAP entailed the creation of SOLAS in Ireland, wherein all further education, lifelong learning and vocational training schemes were organised. This suggests a weakening of vocational training schemes, in that they were no longer deemed to warrant an independent institution. In Greece, restrictions on the operation of privately funded vocational training institutions are lifted, although these took place within a broader set of measures aimed primarily at deregulation.[1217] This lack of significant efforts to strengthen vocational training was anticipated by Amable's typology, where market based VOCs are distinguished by the absence of such schemes.

[1216] World Bank data, Accessed 13.07.2016
<http://data.worldbank.org/indicator/SE.XPD.TOTL.GD.SS?locations=GR>

[1217] European Commission, [Occasional paper 82] *Economic Adjustment Programme for Greece*, Fourth Review, European Commission, July, 2011, p. 50

Lifelong learning initiatives form another important component of the market based education system. The EAP for Greece fails to even mention the concept, whereas its Irish counterpart mentioned the goal of enhancing lifelong learning initiatives in Ireland, but refused to allocate any additional funding to SOLAS for this purpose, so that the rhetoric of structural reform is superseded by the imperative of fiscal austerity in this regard.

Overall, Amable's VOC approach suggests that structural reform should have aimed at achieving greater diversity of forms and standards of education in secondary and tertiary education. However, in Ireland, a high level of standardisation of curricula etc. was retained, together with an emphasis on secondary education. In Greece, Amable's framework explains strong efforts by the mission to decentralise education, with a shifting of managerial authority to the local, institutional level. This shift can also be explained through the mission's aim of reducing state involvement. The comparative approach strongly supports the latter explanation. If diversification of education systems had been the goal, this would have been promoted by the mission in Greece and Ireland alike. Overall, the education sector reforms are characterised by a pronounced absence of a comprehensive structural reform agenda in both countries.

Chapter 9

Conclusion

With the introduction of the EAPs in member states requiring financial assistance, the EU has significantly extended its power to shape and supervise socio-economic policies, which had hitherto been primarily in the domain of the national policymakers. In certain policy areas, particularly those (such as product markets) that are important to the functioning of the single market, EU institutions already had a degree of influence on national policymaking, whereas in others (the area of social policies, for instance), it entered largely uncharted waters.

The question of how and to what extent the EU could use these newly acquired powers is therefore of supreme importance to most people whose research is related to the EU and its institutions. Conversely, the question of how member states respond to this expansion of power at the EU level needs to be addressed. This thesis set out to make a contribution to answering these questions. Specifically, it sought to explain the divergence in reform speeds and success in Greece and Ireland using Bruno Amable's VOCs approach.

This thesis set out to demonstrate that the divergence in reform speeds can be explained through the compatibility of the pre-crisis economic models in Greece and Ireland with the policy recommendations of the EAPs. This compatibility or lack thereof in turn informed the government's attitude to the implementation of the EAPs, leading to a lack of 'ownership' of the reform agenda in Greece. This challenges the notion that near-uniform sets of economic reforms can be applied to different economic models successfully. A closely related aim of this thesis was therefore to draw more attention to the vital role of the state in successfully implementing the reform agenda enshrined in the EAPs.

In order to achieve this objective, it was firstly necessary to compare and assess the policy input of the EAPs in Ireland and Greece. In this context, the textual data analysis of the EAPs, conducted in Chapter 3 of this dissertation, made important contributions. The findings of this analysis indicate that the natures of the policies prescribed by the mission in both countries were very similar, in particular with regard to their focus on reducing the role of the state and implementing expenditure cuts as the main method of achieving fiscal consolidation.

This finding was unexpected, as Greece and Ireland had been selected as case studies in order to maximise variation, representing two extreme poles of political economies under EAPs. While Ireland sought to maximise its benefits from membership of the EU through an export-led growth strategy, Greece sought to shield its domestic industries from EU competition through extensive regulation. Thus, while the two crises were highly interlinked and their timing was near simultaneous, their different underlying causes could be argued to merit different remedies.

The finding of similarity in policy input from the mission was confirmed using a different methodology in Chapters 4 to 8, namely the in-depth, comparative analysis of the structural reform agendas in Ireland and Greece. These reform agendas were disaggregated according to the five institutional areas delineated in Amable's analytical framework, which proved highly suitable to the detailed analysis of individual institutional areas and their transformation using structural reforms.

Having demonstrated the near-uniformity of reform agendas, it followed that the reason for the observable divergence in reform speeds in Greece and Ireland cannot be found in a difference of policy input from the EU level. Hence, the divergence of reform speeds must have stemmed from either the compatibility of the reform agendas with the respective pre-existing economic models or the varying degrees of political commitment to the implementation of the structural reform agendas. The second interpretation is reflected in the mission's frequent demands for the Greek national government's political ownership of the reform agenda. However, when framed in this dichotomous way, these demands appear somewhat disingenuous, as the alternative explanation for the rather sluggish reform pace in Greece would place the blame firmly with the architects of the reform agenda, the mission, and the institutions it represents and speaks on behalf of.

In order to make a definite statement about the causes of the diverging reform speeds, it was therefore vital to identify the characteristic features of the political economies of Ireland and Greece prior to the introduction of the EAPs. The VOCs approach proved to be a highly useful analytical tool to achieve this objective, as it not only permits a detailed analysis of how individual institutional settings shape national economies but also examines how these institutions influence and reinforce one another through its emphasis on institutional complementarities. Among the multitude of VOCs approaches, Bruno Amable's approach distinguishes itself from other, often better-known, approaches (like that of Peter Hall and David Soskice) through its 'holistic' approach to institutional analysis, which includes, for instance, the welfare state as a distinct area.

Prior to an evaluation of the findings produced by the comparative application of Amable's framework to individual institutional areas, it was necessary to examine which kinds of structural reforms were demanded of both countries. Here, Chapter 3 offered a strong indication of a supply-side economic policy bias. To reiterate the working definition employed here, it was framed as 'an economic theory holding that bolstering an economy's ability to supply more goods is the most effective way to stimulate economic growth'.[1218] Chapter 3 found that policies associated with supply-side economics were mentioned almost three times as frequently as policies attributed to demand-side economic policies were, with 867 mentions compared to 320. Demand-side economic policies were defined as 'based on the belief that the main force affecting overall economic activity and causing short term fluctuations is consumer demand for goods and services'.[1219]

Given the mission's stated aim to alter the 'economic model' of Greece,[1220] this supply-side bias is highly significant. When conceptualised in Bruno Amable's fivefold typology, the market-based VOC model represents the closest approximation of a purely liberal economic model with a strong supply-side bias. From this, the hypothesis that the mandated structural reforms were intended to transform Ireland and Greece into economic models that would most closely resemble that of Amable's market-based VOC was derived.

The disaggregated, comparative analysis of all five institutional areas offered strong support for this hypothesis. In Amable's framework, market-based economies are identified by a number of core characteristics, such as low level of state involvement in the economy, low employment protection, few restrictions on the use of temporary work agencies, decentralisation of wage bargaining, sophisticated financial markets, weak social protection regimes with an emphasis on poverty alleviation, means testing as the preferred method for benefit allocation, and low public expenditure on education, compensated for by a highly competitive private education sector. Figure 12 below provides a tentative overview of the accuracy of Amable's framework in predicting

[1218] Investopedia.com, accessed 10th September 2016
http://www.investopedia.com/terms/s/supply-sidetheory.asp
[1219] Investopedia.com, accessed 10th September 2016
http://www.investopedia.com/ask/answers/040915/what-demandside-economics.asp
[1220] European Commission, [Occasional Paper 61] *Economic Adjustment Programme for Greece*, European Commission, May 2010, p. 10

reform trajectories across all five institutional areas in Ireland and Greece, based on the distance between their prior models and the market-based VOC.

Figure 12: Accuracy of reform predictions

Institutional Area	Greece	Ireland
Product market	Confirmed	Confirmed
Labour market	Confirmed	Confirmed
Financial sector	Not confirmed	Partly confirmed
Social protection	Confirmed	Confirmed
Education	Not confirmed	Not confirmed

From the overview provided in Figure 12, it can be deduced that Amable's framework delineates structural reform patterns fairly accurately. The table further suggests that expected reforms did not occur in the institutional areas of education and the financial sector. This is a highly relevant finding, as the introduction of a market-based VOC model in these two areas would necessitate positive institution building, which was absent from the EAPs. The overview provided here also suggests that the mission did not design the EAPs in a sufficiently comprehensive manner, excluding two areas that, according to the VOCs approach used here, were of vital importance to the functioning of the new economic model that the mission sought to introduce, through the complementarities they provide to the remaining institutional areas.

A more detailed examination of the major structural reforms, provided in Figure 13 for Greece and Figure 14 for Ireland, reveals that Amable's framework predicts not only the areas where structural reforms were expected to occur but also the nature of these reforms, as the numerous instances of lowering state involvement, introduction or strengthening of means-tested benefit allocation, privatisation, deregulation and general reduction of welfare provisions indicate. While some of these measures can also be explained by the mission's stated intention to decrease overall expenditure levels, this does not account for the mission's insistence on introducing means testing or decentralised wage setting – measures which are in themselves fiscally neutral.

Figure 13: Reform trajectory in Greece

Institutional Area	Southern European VOC	EAP Reform Trajectory
Product market	• Moderate protection • High level of state involvement	• Extensive deregulation • Removal of state involvement through legislation and privatisation
Wage–labour nexus (labour market)	• High level of employment protection but dualism of rigid core and flexible fringe • Centralised wage bargaining • Potential for conflict in industrial relations • No active employment policy	• Extensive dismantling of employment protection • Firm-level (decentralised) wage bargaining • Wage-settling mechanism favours employer heavily • weakening of the role of labour unions

Financial sector	• Low protection of shareholders • High ownership concentration • Bank-based corporate control • Low sophistication • Limited venture capital	• Measures to stabilise financial sector • Very few permanent structural measures
Social protection	•Moderate level of protection • Expenditure structure oriented towards poverty alleviation and pensions • High involvement of the state	• Reduction of state involvement • Harmonisation of social protection • Movement towards universal means testing • Reduction of overall protection level
Education	• Low public expenditure • Low enrolment rates in higher education • Weak vocational training • Emphasis on general/transferable skills • No lifelong learning	• Very few measures overall – most are fiscally motivated • Virtually no structural alterations

The reforms undertaken in the product markets of Greece and Ireland were accurately anticipated by Amable's framework. Having identified Greece as featuring a typical Southern European product market and Ireland as an equally typical market-based VOC product market, the significantly higher reform volume in Greece matched theoretically derived expectations. Deregulation, privatisation and the opening of the so-called 'closed professions' were present in the Irish and Greek EAPs. However, they were of a much higher magnitude in the latter case, thus confirming the assertion of the uniformity of the EAPs, as well as the assumption that Greece faced a much longer reform path than Ireland did.

Figure 14: Reform trajectory in Ireland

Institutional Area	Irish VOC Pre-crisis	EAP Reform Trajectory
Product market	• Market-based VOC product market • Absence of price controls • Low regulatory level • Low-level involvement in business operation • Low level of public ownership • Few sector-specific administrative burdens • Low level of state control	• No reform price controls • Regulatory regime only saw minor adjustments (retail sector) • Privatisation, though limited success • Further reduction of sector-specific burdens ('closed professions') • Overall low reform volume
Wage–labour nexus	• Hybrid labour market with Continental	• Very few reforms relating to employment protection in Ireland

(labour market)	European and market-based VOC elements • Market-based employment protection regime: Low employment protection, extensive use of temporary work agencies, short notice periods and low unfair dismissal payments • Continental European VOC wage setting: Traditional corporatist wage setting at national level • Continental European employment policies: High public expenditure on labour market policies and high public expenditure on hiring aid	• Wage setting: most extensive reforms of three subcategories: shift of wage setting to firm level, reduction of union influence→ domestic opposition • Conflict between mission and government over active employment policies; mission withheld funding
Financial sector	• Bank-based financial system • High share of foreign banks	• Tightened regulatory oversight • Temporary fixing of loan-to-deposit ratios
Social protection	• Market-based social protection regime • Overall weak social protection regime (Ireland featured atypically high unemployment benefits) • Emphasis on poverty alleviation • Means testing for benefit allocation • Low share of expenditure on pensions and other old-age provisions • Low public expenditure on pensions and disability payments • Private funded pension system	• Focus on reduction of unemployment benefits, strengthening of job-search conditionality and means testing • Low urgency of healthcare reforms (national initiatives) • Pension reform largely absent from Irish EAP
Education	• Continental VOC education system • Emphasis on secondary over primary education	• No reform to strengthen private provision of university education took place

	• High overall expenditure on education • Developed vocational training system • Secondary education homogenous/ standardised	• Few reforms to curb expenditure level • Importance of vocational training schemes reduced • No additional funding to strengthen lifelong learning initiatives

The comparison of the Greek and Irish labour markets was highly instructive, as Ireland was characterised as a hybrid case, featuring two institutional subcategories, which most closely resembled that of the Continental European VOC, whereas its low employment protection level resembled a market-based VOC. In order to support the hypothesis that the diverging reform speeds depended on the pre-existing VOCs, reforms would have had to primarily occur in the area of industrial relations and employment policies, which they did. In addition to predicting the focus of the EAP reforms in this area, Amable's framework predicted the nature of these reforms. Market-based VOCs typically feature decentralised modes of wage setting and passive employment policies. In line with the introduction of a market-based labour market, the mission promoted a shift towards firm-level wage setting and proved reluctant to grant funding for active employment policies.

In Greece, the expectation that the EAP would focus on reducing the high level of employment protection that characterises the Southern European VOC and on promoting decentralised wage setting was confirmed. In the subcategory of employment policy, an important parallel between the Southern European and market-based VOCs emerged: they both favour passive employment policies. The finding that reforms in this subcategory were largely absent thus lent strong support to the hypothesis that the ultimate goal of the structural reform package was the introduction of a market-based VOC.

In the financial sector, the application of Bruno Amable's framework proved least fruitful. His analysis places Ireland and Greece in loose and ill-defined clusters with few shared features. In addition, the fact that Amable's research was conducted more than a decade ago is nowhere more apparent than in this instance. While Greece would most likely still be identified as a bank-based financial system, Ireland has undergone fundamental changes since then. During the EAPs, few permanent structural measures were undertaken in either country. However, some of the temporary measures in Ireland seemed to not only be incompatible with the expected measures based on Amable's framework but also seemed to run in the diametrically opposed direction, such as the temporary fixing of loan-to-deposit ratios. This could be understood as an incomplete reform agenda by the Troika, but the analysis conducted in this chapter also demonstrated that Amable's analytical framework fails to give due consideration to the importance of regulatory frameworks. Quantitatively, regulatory frameworks are captured in Amable's framework by only one composite indicator out of a total of 121 indicators for the financial sector.

Qualitatively, this lack of emphasis on regulatory frameworks might have deeper theoretical roots. The emphasis on long periods of continuity led the pioneers of the VOCs approach, Peter Hall and David Soskice, to assert confidently: 'financial deregulation could be the string that unravels coordinated market economies'.[1221] This assessment appeared to hold true in the period after the publication of their seminal work and before the onset of the crisis.

[1221] P. Hall and D. Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,* Oxford University Press, Oxford, 2010, p. 64

However, given the recent economic crisis and its underlying causes, it appears that the large, deregulated and sophisticated financial markets that typically feature in market-based VOCs and that are lauded by Amable for their ability to 'enable a quick reaction to opening markets and favour industrial dynamism'[1222] prove to be a decided weakness and source of economic vulnerability in times of crisis. By not considering the entire economic cycle of a capitalist economy, including periodic crises, Amable's analytical framework contains a bias in favour of a market-based VOC. It will be important for future research using the VOCs approach to recognise that market-based economies / LMEs often feature institutional settings in the financial sector that can amplify the effects of crises, particularly when preceded by a long period of economic stability.

The design of welfare state reforms in Greece and Ireland was again remarkably similar. Emphasis on means testing as the preferred method for benefit allocation, reduction of state involvement and poverty alleviation as the principal aim of the welfare state were core policies in both case studies. Ireland, already classified as a market-based social protection regime prior to the crisis, was faced with an overall moderate reform volume that focused heavily on the reduction and reform of unemployment benefits, which were found to be marginally more extensive than necessary. Greece had moderate levels of social protection at the onset of the crisis, with a particular focus on relatively generous pension provisions. The removal of these pension provisions became the immediate priority for the mission. This can again be conceptualised in VOCs terms, as a market-based VOC is characterised by low pension provisions by the government and heavy reliance on private provisions. The opposite is true for the typical Southern European VOC, which is typically the most generous VOC in terms of pensions. Thus, the mission's focus on the sub-area of pensions and how it was to be reformed was well predicted by Amable's VOCs approach.

In the last institutional area of education, the overall reform volume was the lowest of all institutional areas examined in this thesis. In Greece, the very few reforms relating to education were necessitated by reforms in other areas, such as the introduction and consequent enforcement of the five-to-one rule, whereby only one new civil servant can be employed for each five that leave. Even within the very low overall reform volume in this institutional area, the reforms that were introduced were not along the lines expected by Amable's VOCs framework. In Ireland, no attempt to diversify its highly standardised secondary education system took place, and in neither country was there an effort to significantly strengthen lifelong learning initiatives.

When the findings of the institutional-area-specific chapters (Chapters 4–8) are examined in light of the overarching aim of this dissertation, it becomes clear that the diverging reform speeds in Greece and Ireland can indeed be conceptualised through the differences in the pre-crisis VOC models of the countries. Ireland constituted a hybrid VOC model at the onset of the crisis, containing market-based VOC elements, such as in the institutional areas of the product market, the financial sector, the subcategories of employment protection legislation and wage setting within the labour market, and its welfare regime. Where Ireland featured elements typical of a Continental European VOC, as was the case for Irish employment policies and industrial relations, conflict between the Irish authorities and the mission did occur. This led to frequent delays in the implementation of structural reforms and occasionally to their incomplete implementation. The institutional area of education was a special case in this context, as this area barely featured at all in the overall reform agenda and thus did not trigger significant domestic opposition.

Amable's framework highlights the fact that the overall reform volume necessary for the successful introduction of the uniformly prescribed market-based VOC model was significantly higher in Greece than in Ireland. As Figure 1 (page 14) indicates, Greece's pre-crisis VOC model, the Southern European VOC model, found itself at the polar opposite of the intended outcome of the

[1222] B. Amable, *The Diversity of Modern Capitalism*, Oxford University Press, Oxford, 2009, p. 108

structural reform agenda of the EAP: the market-based VOC. Greece was very close to the ideal-typical Southern European VOC, with only minor deviations. It follows from this that the number and scope of structural reforms, as well as the political costs associated with their implementation, would have to be much higher than in the case of Ireland, and the analysis confirmed this.

In light of these findings, the mission's continuous demand for more political ownership of the reform agenda appears misguided. Considering the vastly greater effort needed to bring about the successful shift from Greece's pre-crisis Southern European VOC model towards a market-based VOC, coupled with the incomplete reform agenda, leaving out the financial and education sectors, the lack of political ownership of the reform agenda by various Greek governments appears to be a logical outcome, rather than a cause for the slow pace of reforms. The lack of political ownership of the reform agenda in Greece should thus be understood as recognition by Greek officials of the greater uncertainty surrounding the implementation of the reform agenda and the greater political costs associated with doing so.

Thus, the emphasis on institutional continuity over change inherent in the VOCs approach proved to be a valuable theoretical tool in highlighting the difficulty associated with altering the economic model of a country, which the mission appears to have severely underestimated. At the same time, it makes explaining radical change very difficult. In this respect, the schematic provided by Streeck and Thelen[1223] fills an important gap in Amable's analytical framework, as it moves beyond the linear understanding of structural reforms as a purely technical process and introduces an element of political choice.

According to their schematic, when faced with an abrupt exogenous shock, such as an economic crisis, governments can either opt to attempt to sustain their VOC models through a strategy labelled 'survival and return', where governments attempt to sustain the pre-crisis economic models by making minor concessions to the crisis imperative in order to survive the crisis, or governments can opt for 'breakdown and replacement'. In the latter case, the pre-crisis model is jettisoned and substituted by a new VOC model.

This accurately delineates the choice for the Greek government at the onset of the crisis, and there is some evidence that it chose the 'survival and return' option, perhaps misjudging the commitment of the mission to the reform agenda, as Featherstone suggested in an interview. However, given the extensive costs and uncertain rewards associated with implementing the reform agenda to the letter, the choice of 'survival and return' appears to be a rational one. The analysis based on Amable's framework shows the choice faced by Ireland in a very different light: as the Irish hybrid VOC contained already vital elements of the market-based VOC model, it was a question of abandoning the remaining elements of its Continental European VOC in order to adopt a clear-cut market-based VOC.

Comparing the findings of the chapters of this thesis, there is overall strong support for the hypothesis that the diverging reform speeds in Greece and Ireland can be explained through pre-existing differences in the institutional settings of the countries. The relatively uniform application of a 'best practice' set of structural reforms with very little consideration for the institutional features of the country in question was instrumental to Ireland's more successful reform implementation, as the country's institutional setting was already much closer to the market-based VOC model.

Yet, this thesis also showed that a holistic understanding of the EAPs and the national responses to them cannot be achieved with Amable's VOCs framework alone. By neglecting the political

[1223] W. Streeck and K. Thelen, *Beyond Continuity: Institutional Change in Advanced Political Economies,* Oxford University Press, Oxford, 2005, p. 9

dimension associated with the national governments' responses to the reform demands of the mission, our understanding of the EAP reform process would become too mechanistic. Here, Streeck and Thelen's schematic provides a useful addition, which, in addition to accounting for political choice, can theoretically account for externally mandated change. In combining the two strands of VOCs literature, we can, therefore, carry out fine-grained analyses of change in institutional areas (as demonstrated by Amable) *and* take into account governments' responses to external shocks (as demonstrated by Streeck and Thelen), uniting the key analytical strengths of both strands.

In this way, this thesis makes an important contribution to VOC research, as it permits the extension of the scope of VOC approaches to the study of countries undergoing structural reforms under conditions of severe crisis. It has further demonstrated that VOC approaches need to pay more attention to regulatory systems in the financial sector than this has been the case thus far. By neglecting the systemic risks and periodic crises such 'light-touch' regulatory approaches can entail, Bruno Amable's VOC approach contains a bias in favour of market based VOC models. The inclusion of additional indicators measuring regulatory stringency, as suggested in Chapter 2 could address this bias.

In addition to providing an explanation for diverging reform outcomes, the VOCs approach employed in this research project can also be used to understand an internal contradiction inherent in the EAPs: the findings suggest that the ideal outcome of the reform agenda from the point of view of the mission would be the introduction of a market-based VOC. However, research undertaken by Peter Hall reveals that out of the countries in his OECD sample, Ireland was the only country classified as an LME in the dichotomous framework with a positive trade balance.[1224]

However, as shown in the institutional-area-specific chapters of this dissertation, this apparent outlier is explained by the fact that Ireland was not an LME (a market-based VOC, in Amable's terminology) but rather a hybrid case containing only elements of a market-based VOC. Here, Amable's more detailed fivefold typology offers important insights that Hall and Soskice's model cannot and does not provide. A closer look at which elements Amable identifies as belonging to the Continental European VOC is highly instructive in explaining Ireland's 'Celtic Tiger' period success in pursuing an export-led growth strategy: its well-educated workforce displayed a high degree of standardisation, and the corporatist wage-setting mode allowed for wage moderation and the pursuit of relatively active employment policies, which permitted the fast retraining of skilled workers.

From this perspective, the reform measures prescribed in the EAP for Ireland might actually have been counterproductive to a successful revival of the Celtic Tiger. Christian Schweiger, among others, points to Ireland's dependence on exports as a potential weakness of the Irish growth model,[1225] as its export-led growth model always implies a dependency on demand in the countries that Ireland exports to, such as the US. This makes the Irish economy vulnerable to external crises, as the most recent economic crisis demonstrated. The EAP in Ireland amounted to a systematic dismantling of elements that could cushion the impact of such crises on the Irish population, such as the welfare state. This is concerning when correlated to the increased vulnerability to crisis stemming from a lightly regulated financial sector.

While Ireland was transformed into a clear-cut market-based VOC model from its previous hybrid model, the reverse is true in the case of Greece. Due to the lower compatibility of the Greek pre-crisis VOC model, its perhaps less than whole-hearted commitment to the reform agenda and the

[1224] P. Hall, 'Varieties of capitalism and the euro crisis', *West European Politics*, vol. 37, no. 6, 2014, pp. 1223-1243

[1225] C. Schweiger, *The EU and the Global Financial Crisis: New Varieties of Capitalism*, Edward Elgar, Cheltenham, 2014, p. 153

(compared to Ireland) substantially longer path towards introducing a market-based VOC, Greece now finds itself in a hybrid state somewhere between market-based and Continental European VOCs. Complementarities between institutions are likely to be only marginal, so that in the medium to long term, Greece is likely to be better served by either reverting back to its Southern European VOC model, albeit in a modified form, or by continuing towards a market-based VOC. Politically, of course, these options are also tied to the decision to remain in or leave the single currency.

It can therefore be summarised that in addition to identifying the EAP reform agendas as incomplete and fraught with internal contradictions, Amable's VOC framework also provides an important critique on the perceived conceptual ease with which the mission assumed a nation's economic model could be transformed. In part, this misconception by the mission could have been driven by the conviction that internal devaluation, the cutting of supply-side costs in the economy, would in itself go a long way in restoring competitiveness,[1226] so that, in the words of a senior member of the Task Force for Greece, 'very little thought, serious thought, was given to the growth model for Greece'.[1227] Amable's VOCs approach correctly identified these weaknesses in the design of the EAP and thus proves to be a highly suitable tool for accurately explaining not only periods of institutional stability but also abrupt and fundamental change.

It also has important policy implications. When placed in a broader context, the findings of this thesis suggest that the success of structural reforms imposed on a member state of the EU crucially depends on the compatibility of that country's economic model with the policy input provided by the EU. The evidence provided in this dissertation for the claim that there is no such thing as a 'best practice' structural reform has truly far-reaching implications for the EU's handling of future crises.

In the absence of a single 'best practice' approach suitable to all countries in economic difficulty and forced to apply for an EAP, the secondary function of the EAPs, namely to promote harmonisation across EMU countries, can also be called into question. It would therefore seem sensible that future EAPs take note of the country specific circumstances and identify a suitable growth model for this country. The structural reforms mandated in the EAP should then closely reflect the requirements of such a growth model. Even under those circumstances, it is important to point to the enormous difficulty associated with shifting from one VOC to another, which would suggest that a successful future programme would have to build, wherever possible, on pre-existing institutional settings. In a broader sense, one may question the wisdom of attempting to promote harmonisation in crisis countries, as an EU where every country pursues an export-led growth strategy for instance would inevitably face difficulties.

A closer examination of the Greek EAPs in particular reveals that expectations regarding the swiftness and social costs associated with structural reforms were severely underestimated. The specific contribution of this thesis to the understanding of past and improvement of future EAPs would be to consider the potentially large political costs associated with implementing the programmes fully. Particularly in programmes where institutional complementarities are absent due to poor programme design and internal consistency, political commitment to the process can be uncertain. It would therefore be advisable to propose some form of debt relief in exchange for reform implementation. The empirical evidence from Ireland also showed that cross party political consensus is vital for successful programme implementation and such a consensus would also be promoted by the prospect of debt relief.

[1226] European Commission, [Occasional Paper 61] *Economic Adjustment Programme for Greece*, European Commission, May 2010, p. 12
[1227] Georges Siotis, senior economic advisor, Task Force for Greece, interviewed by Benjamin Klos, 2015

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