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1

Introduction

1.1 The focus of the book

The European Union (EU) plays an increasingly important part in the political and economic life of its member states. Indeed, this fact has been recognized by the new attention given to processes of 'Europeanization'. Somewhat akin to 'globalization', Europeanization represents a seemingly pervasive but variable intrusion of an external dimension into domestic systems. The dividing line between the EU and domestic politics is thus blurred. The relevance of the EU to the policies and public debates witnessed at the domestic level is evident, for example, from the attention given to the single European currency, the euro; the authority exercised by the EU Commission on mergers and acquisitions and against state aids; the development funding provided to poorer regions of the EU; the relevance of the EU to sensitivities on asylum and migration issues; and the contrast between reported policy splits and the aspiration to a 'Common Foreign and Security Policy'.

'Europeanization' testifies to the capabilities of the EU. It is not only a matter of how the EU impacts on domestic systems – setting laws, creating obligations – but also of how national governments seek to shape the agenda of the EU as a whole, inserting their interests and preferences into common policies and understandings. In other words, the relationship between a member state and the EU is two way: ideas and pressures flow in both directions, shaping the politics and economics of each other. Indeed, the relationship takes on further interest; the EU is more than the sum of its parts, given that its institutions and processes mediate and shape agendas and outcomes in a distinctive manner. National actors participate in a structured environment and in one that

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affects their strategies and ideas. These complex features define the EU system of governance.

But what is the *reach* of the EU's system of governance? How *effective* is it in steering and shaping the major policies found across its member states? What are the *limits* to Europeanization? Why do EU stimuli sometimes lead to domestic *change*, but at other times have little effect? These questions are at the heart of this book.

It can be tempting to identify the impact of 'Europeanization' in a wide variety of areas and settings. To some, the limits of Europeanization may seem boundless. New drinking habits, a change of identity in football, the historic movement of ethnic groups, and a shift in ideology – each of these topics has been explained by prime reference to the term (Featherstone and Radaelli, 2003). Yet none has any significant, direct connection with the politics of the EU. The meaning of 'Europe' here is much wider and non-institutional. Where the direct connection with the EU is stronger – as with compliance with an EU legal obligation, such as a 'directive' – the type of impact at the domestic level is more readily discernible. Though even here the process of explaining, let alone predicting, domestic change as a result of the EU obligation is far from straightforward (e.g. Haverland, 2003). More challenging still are the areas where the power of the EU to act is less clear. A government announcing the privatization of a state-owned enterprise or the adoption of a new welfare policy, or a government urging the need to make employment patterns more open and flexible – each of these moves may be ascribed politically to the EU, but the reality is of varying competences and instruments available to the EU to act. In the social sciences, explanation depends on identifying a cause and effect relationship. Claims of 'Europeanization' need to meet these same tests; they cannot settle for presumed impacts.

This book explores the impact of the EU across areas where the power of the EU to act varies. It is set in the general context of the EU's plan of 'structural reform' enunciated in its 'Lisbon programme' of 2000. At a meeting of the 'European Council' – of heads of government/state – in Lisbon that year, the EU set itself a new mission for the period up to 2010. It declared:

The Union has today set itself ***a new strategic goal*** for the next decade: *to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion* [emphasis in original].

(European Council, 2000a: 2)

The Lisbon Programme elaborated a set of priorities, mixing economic liberalization, sound finances, and social solidarity. The key themes were a European area for research and innovation, a more friendly environment for small business, efficient and integrated financial markets, education and training for the knowledge society, a fully operational internal market, the sustainability of public finances, an active employment policy, modernizing social protection, and promoting social inclusion. A set of ambitious targets was set to underscore the programme. Subsequent progress was disappointing, however. By 2005, while economic growth in the EU was sluggish at 1.6%, in the USA growth was more than double at 3.6%. Whereas at Lisbon bold employment targets had been set, unemployment in France and Germany remained at around 10%. In response to these problems, the European Council updated the programme in 2005 (European Council, 2005).

The Lisbon Programme recognized that the goals being set were ones where the EU had only limited competences. The European Council did not seek to extend the powers of the EU institutions to fill the gaps. Instead, it placed them in the context of a system of policy coordination, embracing the national governments and the Commission. The Lisbon Council declared that

Implementing this strategy will be achieved by improving the existing processes, introducing a *new open method of coordination* at all levels, coupled with a stronger guiding and coordinating role for the European Council to ensure more coherent strategic direction and effective monitoring of progress. A meeting of the European Council to be held every Spring will define the relevant mandates and ensure that they are followed up¹ [emphasis in original].

(European Council, 2000a: 2)

The 'Open Method of Coordination' (OMC) process tackled the programmatic objectives on the basis of a benchmarking of national progress and a system of mutual learning, sharing good practice, etc. The OMC involves a wider range of bureaucratic and technocratic actors – national government and Commission officials along with some civil society actors such as the social partners (unions and employers), NGOs, and local and regional authorities – but it has been criticized for its lack of transparency and low public profile.

In any event, the strategy behind the Lisbon Programme had a vulnerable character: to its critics, it involved soft policies and soft processes. The rhetoric was ambitious and general, but the substance

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lacked authority to oversee its implementation across the EU. There were many objectives, but little that was binding. The politics of EU-level exhortation replaced the legal constraint of treaty commitments or legislative directives. To its supporters, the Lisbon Programme and the OMC were the best attempts to bring the EU closer to the needs and aspirations of Europe's citizens, tackling core issues of growth, jobs, IT, social protection, and adaptation to a new global economy. Rather than involving yet another institutional reform, it focussed in a pragmatic manner on policy learning in key areas.

By focussing in the main on the Lisbon Programme of structural economic reform and its concomitant OMC, this book defines a severe test for assessing the domestic relevance of 'Europeanization'. As an area of soft instruments to support non-enforceable policy goals, the stimulus to domestic reform is weaker than where the EU acts on the basis of treaty competences and legislative directives. Actors at the national level could not benefit from the kind of external empowerment that marked the binding convergence criteria that governed entry into the 'euro' single currency (Featherstone, 2004). If Lisbon could be shown to be central to a domestic reform process, then 'Europeanization' is indeed a credible hypothesis here.

At the same time, the cases covered in the book combine 'soft' instruments with some aspects of 'hard law'. The book comprises three empirical case studies: pension reform, labour market reform, and the privatization of a national airline. The first two were affected by the 'hard' constraint of Greece seeking to meet the Economic and Monetary Union (EMU) entry criteria. In addition, both were linked to the Lisbon Programme of adapting the social model and creating a more competitive economy and its 'soft' instruments of implementation. Privatization cuts across several agendas and involves both 'hard' and 'soft' EU interventions. The liberalization of the single European market and the anti-state aid strictures of the EU's competition policy created new and severe regulatory constraints on state monopolies. At the same time, the policy signals emanating from the Commission urged governments to pursue liberalization to the full, shedding inefficient state enterprises to the private sector. There was an implicit link to the Lisbon stress on competitiveness.

The combination of these three sectoral case studies thus provides a varied range on which to assess the reach of the EU's broad agenda on reform. The case studies have been chosen to reflect a variety of EU instruments across policy sectors – many sectors incorporate different types of instruments – and because they each relate to so-called

supply-side reforms. As a part of an agenda of economic and social 'modernization', they serve to test the reform capacity of a member state such as Greece in such areas, when the latter is challenged by EU stimuli of varying types. The analytical framework of 'Europeanization' will be explored in Chapter 2.

1.2 Why this case?

This book has selected a member state for study that represents a 'critical case' for the Europeanization hypothesis in this context: Greece. A critical case is one where it can be asserted that if the hypothesis is not valid for this case, then it is unlikely to apply to other cases (Flyvbjerg, 2006; Eckstein, 1975). Greece can be regarded as a 'least likely' case in relation to structural reform: the prevailing domestic conditions contrast markedly with the Lisbon Programme; it has a tradition of 'statism' in the economy; and its pension system has been distorted by entrenched domestic interests. Indeed, historically, successive Greek governments have struggled to achieve significant reform in the key areas of structural reform. If the following case studies show significant domestic impacts as a result of the EU stimuli, then this would validate that the EU has 'teeth' when it acts in these areas. Either way, the Greek case will provide important causal insights, whether it tends to confirm or falsify the 'Europeanization' hypothesis (Brady and Collier, 2004: 283).

The choice of policy sectors can be revealing in the Greek case. Over the last decade or more, Greece has enjoyed greater success than most of her EU partners with respect to macroeconomic growth. Yet progress on 'supply-side' economic reforms and on the 'modernization' of social provision has proved difficult. The three case studies analysed here – of pensions, labour market reform, and privatization – will clarify the politics of the relevant processes, indicating the mix of power and interests to determine policy outcomes in these sectors. They will reflect, at one level, the politics of *who gains* from the macroeconomic success, in defending their interests, though this is more a result of inertia than collective choice.

More generally, Greece is an EU member state that has had a reputation for being the 'black sheep' – standing aside from common declarations on foreign policy, failing to meet agreed targets, and misusing EU funds. Further, it has had one of the poorest records in implementing and upholding EU legislation.² Table 1.1 shows the infringement proceedings undertaken against the 15 longer-term members of the EU (EU 15) from 1980 to 2005. Over this period, Greece has consistently been

Table 1.1 The number of established infringements – classified by the stage of proceedings and the member state

	Letters of formal notice					Reasoned opinions					Referrals to Court							
	'80	'85	'90	'95	'00	'05	'80	'85	'90	'95	'00	'05	'80	'85	'90	'95	'00	'05
BE	34	68	67	80	92	68	10	37	29	19	34	33	8	23	13	6	5	7
DA	15	27	35	42	54	37	2	4	5	1	7	6	1	2	3	0	0	2
DE	14	29	61	92	63	63	3	17	20	25	40	27	1	9	5	10	11	12
EL	*	69	121	113	115	104	—	30	39	26	35	70	—	10	10	12	23	18
ES	—	—	114	81	93	73	—	—	15	15	32	35	—	—	3	6	8	6
FR	34	93	76	97	110	77	10	36	17	17	43	48	4	14	6	6	27	12
IE	25	33	52	67	91	54	5	10	17	3	27	28	1	9	3	6	17	9
IT	39	70	110	114	118	136	19	61	58	36	50	93	11	31	24	17	24	34
LU	26	37	43	71	78	75	5	16	14	9	40	49	2	6	4	3	16	18
NL	21	48	61	59	64	57	7	11	20	4	16	20	—	4	2	0	12	9
AT	—	—	—	4	85	59	—	—	—	0	33	22	—	—	—	0	8	9
PT	—	—	176	115	120	85	—	—	11	22	46	65	—	—	2	4	10	6
SE	—	—	—	0	72	48	—	—	—	0	13	18	—	—	—	0	3	6
FI	—	—	—	0	63	59	—	—	—	0	14	21	—	—	—	0	4	10
UK	19	29	44	77	70	60	7	11	6	15	30	22	—	5	2	2	4	7
EU 15	227	203	960	974	1317	1055	68	233	251	192	460	561	28	113	77	72	172	165

Sources: (1) European Commission (2006b), *Document de Travail des Services de la Commission. Amex au 23eme Rapport Annuel de la Commission Sur le Controle De'l Application Du Droit Communautaire (2005)*, COM (2006) 416 Final, SEC (2006) 1005, Brussels 27 July 2006; (2) European Commission (2005a), *22eme Rapport Annuel Sur le Controle De'l Application Du Droit Communautaire (2004)*, *Document de Travail des Services de la Commission Annexes Statistiques Annexe au COM (2005) 570*, SEC (2005) 1447, Brussels 23 December 2005; (3) European Commission (1999a), XVIIth Report on Monitoring the Application of Community Law, COM (1999) 301 Final, 9 July 1999; (4) Commission of the European Communities (1986), *Third Annual Report to the European Parliament on Commission Monitoring of the Application of Community Law – 1985*, Official Journal of European Communities, C 220, 1 September 1986; (5) Commission of the European Communities (1992), *Ninth Annual Report on Commission Monitoring of the Application of Community Law – 1991*, Official Journal of European Communities, COM (92) 136 Final, 12 May 1992.

*Greece joined the EC in 1981; by 1983 it had 26 letters of formal notice, 4 reasoned opinions, and 2 references to the Court of Justice.

among the worst two or three offenders in not implementing or following EU laws. Table 1.2 shows the relative delays in transposing the internal market legislation of the EU by member states. Here, the Greek record has fluctuated significantly: in 1997 it scored relatively well, but in 2000 it was the worst performer by far, then improvement in 2003 was followed by Greece being one of the three worst performers in 2006. More relevant here have been the evident problems experienced by Greece in implementing the Lisbon Programme. By June 2005, Greece ranked twenty-fourth in the EU 25 in the transposition of the Lisbon Programme directives, with just 66.7% transposed. Table 1.3 represents the full data of the EU Commission's report of 2004. It indicated that Greece had the second-lowest score on labour productivity and the employment rate in the EU 15, the lowest investment in Research and Development (as percentage of GDP); the second highest at-risk-of-poverty rate and long-term unemployment. In December 2006, the EU Commission reported that Greece 'is making limited progress in the implementation of its National Reform Programme' (European Commission, 2006a: 44). Specifically, 'Regarding governance, better coordination and stronger ownership among administrative levels is needed' (European Commission, 2006a: 44). While it noted good progress in the consolidation of public finances and other areas, it listed the high-priority areas for reform as the pension system, public administration, employment participation, unemployment and undeclared work, employment protection and labour mobility, and the quality of education and training (European Commission, 2006a: 45). The list touched on the foci of the case studies presented here, confirming Greece as a critical case and posing the question of what has happened to the reform attempts. Across the various sets of indicators, the Greek record suggests a major problem in state administration and reform capacity.

On the other hand, the long-term trend of public opinion in Greece has displayed one of the highest levels of support for further European integration. Table 1.4 shows the exceptional levels of public support in Greece for the EU. Accession and early membership of the EU were controversial domestically, but in 1990, 1995, 2000, and 2005 the Greek public were consistently among the top two or three in Europe in their belief that membership had 'benefited' their country. Similarly, Table 1.5 shows that in the same years Greek voters were among the highest in Europe believing that EU membership had been a 'good thing'. Again, Table 1.6 indicates that Greek support for the single currency was well above the EU average in 1990, 1995, and 2000. The introduction of

Table 1.2 Transposition deficit of internal market legislation (per cent)

Country	1997	2000	2003	2006
AT	10.1	3.6	3.4	1.4
DE	8.5	3.6	3.0	1.8
BE	8.5	3.1	1.8	2.0
IT	7.6	3.4	3.9	3.8
GR	7.5	7.3	3.3	3.8
FR	7.4	5.2	3.3	1.9
LU	6.5	4.6	3.2	3.8
SK	6.2	1.5	1.0	1.4
PT	5.9	6	3.7	3.7
IRL	5.4	4	3.5	2.0
ES	4.7	1.5	1.2	1.7
UK	4.6	3	1.5	1.3
FIN	4.3	1.4	1.0	1.5
NL	3.5	3	2.0	1.5
DK	3.2	2	0.6	0.5

Sources: (1) European Commission (2006c), Internal Market Scoreboard No. 15, July; (2) European Commission (2003a), Internal Market Scoreboard No. 12, May; (3) European Commission (2000a), Single Market Scoreboard No. 6, May; (4) European Commission (1997), Single Market Scoreboard No. 1, November.

the 'euro', however, led to a significant public backlash. In 2005, only 46% of Greeks were recorded as being in favour of the currency, well below that recorded elsewhere.

In the same period, there was some evidence of a new, though limited, 'euroscepticism' in Greece. Archbishop Christodoulos of Athens – a new and populist figure on the domestic scene, who was to provoke strong reactions from supporters and opponents alike – had launched a strident campaign suggesting that 'Europe' was encroaching on Greek 'identity'.³ In 2000, his opposition to a revision of the Greek identity card – where it was proposed to remove a question about religious identity and it had been claimed that this was required by the EU⁴ – produced a petition of over three million signatures. A new 'eurosceptic' party also emerged (LAOS: Popular Orthodox Rally/ΛΑ.Ο.Σ: Λαϊκός Ορθόδοξος Συναγερμός), with its leader George Karatzaferis winning a seat in the European Parliament in June 2004. The latter remained fringe, with both the major parties being overwhelmingly pro-EU. Indeed, this was evident in the trouble-free ratification of the EU Constitution by the Greek Parliament on 19 April 2005, which produced a majority of 268 to 17 votes.

But what this evidence suggests is a differentiated profile of Greek membership of the EU. Thus, general patterns appear in the limits to

Europeanization in Greece. The state administration is weak in implementing and upholding EU commitments. Within government and between government and other domestic actors there is a political struggle over the adaptation to EU policies, especially where there are distributional issues involved. More widely, there is a cultural resistance concerning national identity, traditions, and habits. To some extent this is a matter of cultural pride in the Greek 'way' and is based on distinct social values of heritage, reciprocity, and loyalty. Resistance involves both sectional interests and cultural choice. Yet, at the same time, the major parties and the majority of the public are strong and consistent supporters of the development of the EU. It is a profile of contradictions: in crude terms, the Greek system welcomes 'Europe' for its political and resource advantages while sustaining barriers to its legal, economic, and cultural adaptation. The profile contrasts self-confidence about Greece's place in Europe with a sense of vulnerability on matters of policy substance and a defensiveness about the Greek way of 'doing things'.

It is this differentiated profile that makes Greece such an interesting focus for this study. There is clear evidence of political will to engage with the EU. Yet the record suggests significant problems of administrative and reform capacity when doing so. If the EU's structural reform agenda (notably, the Lisbon Programme) have a significant effect on Greece, then this would be a strong endorsement of their domestic reach, penetrating a system that has shown resistance. Beyond this, the policy case studies question the governability and membership of a national system that seemingly struggles to deliver. More generally, they have significant implications for the EU's sense of purpose in managing economic reform.

1.3 The domestic political context

The historical period discussed in this book mainly covers the period from 1996 to late 2007. The period began with the premiership of Costas Simitis between 1996 and 2004. The election of Simitis as leader of PASOK (Pan-Hellenic Socialist Movement / ΠΑΣΟΚ: Πανελλήνιο Σοσιαλιστικό Κίνημα) and his appointment as Prime Minister, both in 1996, represented a major turning point in Greek politics. His personality and political platform, both represented a significant change. The hugely charismatic, and populist, Andreas Papandreou was the founder and leader of the party after the fall of the Colonels in 1974 and had served as Prime Minister for 11 years (1981–9; 1993–5). PASOK had been

Table 1.3 Relative performance of the 15 member states according to the structural indicators on the Lisbon Programme shortlist

Levels	AT	BE	DE	DK	ES	FI	FR	GR	IE	IT	LU	NL	PT	SE	UK	EU15	
GDP per capita in PPS (EU 15 = 100)	2003	110.9	106.5	99.3	112.6	87.3	101	103.5	73.5	121.9	98.4	186.5	109.4	69.2	101.4	108.7	100
Labour productivity (EU 15 = 100)	2003	97.9	118.5	95.7	98.3	95.7	100.1	113.6	91.8	120.4	106	129.7	95.6	63.8	96.1	97	100
Employment rate (%)	2002	69.3	59.9	65.3	75.9	58.4	68.1	63	56.7	65.3	55.5	63.7	74.4	68.2	73.6	71.7	64.3
Employment rate of older workers (%)	2002	30	26.6	38.6	57.9	39.7	47.8	34.8	39.7	48.1	28.9	28.3	42.3	50.9	68	53.5	40.1
Educational (20-4) (%)	2003	85	81.1	73.3	74.4	63.4	86.2	81.1	81.7	85.7	69.9	69.8	73.3	47.2	85.6	78.2	74
Research and Development expenditure (% of GDP)	2002	1.9	2.2	2.5	2.4	1.0	3.5	2.2	0.6	1.2	1.1	1.7	1.9	0.8	4.3	1.8	2.0
Business investment (% of GDP)	2002	20.9	18.3	16.9	17.8	21.8	16	16.4	20.1	17.7	17.8	17.9	17.4	21.6	13.5	15	17.2
Comparative price levels (EU15 = 100)	2002	102	99	104	131	82	123	100	80	118	95	100	102	74	117	107	100
At-risk-of-poverty rate (%)	2001	12.0	13.0	11.0	11.0	19.0	11.0	15.0	20.0	21.0	19.0	12.0	11.0	20.0	10.0	17.0	15.0

Long-term unemployment	2002	0.8	3.5	4	0.9	3.9	2.3	2.8	5.1	1.3	5.3	0.8	0.7	1.8	1	1.1	3
Dispersion of regional employment rates	2002	2.4	8	5.9	n.r.	9.2	7.8	6.2	4.2	n.r.	16.6	n.r.	2.2	3.9	4.6	6.6	12.6
Greenhouse gases emissions (Index base year = 100)	2001	110	106	82	100	133	105	100	126	131	107	56	105	136	97	88	98
Energy intensity of the economy	2001	146	228	168	125	227	263	189	261	161	188	191	201	238	229	225	194.2
Volume of transport	2002	120	100	102	85	137	95	96	127	133	103	110	97	126	90	85	102.4

Source: European Commission (2004a), Report from the Commission to the Spring European Council: Delivering Lisbon, Reforms for the Enlarged Union, p. 61.
Notes: (1) The analysis of the comparative price levels takes into account the relation between GDP per capita and comparative price levels; (2) The analysis of greenhouse gases emissions is based on the distance-to-target indicators for the Kyoto Protocol and burden-sharing targets of the EU member states; (3) n.r. stands for non-relevant.

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Table 1.4 Attitudes towards EU/EC membership 1980–2005 (per cent)
I feel that my country has benefited from EU membership

Country	1985	1990	1995	2000	2005
LU	69	72	73	70	75
IRL	67	84	87	86	86
NL	67	75	68	61	61
IT	70	65	52	49	49
GR	42	78	72	72	67
EC 12	53	58	—	—	—
EU 15	—	—	46	47	—
EU 25	—	—	—	—	52

Sources: (1) European Commission (1985a), Eurobarometre No. 24, December; (2) European Commission (1990), Eurobarometer No. 34, December; (3) European Commission (1995), Eurobarometer No. 43, Autumn; (4) European Commission (2001), Eurobarometer, No. 54, April; (5) European Commission (2006d), Eurobarometer No. 64, June.

Table 1.5 Attitudes towards EU/EC membership 1980–2005 (per cent)
I think EC/EU membership is a good thing

Country	1985	1990	1995	2000	2005
LU	83	76	80	79	82
IRL	53	76	79	75	73
NL	77	82	79	71	70
IT	72	77	73	59	50
GR	45	75	63	61	54
EC 12	57	69	—	—	—
EU 15	—	—	56	50	—
EU 25	—	—	—	—	50

Sources: (1) European Commission (1985b), Eurobarometer No. 23, June; (2) European Commission (1990), Eurobarometer No. 34, December; (3) European Commission (1995), Eurobarometer No. 43, Autumn; (4) European Commission (2006d), Eurobarometer No. 64, June; (5) European Commission (2001), Eurobarometer, No. 54, April.

moulded in his image and had adapted according to his direction. By 1995, however, his ill health meant that his demise was inevitable. After some delay, he resigned as Premier on 15 January 1996 (and died later on 22 June 1996), leaving the stage he had dominated. A few days later, on 18 January, Simitis defeated his rivals in a contest for the premier-ship. Simitis was the candidate that offered the greatest prospect for change. Akis Tsochatzopoulos and Gerasimos Arsenis were both, in varying ways, associated with the populist and clientelistic traditions of

Table 1.6 Support for single currency (per cent)

Country	1990		1995		2000		2003		2005	
	For	Against	For	Against	For	Against	For	Against	For	Against
IT	72	11	76	13	79	17	70	26	64	NA
EL	64	10	67	19	70	21	64	33	46	NA
FR	62	19	63	31	62	32	68	28	78	NA
BE	61	16	67	22	72	24	81	15	83	NA
NL	61	25	61	28	64	31	62	34	71	NA
IE	58	17	68	18	69	20	79	14	87	NA
PT	55	16	52	28	57	26	69	25	67	NA
ES	53	10	58	20	68	24	70	25	61	NA
DE	50	27	38	50	47	44	60	33	66	NA
LU	47	26	72	20	75	20	83	15	89	NA
UK	38	43	38	55	21	63	23	65	28	NA
DK	35	50	30	66	41	55	52	43	50	NA
AT	—	—	35	51	53	38	24	67	67	NA
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EU 15	—	—	52	36	55	37	59	35	—	NA
EU 25	—	—	—	—	—	—	—	—	60	NA

Sources: (1) European Commission (1990) Eurobarometer No. 34, December; (2) European Commission (1995), Eurobarometer No. 43, Autumn; (3) European Commission (2001), Eurobarometer, No. 54, April; (4) European Commission (2004c), Eurobarometer No. 60, February; (5) European Commission (2006d), Eurobarometer No. 64, June.

Notes: (1) The table follows the abbreviations applied in European Commission 2006d, Eurobarometer No. 64 (p. 4); (2) German percentage for 1995 depicts the average West and East German support; (3) data in the 2000 column depict percentage for Autumn 2000; (4) Greek support remains at the same level (64% for and 33% against) for the year 2004 (European Commission (2004b), Eurobarometer No. 61, July, p. B58); (5) Eurostat does not provide data for the negative attitudes towards single currency for the year 2005.

PASOK.⁵ Tsochatzopoulos, in particular, was seen as the leader of the *proedrikoí* (leader's faction) protecting the inheritance of Papandreou. They would continue to be an oppositional faction more or less throughout Simitis's period as Premier. The election by MPs was in fact a close-run affair.⁶ But on 1 July 1996 a party congress elected Simitis as PASOK's new leader (by 53.8% to Tsochatzopoulos's 45.7%). Simitis's position was further legitimized when he led his party to victory in the October 1996 parliamentary elections (PASOK won by a margin of 41.4% to 38.1% over the centre-right New Democracy party (ND/NΔ: Νέα Δημοκρατία) (Featherstone and Kazamias, 1997). Simitis's second election victory in April 2000, however, was much closer: PASOK led ND by just 43.8% to 42.7%.

Politically, Simitis's *mantras* were 'modernization' and 'Europeanization'. 'Modernization' involved a package of economic, social, and political reforms that sought to mix liberalization (a shift from statism) with a new social solidarity (Simitis, 2005). Simitis led a faction within PASOK comprising rising personnel such as Theodoros Pangalos, Giannos Papandoniου, Vasso Papandreou, and George Papandreou (Andreas's son). Their modernization agenda was defined within the frame of 'Europe': it had little meaning without reference to the need to adapt to the EU. Simitis's modernization project was both bold and comprehensive in intent. It began with a sense of urgency. Greece needed to place itself at the core of the EU, which meant that entry to the single currency had to be secured. In the mid-1990s, the performance of the Greek economy remained the most divergent in the EU from the Maastricht convergence criteria. The New Democracy government of Constantinos Mitsotakis (1990–3) had been over-optimistic in believing that it could establish a rapid convergence. In reality, it failed to meet the conditions for the EU aid provisionally allocated to Greece. It had also been thwarted by strong union opposition to its neoliberal reforms. Andreas Papandreou reaped the benefit at the 1993 election, promising an easier path to EMU. By contrast, Simitis stressed the urgency of his modernization project. Greece had a historic opportunity to fulfil its European interests, but this would not last.

Thus, Greece had to undertake a big leap forward by following a new national development strategy. This had to entail structural economic reforms to introduce greater flexibility and competitiveness, an agenda that foreshadowed, in inspiration, the EU's Lisbon 2000 project. It was evident that these reforms had to embrace further privatization, greater liberalization of the labour market, and a more just and efficient pension system. While the state's economic role had to be leaner and more

efficient, at the same time it had a basic responsibility to build a 'new social state', a theme that was shared elsewhere in Europe, not least in Romano Prodi's Italy (Simitis, 2005: 125–49). In politics, Simitis and his supporters advocated a greater separation of the 'party' from the 'state': a break with the incestuous 'rousfetti' politics or bureaucratic clientelism of the recent past. The 'clean hands' and modesty of Simitis were extolled. Simitis's modernization project also embraced the reform of the Greek constitution, continuing a momentum established by the ND government of Mitsotakis. The latter had talked of the 're-foundation' of the state, while the Simitis Government inserted the principle of the 'social welfare state' into the Constitution.

The Simitis Government could claim a number of creditable policy achievements. Greece was a much more respected partner in the EU, typically a part of the prevailing majority on most major issues. Economically, it adopted the single European currency in 2001; it maintained a rate of economic growth well above the EU average for most of its period in office; it reduced Greece's inflation rate and brought it much closer to that of its EU partners. Other economic achievements proved more controversial. Notably, the reduction of the budget deficit – a crucial element in Greece meeting the Maastricht criteria for entry into the single currency – was later re-examined in 2004 by the EU Commission (European Commission, 2004d). The deficit was recalculated according to a different set of rules. Simitis and his supporters claimed they had not contravened any rules, rather that new ones were being applied after the event. Opponents felt that they had manipulated the data for political purposes, hiding expenditure commitments.⁷ More generally, while the Simitis Government had had perhaps unprecedented courage to confront an agenda of structural reform, its substantive progress in implementation was disappointing even to many of its supporters. In 2002, a report for the World Economic Forum examined the record of EU countries in implementing the Lisbon Programme and it reported that Greece was consistently the worst performer across the eight dimensions it had defined (2002).

By the end of its period in office, the Simitis Government looked tired and somewhat disoriented. It even looked less 'clean', with allegations of corruption giving the sense that it had stayed too long in power. In January 2004, Simitis announced he would resign as PASOK leader, allowing his successor to lead the party into the next election. George Papandreou was soon anointed and he embarked on a fresh approach, to appeal to the disaffected. But PASOK's position in the polls was too low to turn around so quickly.

The elections in April 2004 were a clear victory for New Democracy. It defeated PASOK by 45.4% to 40.5%, gaining a parliamentary majority of 15% over all other parties. The new government of Costas Karamanlis – the nephew of the former premier – proclaimed a fresh start, reforming the state and creating a more competitive economy. The programme again seemed very much in line with the Lisbon Programme on structural reform. Yet Karamanlis and his colleagues had learnt from the demise of the Mitsotakis Government of the early 1990s. The strategy was to be more sensitive to what was politically feasible. It also adopted the language of inclusiveness and consultation. The government would reach out to opponents and endeavour to create a new consensus for reform.

What was striking was the narrowness of the ideological differences between the two major parties, compared to their differences in the 1980s and early 1990s. Simitis had led PASOK towards a more market-oriented social democracy, shedding the statism of the past. Karamanlis talked more of competition and the private sector, but his approach was to be moderate, gradualist, and inclusive. The policies and priorities had converged. Election campaigns lacked the emotion of the past and more attention was paid to competence and achievement. The task of governing – steering reform to implementation – still looked daunting, however. The domestic constraints seemed very powerful. Indeed, the track record of structural reform suggested that the domestic system was structured in a manner that appeared to militate against consensus and delivery.

1.4 Where the book fits in

This book seeks to build on the existing literature on Greece and to fill in some notable gaps. Lavdas's book (1997) on the Europeanization of Greece was an innovative study when it was published, but it is now somewhat dated: it covered the period prior to Costas Simitis becoming Prime Minister, and the conceptual literature on 'Europeanization' has been further developed since then. His book focused on government–business relations and domestic policy patterns, focusing in particular on regulatory change (privatization) and the EU structural policy. The general argument was compatible with that developed here: while the direction and content of EU influence on Greek policy was evident in this period, such 'external' pressures were mediated by domestic 'arrangements and coalitions' (Lavdas, 1997: 6). Pagoulatos's study (2003) was groundbreaking, though its conceptual and historical focus was very different from the present volume. A study in political economy,

it charted Greece's gradual shift from a 'developmental state' to a 'stabilization state' in the post-war era, focussing on the state and finance. It made little direct reference to the literatures on 'Europeanization' or on 'varieties of capitalism', two major approaches taken up here. The present volume seeks to provide a conceptually informed study of the public policy process in Greece, incorporating the dimensions of agenda setting, actor strategies, interest mediation, and implementation. As such, it hopes to complement earlier work and close some of the gaps in the literature. The book draws on some previously published work. The themes of governability and of the limits to Europeanization were signalled in Featherstone (2005). The empirical case study on pension reform extends earlier coverage in Featherstone, Kazamias, and Papadimitriou (2001) and Featherstone (2005). The case study on labour market reform builds on the work of Papadimitriou (2005). The study of Olympic Airways (OA/OA: Ολυμπιακή Αεροπορία) draws on Featherstone and Papadimitriou (2007), broadening its coverage. While building on this earlier work, the present volume extends the empirical coverage, broadens the conceptual discussion, and develops themes only lightly touched upon previously.

The research for the empirical chapters involved extensive searches of relevant documents and of news coverage. Altogether some 3000 newspaper reports have been consulted in order to trace the domestic debate on structural reform over the past decade. In addition, over 50 personal interviews (see the appendix) have been conducted with key actors in Greece. These included all of Simitis's heavyweight cabinet Ministers involved in the three policy areas covered in the book as well as a number of junior Ministers, prime-ministerial and ministerial advisers, managers of state-controlled companies, and high-ranked civil servants in the ministerial bureaucracies. The range of government officials interviewed gave the opportunity to cross-reference the information provided and build an accurate picture of the constraints under which the Simitis Government had to operate. A number of opposition politicians were also interviewed, some of whom were subsequently allocated key ministerial portfolios in the Karamanlis Government (2004–7). These interviews helped in identifying some of the structural issues of Greek public policy that cut across party politics and have shaped the agendas of successive governments, irrespective of their ideological predisposition and profile.

In addition to the above, leading officials from Greece's social partners were also interviewed. They included the leadership of the main trade union confederation (GSEE: General Confederation of Greek

Workers/ΓΣΕΕ: Γενική Συνομοσπονδία Εργατών Ελλάδος), the main employers' organizations (SEV: League of Greek Industries/ΣΕΒ: Σύνδεσμος Ελληνικών Βιομηχανιών and ΕΣΕΕ: National Confederation of Greek Commerce / ΕΣΕΕ: Εθνική Συνομοσπονδία Ελληνικού Εμπορίου) as well as representatives from many unions of Olympic Airways/Airlines. Their views were invaluable in understanding the strength of opposition to the 'modernization project', as well as the accumulated grievances of social partners over the way in which successive governments have sought to pursue structural reform. The interviews were conducted on a confidential basis and their anonymity in the narrative that follows has been respected.

1.5 The core questions and argument

This book examines the relevance of EU stimuli and processes to domestic reform in Greece. In doing so, it asks four basic questions:

- To what extent have EU commitments shaped the domestic reform agenda in Greece?
- How far have these commitments empowered the government in the reform process?
- What reforms have been achieved?
- What explains the limits of the reforms implemented to date?

The responses to these questions require a discussion that links the conceptual and the empirical dimensions. Alternative conceptual approaches are considered to frame the policy case studies. Theory helps to structure a clear empirical explanation. Thus, a comparison is drawn between an explanation based on the Europeanization approach and that on 'varieties of capitalism'.

The three sectoral case studies display differences of type. The relevance of EU commitments to domestic choices varies across the sectors. Each is affected by general EU pressures, notably fiscal constraints. All three are related to the Lisbon Programme of reform that signalled priority concerns, but involves 'soft processes' of benchmarking and sharing best practice. In addition, privatization involves direct regulatory intervention by the Commission to guard against unfair state subsidies and sweeteners. Domestically, the three sectors comprise both distinct and common actors and processes. All three sectors pose tests of the will and capability of the national government to deliver on an agenda it has signed up to, negotiating and overcoming domestic opposition.

In general, the book argues that EU commitments have indeed significantly shaped the domestic reform agenda in terms of its normative content and priorities. In doing so, they strengthened what already existed at the member-state level – in the name of ‘modernization’ – but were too weak to establish dominance in the relevant discourse. The national government leadership willingly embraced this European empowerment, finding legitimacy for itself in it. Yet this will was not shared across the government: internal divisions of interest and preference dissipated the reform initiative. An uncertain will undermined the capability to deliver. Both would be needed in abundance if the government was to negotiate reform successfully through the minefield of domestic opposition, overcoming ‘veto points’ with antagonistic interests. The achievements of reform in all the three policy sectors will be shown to be limited over successive governments. This pattern of outcome points to *systemic* features that resist the adaptation of the domestic model towards a liberal state–economy relationship. The EU stimulus in this regard challenges embedded norms and interests at home. At the same time, the domestic tension remains and even grows as a ‘Europeanizing’ elite defines reform as an essential development priority and fears what the alternative path of its opponents will mean for the national interest. At present, both the proponents and the opponents of reform lack the political strength – the necessary constituency – to be fully successful in their strategies. ‘Europeanization’ highlights the systemic pressures, but the EU’s instruments are too weak to overcome the inertial tendencies. To explain the latter, the particularities of the Greek ‘model’ must be brought into the picture.

The Greek model – the political system, the economy, and the ‘welfare’ system – displays both tension and inertia. These are the result of a complex pattern of embedded and conflicting interests and, to some extent, identities. The blockages to EU adaptation can be identified by reference to distinct literatures that frame the domestic conditions. ‘Europeanization’ approaches highlight, for example, the nature of the ‘misfit’ between the EU and domestic policies, the weakness of reform coalitions, the prevalence of ‘veto points’, and the limitations of the domestic discourse. Conflicting interests arise from conditions rooted in the system. An alternative approach – based on the ‘varieties of capitalism’ literature – highlights the limitations of the domestic welfare regime, the pattern of relatively high employment protection, the stable product demand, the strong barriers to market entry, and a set of cultural attitudes that mix an aversion to risk and the protection of distorting privileges. These produce a set of rational interests among the

key actors that lead to blockages to reform. The book examines the relevance and compatibility of the different conceptual frames to examining the problem of Greek adaptation to EU stimuli.

The case studies and the country selection add up to something more, however. They raise important questions about the ability of the EU to manage and implement a programme of structural reform. This agenda has importance because of the recognition by EU leaders of the increasing economic and social threats to the European order posed by globalization and the competitive challenges emanating not only from the US and Japan but also now from new economic powers such as China and India. The ineffectiveness of the EU in implementing a reform agenda would question the ability of Europe to adapt and secure its well-being in the future. At the same time, low 'reform capacity' on the part of a member state would prompt doubts about Europe's ability to remain cohesive and question the participation of the particular nation in the EU's core. Indeed, the problem of adaptation may also highlight one of governability. Why is reform so difficult? How can government steer its agenda?

1.6 The structure of the book

The conceptual framework adopted in this book is outlined in Chapters 2 and 3. Chapter 2 clarifies the relevance of 'Europeanization' to the study of domestic reform, defining its usage and elaborating its logic. Chapter 3 then contrasts this with other conceptual frameworks focussing on domestic regimes – notably, 'varieties of capitalism' – that posit the resilience and path-dependence of the domestic system in the face of external pressures. Thus, the two sets of framework facilitate a study of the significance and limits of 'Europeanization': the case studies become an evaluation of the relevance of each theoretical perspective. The combination, more generally, helps in the understanding of the impact of the EU on its member states, clarifying the conditions facilitating or blocking domestic adaptation to 'Europe'. Ultimately, the frameworks of 'Europeanization' and 'varieties of capitalism' are seen as expanding the perspective of each other in a manner that is complementary.

The main empirical analysis of the book is to be found in Chapters 4, 5, and 6. They examine, in turn, the impact of the EU on the domestic reform process in Greece in three key sectors. Chapter 4 focuses on the extent to which EU pressures – the entry criteria for the single currency, the Lisbon Programme on the reform of the social model, and the OMC

inspiration for shared learning – have shaped the domestic reform process on pension reform. Chapter 5 similarly examines EU stimuli for the reform of the labour market. The external stimulus from the EU existed: Greece was intent on securing ‘euro’ entry, albeit a little late; the constraint of the Stability and Growth Pact was felt on fiscal policy; and the Lisbon Programme had referred to an active employment policy and flexible working patterns. Chapter 6 refers to the single market and Lisbon stress on liberalization, on the one hand, and the EU’s prohibition of state aids, (under its ‘Competition Policy’) on the other, as a basis for the EU stimulating a domestic process of privatization. The case selected here is that of Olympic Airways, a loss-making national carrier that successive Greek governments have endeavoured to restructure or sell off. The Commission was directly involved in the reform process by virtue of its monitoring of state aids, but it has also signalled its preferred solution of privatization on repeated occasions.

The three case studies thus cover a broad range of sectors. They constitute a test of the EU’s ability to stimulate reform of the social model, of the labour regime, and of problematic state enterprises. They are the key aspects of the Lisbon Programme of creating a growing and adaptable economy across the Union. As such, they provide a test of the limits of Europeanization. The test is made increasingly relevant by the process of EU enlargement that has made the Union more heterogeneous in condition. The task of EU policy coordination is being made more challenging at the same time that questions arise as to its effectiveness in the older member states. Chapter 7 – the Conclusion – will return to this theme insofar as it reflects the overall concern of the book with the ‘reach’ of Europeanization: the nexus between EU developments and domestic political forces.

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