

**When do prisoners escape? The limits of consensus-building and labour market reform in Greece**

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## Introduction

The challenge of meeting the convergence criteria for entry into the 'euro' single currency led a number of European Union (EU) member states to pursue reforms through a process of social dialogue, involving concertation between unions, employers and government (Pochet, 1999). The clear aim was to achieve difficult policy adjustments on the basis of consensus between the social partners. The same strategy has been utilised in relation to both satisfying the budget discipline of the Stability and Growth Pact (SGP) and the agenda associated with the 'Lisbon process' on structural economic reform. Thus, domestic adjustments in the context of a developing external constraint have been linked to the historical legacies of corporatist agreement.

This paper examines the process of the social dialogue in Greece and the attempt by government to activate it in order to secure labour market reforms. The core research question posed is: why did the social dialogue not lead to more successful reform? The external stimulus from the EU existed: Greece was intent on securing 'euro' entry, albeit a little late, and the agenda of the SGP and Lisbon was underway (Featherstone, Kazamias and Papadimitriou, 2000). A social dialogue was established in 1997, with initiatives on labour market reform in 1998 and 2000. The external constraint proved ineffective, however, due to the strategies and interests the various partners brought to the social dialogue, which reflected historical legacies of non-cooperation, intervention and mistrust. The domestic institutional setting sustained blockages to more substantial reform and the partners retreated from the potential for mutual gains.

The empirical analysis is placed within the conceptual frame of a prisoner's dilemma game. Two key aspects mark the game: actor mistrust and the systemic problems of low social capital in Greece. The main focus of the study is the domestic actors involved in the game: their interests and strategies. However, the analysis is placed in the context of how the policy agenda developed. Here, brief reference is made to the relevance of 'Europeanisation' and of EU commitments as an external constraint (Featherstone, Kazamias and Papadimitriou, 2001; Ioakimidis, 1996). The setting of the agenda displayed both an ideational and a strategic aspect. At the level of policy ideas, the domestic discourse on 'modernisation' was linked to the EU's agenda on monetary discipline and structural reform. The domestic discourse itself showed a concern for Greece's international competitiveness and the need to remain a core member of the EU. There was also an implicit sensitivity to credibility and peer pressure at the EU level. Both ideational and strategic aspects thus help to explain the timing and content of the domestic reform initiatives.

The paper argues the relevance of the prisoner's dilemma and the cultural impediments to actors breaking free in order to explain the relative failure of the social dialogue in Greece and the limits to 'Europeanisation'. The analysis is developed over several sections, focussing on how the domestic agenda came to be set: the relevant policy legacies and institutional setting; the establishment of the

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social dialogue and the reform initiatives of 1998 and 2000, and the constraints on actor cooperation.

### **Who sets the agenda?**

As elsewhere in Europe, the domestic initiatives on labour market reform in Greece have been linked to the developments occurring at the EU level. For Greece, this linkage – more implicit, than explicit - has existed in both ideational and strategic terms. The definition of policy objectives and the content of reforms has come to owe much to the developing EU agenda in this area, as again Greece has been a 'policy receiver' rather than a 'policy initiator'. Moreover, the overriding political priority in this period has been to keep Greece within the EU's core, thus sustaining a wider strategic interest in linking the domestic agenda to that of her partners.

The EU stimulus has affected both the direction and pace of Greek reform. The EU's agenda has been a broad one, with different strands, and it developed apace after the signing of the Maastricht Treaty. Since the launch of the Single Europe Market programme in 1985, much public debate has centred on the need for Europe to become more competitive, by shifting away from state regulation and relatively high levels of taxation and welfare provision. The search for new ways of reforming the European economy and enhancing its international competitiveness received renewed impetus in the aftermath of the Maastricht Treaty with a number of high profile initiatives introduced in this direction. These covered concerns about competitiveness and labour market flexibility: e.g. the Delors White Paper on 'Competitiveness, Growth and Employment' in 1993, the creation of the advisory group on competitiveness chaired by Carlo Azelio Ciampi in 1995, the European Employment Strategy in 1997, and the Amsterdam Treaty's title on Employment. At the end of the 1990s, Europe's inability to match the spectacular economic growth of the United States aggravated fears over the long-term success of the single currency and intensified calls for a co-ordinated and far-reaching reform of the European economy. These pressures culminated in the launch in 1997 of the Lisbon process, a new framework of orchestrating and monitoring structural reform across the EU's member states through a combination of inter-governmental consultation, benchmarking and the sharing of best practice. Despite its non-binding nature (in legal terms), the so-called Lisbon process (see Laffan 2002) has opened up an important debate over the outlook for the European economy and the role of the state within it.

The Lisbon process, with its emphasis on new modes of governance and diffusion of best practice, provides momentum for reform in a series of related sectors, including labour market regulation. In addition, the Eurozone discipline interacts with the Lisbon process by providing its own set of constraints and incentives to wage coordination and labour market reform. However, the Lisbon process has left completely open (at least so far) the question of defining European models for the labour market. Further, the Lisbon agenda sustains some ambiguity of policy. For some, the Lisbon process is an exercise in limiting the role of the state in market societies. For others, the Lisbon process is an attempt to forge a social agenda for Europe and to design the coordinates of the 'European social model'. This ambiguity makes the process of domestic translation and interpretation extremely important. There is not necessarily a clearly defined 'policy model' in Brussels to which

domestic political systems have to adjust. The ongoing tensions between the European and domestic levels develop in a political space where domestic discourses, political leadership, and coalition-building are essential components of the Europeanisation process.

Nevertheless, there exists substantial congruity between the priorities of the EU's emerging agenda and the domestic 'modernisation' project of PASOK (Hellenic Socialist Movement) governments in Greece under Costas Simitis. The modernisation project has centred on reforming the role of the state in relation to the party system and civil society, as well as the economy. Simitis' period as Minister of National Economy (1985-87) and as Prime Minister (1996- ) have been marked, in economic terms, by prioritisation to the 'sound money, sound finances' paradigm of EMU; the competitiveness of the Greek economy in the context of European de-regulation and globalisation; the anticipated effects of euro-entry (the loss of policy instruments); and the need to undertake supply-side reforms. Simitis has headed a faction of 'modernisers' within PASOK: a group self-defined as giving priority to keeping Greece in step with the core EU agenda, so as to avoid the risk of 'peripheralisation'. The overriding objective of gaining Greek participation in the single European currency, the *euro*, was connected to the specific agenda of labour market reform when the latter was raised by some of Greece's EU partners in the context of the negotiations over the drachma's entry into the Exchange Rate Mechanism (ERM).

A sensitivity to external credibility – how Greece is seen within the EU - is thus part of the explanation of how the domestic agenda and the associated discourse has been shaped domestically. In addition, international pressure from the IMF and OECD reinforced the focus on making the domestic labour market more flexible. There were, however, important objective reasons for the timing of the domestic debate. Over the course of the Simitis governments, Greece enjoyed economic growth much higher than the EU average. By the end of 2002, domestic growth was some 2.5 times above that for the EU as a whole. Yet, Greece also suffered continuing high unemployment. This combination of trends highlighted a problem of labour market rigidities (Sabethai, 2000). Moreover, regulation was incomplete: some employment modes remained unregulated, leaving vulnerable workers unprotected (like part-time, contract, and seasonal employees. The situation was exacerbated by the rapid influx of migrant workers. Existing regulation was also inconsistent: with large discrepancies in the protection offered to workers in the public and private sectors. Thus, by 1997 a social dialogue was initiated and a first set of labour market reforms introduced the following year.

### **We really mean dialogue, honest! The road to the 1997 Confidence Pact**

The reform of the Greek labour market has been a key feature of the social dialogue on "development, competitiveness and employment" initiated by the Simitis government in March 1997. Fresh from the electoral victory of September 1996, many within PASOK urged the Prime Minister to seek the maximum social consensus for his reform agenda, aimed at securing Greece's qualification for the third stage of EMU by 2001.<sup>1</sup> The government's strategy of reaching out to the social partners for agreement on such a wide range of issues carried with it valuable opportunities but also significant risks. In many ways the whole experiment entered into politically unchartered territories. If successful, the process could legitimise the government's

reform agenda and create an environment of social calm upon which the success of its plans (and profile) depended. On the other hand, processes of social consultation had not been a part of Greek political culture. In the past their use had been sporadic and limited to a very narrow agenda whereas their outcome had always been insignificant (Mouriki, 2001; OKE, 2003). Within the context of the tight timetables of Greece's revised convergence plan, the social dialogue cost the government precious time. By inviting the social partners into a public dialogue over its reform plans, the government also risked damaging displays of conflict, which could provide the opposition with useful ammunition. If unsuccessful, the social dialogue also threatened to cause long-term damage to the government's relations with the social partners (particularly the unions) and endanger the successful conclusion of its reform agenda.

In its official invitation to the social partners 14 April 1997, the government clarified its position regarding the scope, structure and membership of the social dialogue. In terms of the dialogue's agenda, the government took a rather maximalist position proposing a total of 19 subject areas<sup>7</sup> grouped around three main themes: i) structural policies for development; ii) policies for boosting competitiveness and employment; and iii) the regulation of employment and social protection towards the year 2000 (Ministry of Labour, 1997).<sup>8</sup> In terms of its composition the social dialogue remained essentially tripartite in nature. The driving force behind the whole process was a 9-member Political Secretariat consisting of three members nominated by the government,<sup>4</sup> three representatives from the private sector union (General Confederation of Greek Labour - GSEE)<sup>5</sup> and one representative each from the three main employers associations: SEV (League of Greek Industries) representing large industries, ESEE (National Confederation of Greek Commerce) representing commerce and GSEVEE (General Confederation of Professionals, Medium and Small Businesses and Traders) representing small and medium size businesses and self-employed professionals.<sup>6</sup> For the 19 policy areas included in the agenda, small groups of experts were established where government representatives presented specific proposals and invited delegates from the two sides of industry to comment. Each group of experts then presented its findings to the Political Secretariat which set itself a deadline for the end of 1997 before the final document/outcome of the social dialogue was signed (Kouzis, 2000).

Discussions over labour market reform, which came to dominate the proceedings of the social dialogue, formed part of its third theme entitled "regulation of employment and social protection towards the year 2000". In its opening proposals to the social partners the government focused its attention on 6 main issues including: (i) the calculation of working time on a 6, 9 or 12-month basis (rather than the existing weekly basis) and the introduction of measures to discourage overtime (particularly in its 'compulsory' form)<sup>7</sup>; (ii) the introduction of part-time work to the public sector and measures to ensure the better regulation of part-time employment; (iii) measures to better regulate new forms of employment (e.g. telesales, working from home etc) and ensure that employees in these sectors are better linked to the pension, healthcare and social insurance systems; (iv) the introduction of territorial employment pacts (TEPs) where pay could be set below the national minimum wages agreed by the National General Collective Labour Agreement (EGSSE) in order to boost employment in areas suffering industrial decline; (v) measures to discourage the participation of pensioners in the labour market; and (vi) measures to protect young

and long-term unemployed as well as those who have been victims of mass redundancies (*EIRO*, 28.7.1997).

Throughout the course of the social dialogue the search for common ground between the social partners proved elusive, with two distinct logics emerging. On one hand, the employers regarded high unit costs and the inflexibilities of the Greek labour market as a brake on the competitiveness of Greek businesses and ultimately as important contributors to the inability of the Greek economy to create employment at a faster pace. As a result, their proposals revolved around four areas: (i) the calculation of working time on an annual basis, (ii) the relaxation of the limits on mass redundancies and the reduction of redundancy pay, (iii) the introduction of TEPs which could set wages below those agreed by the EGSSE and (iv) the introduction of measures to facilitate part-time employment (*EIRO*, 28.8.97). The unions, on the other hand, argued that the Greek labour market was already very flexible and that the cost of employment in Greece was amongst the lowest in the EU. As a result, they rejected all proposals on flexibility and urged the government to focus instead on measures of improving training and increasing labour productivity. As a means of creating new employment the unions insisted on the introduction of a 35-hour week without pay cuts and made clear that they would not be willing to negotiate the introduction of TEPs if they undermined the pay deals agreed within the context of the EGSSE (*EIRO*, 28.8.97).

By autumn 1997, with clear signs that all three themes of the social dialogue had reached a deadlock, the government grew increasingly concerned with keeping the unions engaged in the process.<sup>8</sup> Having invested so much political capital in it, a union walk-out at this stage would be nothing short of a catastrophe. Within GSEE, PASOK controlled just 22 out of the 45 votes of the union's governing body (Presidency). As all other factions demanded GSEE's disassociation from the process, the union's President, Christos Polizogopoulos (a member of PASOK's Central Committee and one of the architects of the social dialogue), struggled to keep even his own PASOK-controlled faction (PASKE) on board. In the end, it was only when the GSEE's President utilised his double vote (provided for by GSEE's constitution) that the necessary majority was achieved (*Ta Nea*, 6.11.97). This allowed GSEE to sign, on 10 November 1997, the concluding document of the social dialogue entitled "Confidence Pact between the Government and the Social Partners towards the year 2000". The document was also signed by SEV and ESEE, but not GSEVEE, probably on orders of the Greek Communist Party (KKE), which controlled its leadership. The Confidence Pact was also denounced by all opposition parties in parliament, including the centre-right New Democracy (ND), the Greek Communist Party (KKE) and the populist Dimokratiko Kinoniko Kinima (DIKKI) (*EIRO*, 28.11.97).

In the process of securing consensus the government had paid a heavy price. The signed document remained vague and mentioned only some general targets. The Pact provided for above-inflation pay increases in the private sector for 1998-99 and made rather vague references to the need for 'structural changes in the labour market' in order adapt to new forms of employment as well as to new measures to promote the integration of young and long-term unemployed into the labour market (Confidence Pact, 1997). In addition the Pact referred to the 'voluntary' introduction of part-time work in the (state-controlled) public utilities and the 'experimental' introduction of this measure to some regional authorities (but not in the central ministerial

bureaucracies). As far as the TEPs were concerned no mention was made of the possibility of wages being set below the minimum levels agreed by EGSSE. More astonishingly, the Pact did not include any reference to the recalculation of working-time and the reduction of overtime (despite these issues dominating the agenda of the social dialogue), in an apparent move to appease the PASOK-wing of GSEE (Confidence Pact, 1997). Putting a brave face on it, the government argued that the Confidence Pact was always meant to produce a basic political agreement, not agree on the specific content of reform (*To Vima*, 1.2.1998). However, the government's initial strategy of a clearly defined agenda and the creation of expert groups to deal with the issues concerned had revealed rather different objectives. That said, the signing of the Confidence Pact gave the government the opportunity to claim that an agreement of this kind signified a real breakthrough in its relations with the social partners. Yet, the disagreements over the specific direction of reform remained as wide as ever. Many of these problems would return with a vengeance when the government brought forward its legislative proposals for the reform of the Greek labour market.

### **What confidence? The 1998 Labour Market Law**

Soon after the conclusion of the Confidence Pact in November 1997, the government's relations with the unions took a sharp turn for the worse. In early January 1998 the Minister of National Economy Giannos Papantoniou introduced a legislative amendment (to a draft law on taxation) whereby the management of public utilities could alter the labour regimes in these companies unilaterally, without the prior agreement of the unions. Papantoniou's bold move was meant to send a clear signal to the markets that the government was serious about the reform of public utilities, particularly of the much-troubled Olympic Airways. Regardless of the motivation, 'Papantoniou's amendment' surprised and infuriated the unions who accused the government of betraying the social dialogue where such a measure had not even been discussed, let alone agreed upon (*To Vima*, 25.1.98). With GSEE's elections only two months away (March 1998), the government's move came as a particular blow to GSEE's President Christos Polizogopoulos who, under very difficult circumstances, had invested his own personal credibility in the signing of the Confidence Pact. Papantoniou's determination to see the amendment through also caused difficulties to many of his cabinet colleagues, particularly to the more consensual Minister of Labour Miltiadis Papaioannou who had been waiting for the end of GSEE's elections before introducing the government's proposals on labour market reform (*To Vima*, 8.3.98).

Indeed, within a week of GSEE's election, in which Christos Polizogopoulos was marginally re-elected as president, the government's strategy of labour market reform was put in motion. In typical style (Featherstone, Kazamias Papadimitriou, 2001), the government's intentions became gradually clear through a series of leaks to the press (e.g. *To Vima*, 22.3.98 and 5.4.98), before Miltiadis Papaioannou officially presented them to journalists on 24 June 1998 (*To Vima*, 28.6.98 and *EIRO* 27.6.98). The proposals were a compromise between the Cabinet's 'maximalist' camp led by the Minister of National Economy and its more 'consensual' wing led by the Minister of Labour. They included provisions for the calculation of working time on a 3 and 6-month basis according to the company's size with the possibility of extending the working day for up to 2 hours (again, depending on the company's size and provided

that total hours worked in a year average the 40-hour week rule). However, for any changes in the working time to be made possible union consent was required. This went against the employers' demand (supported by the Minister of National Economy) for managerial prerogative on this issue. In addition, the government ignored SEV's proposal for a substantial increase in the limits applying to mass redundancies (which was also supported by Papantoniou) (Kouzis, 2000).

On the other hand the government pressed on with its controversial proposal to allow the TEPs to set wages below those agreed by the EGSSE. Union demands for a 20% upper limit on the number of part-time workers employed by a company were also ignored (Kouzis, 2000). Moreover the government proposed the introduction of part-time employment in the public corporations and the creation of private employment agencies as well as measures for better policing of the labour market (by bringing the Labour Inspectorate under the control of the Ministry of Labour) and the improvement of the legislative framework regulating 'atypical' and part-time employment. The government also put forward proposals for the Social Insurance Foundation (IKA) to provide medical and pharmaceutical cover for the young (under 29) and long-term unemployed (*EIRO*, 27.6.98).

With some very minor changes all of the government's June proposals formed part of the Labour Market law (2639/98) which passed through Parliament on 7 August 1998 amidst a climate of social tension and mutual recrimination (*Ta Nea*, 13.7.98; *To Vima*, 26.7.98, *EIRO*, 25.8.98). During the parliamentary debate the government faced strong criticism by all opposition parties. New Democracy blamed the government, saying that its indecisiveness and collusion with the unions had produced an incomplete reform that lacked a clear sense of direction. For the smaller left-wing parties (KKE and DIKKI) the 2639/98 law reconfirmed PASOK's move to the right and its strategy to de-regulate the Greek labour market on orders from the European Union and big industrial interests (Hellenic Parliament, 1998). The passage of the labour market law through Parliament was also met with scepticism from the social partners (OKE, 1998). GSEE, for instance, was resentful of the fact that the new legislation included provisions for which the social dialogue had produced no agreement (i.e. TEPs) or were altogether absent from the text of the Confidence Pact (i.e. working time). Many in the unions' leadership felt that the government had betrayed their trust and, in the end, had presented them with unacceptable dilemmas: i.e. either agree on the 'consensual' (with union agreement) recalculation of working time or allow management prerogative on this issue (Kouzis, 2000). The way in which the 'Papadnioniou amendment' (allowing for unilateral, management-driven, changes in the labour regimes of public utilities) was engineered earlier in the year had already raised serious union suspicions about the government's sincerity and trustworthiness. The timing of the 1998 reform did little to alleviate union fears. Following more than a year of deliberation between the social partners, the 2639/98 law was finally brought for debate during the Parliament's summer session, as the government hoped to capitalise on the feel-good factor and desertion caused by the mid-summer holidays!

For their part the employers remained rather unimpressed by the new law. For them, the laborious process of the social dialogue had created a 'soup', not the far-reaching reform they had hoped for (OKE, 1998). For a start their demands for reducing the burden (administrative and financial) on mass redundancies were largely ignored by



the 2639/98 law. With regards to working time, their proposals on management prerogative were also disappointed. Even their second line of defence - changes to working time on the basis of agreement between management and individuals - had to be abandoned in favour of full union consent. For the employers, the announced labour market reform was hardly a reform at all: rather, it was a reflection of the government's interventionist logic which delivered even more unwanted regulation and ran against European and international trends. As for the government, the huge political capital invested in the 1997 Confidence Pact had produced a mixed return. The process of social dialogue had arguably sowed the first seeds of a more consensual, 'grown up', policy-making style. Yet, the government had often found itself unable to lend the process the credibility and trust it so needed. Against this background the full fruits of its 'corporatist experiment' were yet to be harvested. As for the outcome of the 1998 labour market reform, the government was soon to grow as unconvinced as its critics. Within a couple of years a new labour market law would be placed on the negotiating table.

### **This time it's for real whatever the cost...or is it? The 2000 labour market reform**

Despite its very close result, the April 2000 election gave PASOK the opportunity to go into its third successive term in office with a relatively comfortable parliamentary majority. Having secured Greece's entry into the Eurozone and won his second successive election, the position of Prime Minister Simitis within PASOK was significantly strengthened. With most of his internal opposition disunited and silenced, many thought that Simitis, for the first time during his Premiership, would be able to form a truly 'Simitite' Cabinet in order to pursue an agenda of radical reform. Throughout the electoral campaign, Simitis had made it clear that his new government would focus its attention on rectifying some of the more structural problems of the Greek economy, which would allow Greece to compete successfully with other Eurozone members (*To Vima*, 5.3.2000). In the Prime Minister's strategic planning, two of the thorniest problems of his previous term in office - labour market and pension reform - needed to be tackled within the first 18 months of his new term, allowing enough time for his government to recover its strength before the next election.

In order to pursue this ambitious reform agenda, Simitis appointed one of his closest and most trusted allies, Tasos Giannitsis, to the Ministry of Labour. A non-parliamentarian economist with a PhD from the University of Berlin, Giannitsis was seen by many as the archetypical German social democrat whose profile contrasted sharply with that of Giannos Papantoniou, the Cambridge-educated Minister of National Economy who had long been pressing for an economic reform agenda modelled on the Anglo-Saxon tradition.<sup>9</sup> The relationship between the two Ministers got off to a bad start when, on 11 July 2000, Papantoniou leaked to the press that the government's plans for labour market reform would be "a strong shock" for the unions (*Kathimerini*, 11.7.00). Papantoniou's remarks, which came just two days before the government's official announcement on this issue, angered Giannitsis who felt his credibility in the eyes of the unions was unnecessarily undermined. When the Minister of Labour eventually presented his reform proposals, he revealed the government's determination to revisit some of the 'unfinished business' of the 1998 reform. Stating PASOK's pre-election commitment to reduce unemployment by 40%

in four years, Giannitsis announced his intentions to: (i) establish further flexibility on working time (based upon managerial prerogative); (ii) radically restrict overtime; (iii) reduce employers' national insurance contributions for newly recruited staff; (iv) relax the limits on mass redundancies (*EIRO*, 27.7.00).

Giannitsis also revealed that the process of consultation with the social partners was to be radically different from that which had led to the signing of the Confidence Pact in 1997. For a start, the allocated time was considerably shorter. The government planned to begin consultations with the social partners at the end of August with a view to concluding the process by early October. The dialogue's agenda was structured around nine items<sup>10</sup> which would be negotiated in parallel, with no disagreement in one item being allowed to stall progress in other items. Unlike 1997, the government would negotiate with the social partners on a bilateral basis, not through the establishment of tri-partite groups of experts, whilst plenary sessions were to be fewer. Publicly the government also appeared to encourage bilateral contacts between the unions and the employers with a view to them making joint submissions to the dialogue (*EIRO*, 27.7.00).

Following a summer of heightened tensions in the government's relations with the unions,<sup>11</sup> the Ministry of Labour on 4 September 2000 published its detailed proposals for the reform of the Greek labour market (Ministry of Labour, 2000). The content of the proposals were widely interpreted as a conciliatory gesture towards the unions (*To Vima*, 3.9.00). Plans for granting managerial prerogative on working time had now been abandoned. The principle of union consent on this issue was thus maintained. The government did propose the annualised calculation of working time, but the (voluntary) adoption of this measure was linked to the introduction of a 38-hour week. The reduction of the working week from 40 to 38 hours was designed to please the unions' leadership, which had long argued for the introduction of a 35-hour week. On mass redundancies, the existing limits on large businesses (with over 250 staff) remained unchanged and the changes introduced for the medium-sized business were not dramatic.<sup>12</sup> Certainly the government had not taken on board a maximalist agenda that argued for a complete abolition of such limits. The government's proposals on the reduction of overtime were more radical. The 8-hour a week 'compulsory' (under management prerogative) overtime was to be cut down to three hours per week, whilst the cost of all overtime was significantly increased.<sup>13</sup> On the reduction of employers' national insurance contributions for newly recruited staff, the government hinted that the proposed cuts would be in the region of 20-30%, but the precise figure was left open for the social partners to agree upon. Finally, on the issue of part-time employment, the government pushed for a 7.5% wage increase (above the minimum wage, proportionally) for those employed for less than 4 hours a day who would also qualify for one third of unemployment benefit during their first year of employment (Ministry of Labour, 2000).

Despite their conciliatory tone (compared with earlier announcements by the government), Giannitsis' proposals met very strong opposition by the unions. For GSEE even the slightest increase in the limits of redundancies was a *casus belli*, whilst the whole thrust of the proposals was seen as yet another indication of the government giving in to employers' demands and promoting the further de-regulation of the Greek labour market (*in gr.* 5.9.00; *To Vima*, 5.11.00). If Giannitsis had managed to alienate the unions, however, he had certainly failed to impress the

employers. According to SEV the government's proposals were bound to increase labour costs by up to 8% (*in.gr.* 16.11.2000) whilst the reduction of redundancy limits were deemed far too moderate to have a real impact. Moreover, SEV remained disappointed that the government did not take on board its proposal for managerial prerogative on working time. ESEE and GSEVEE also resented the increase in the cost of part-time employment which has been much more widespread among commerce and small businesses than in large industries (Sabethai, 2000).

Above all, what united all three employers' associations in their opposition to Giannitsis' plans was the almost complete abolition of 'compulsory' overtime. For years, this peculiar arrangement had been a built-in feature of flexibility for the Greek labour market (Sabethai, 2000; Kouzidis, 2001). Taking into consideration that the Greek labour market has been heavily biased towards protecting existing employment (through strict redundancy limits and costly severance pay), most employers preferred to utilise their workforce more intensively (through compulsory overtime) rather than resort to new recruitment. This option offered many employers the best of both worlds: access to relatively cheap additional employment from existing employees as well as protection from the strict legislative framework associated with the recruiting (or potential dismissal) of new staff. Interestingly, Giannitsis' position on this issue did not even get the unqualified support of the unions which recognised that overtime provided many of their poorly-paid members a means of supplementing their income.

Against a background of entrenched positions and serious misgivings about the government's proposals, the process of social consultation made little headway during September and October 2000.<sup>14</sup> As consensus with the unions became all the more difficult to find, internal disagreements within the Cabinet and PASOK began to grow. Whilst Giannitsis' proposals enjoyed the almost unconditional support of the Prime Minister, both the content of the proposed reform and the government's strategy behind it were openly questioned by some of the Cabinet's heavyweights, including Defence Minister Akis Tsochatzopoulos and Minister of Culture Theodoros Pagalos (*Eleftherotipia*, 3.11.2000; *Ethnos*, 20.11.00). The latter was eventually removed from the Cabinet in November 2000 following a highly damaging public row with the Prime Minister (*Eleftherotipia*, 20.11.00). The sacking of one of Simitis' former 'modernising allies' was seen as a clear indication of the Prime Minister's determination to see through the new labour market reform without making any significant alterations to Giannitsis' 'compromise' proposals in September. Indeed, following a period of intensive consultation within PASOK, the government was able to create the necessary consensus for its troubled reform initiative.<sup>15</sup> When submitted to Parliament for discussion (on 24 November 2000), the draft bill on labour market reform differed little from the proposals that Giannitsis had presented back in September. With most internal disagreements within PASOK ironed-out over the previous weeks, the discussion of the draft bill in Parliament provided no further surprises for the government other than the expected condemnation of all opposition parties and a one-day strike announced by GSEE for 7 December 2000 (Hellenic Parliament 2000; *Eleftherotipia*, 23.11.00 and 7.12.00; *To Vima*, 26.11.00). On the same day, the 2874/00 law on 'Promoting of Employment' was adopted by the Greek Parliament.

The passage of 2874/00 law through Parliament was a Pyrrhic victory for the government. The tensions and recriminations that dogged the 2000 labour market

reform bore little resemblance to the consensual profile that the government had tried to build with the 1997 Confidence Pact. In the process of promoting its reform agenda, the government had failed to broker consensus and alienated itself from both the unions and the employers (OKE, 2001). Along the way, Giannitsis stood accused of picking the wrong fight; of delivering a reform that was both politically costly to the government and unable to achieve its primary objective: that of radically reducing unemployment. Many of the government's problems were, indeed, self-inflicted. Early in the summer of 2000, SEV and GSEE were close to concluding a bilateral deal on labour reform. Both social partners urged the government to wait for their agreement before it launched its own reform initiative. However, Giannitsis did not trust the imminent deal, fearing that the government would eventually be asked to pick up the cost of what was agreed by the social partners. Instead, the Minister of Labour decided to keep close control over the reform agenda counting on his own political instinct and policy expertise. As it turned out, the gamble failed to produce its anticipated results: the 2000 labour market reform was neither radical nor was it consensual. A few months later, its acrimonious legacy would cost the government dearly when it attempted to reform the troubled Greek pension system. With most of the unions' good will exhausted, the reactions to the pension reform proposals brought the government to its knees, eventually forcing it into an embarrassing retreat. Soon afterwards, Tasos Giannitsis was removed from the Ministry of Labour.

#### **Gridlock and distortions: the context of interest mediation in Greece**

The explanation of why the process of structural reform has been partially blocked rests on two closely-related notions. The first is the model of the prisoner's dilemma drawn from game theory. The key social actors are locked in to a game of low trust and thus of low cooperation, producing limited reform. The second part of the explanation concerns low social capital. This notion is drawn from the writings of Putnam (1993) on Italy, which have had widespread influence in other contexts (e.g. Vazquez, 2000).

The classic prisoner's dilemma is a game in which every party would be better off if they could cooperate. The agenda makes 'win-win' possible. However, the absence of trust means that the players cannot give credible, mutual commitments. Each individual party thus has an incentive to defect and become a free-rider. The model helps to show how perfectly rational individuals can produce, under certain conditions, outcomes that are not 'rational' when viewed from the perspective of all of those involved. Mutual gains are lost due to an absence of community and trust.

Success in overcoming these dilemmas depends on the broader social context within which the game is played. As Putnam and his co-authors put it, mutual gains are more readily available in a society 'that has inherited a substantial stock of social capital, in the form of norms of reciprocity and networks of civic engagement'. Yet, societies may come to rest at one of two broad equilibria. The strategy of 'never cooperate' is a stable equilibrium, for it is beyond the power of any individual to achieve the higher level of mutual gain. The choice is 'reciprocity & trust' or 'dependence & exploitation': path dependence determines which stable position a society enjoys. Historically, Greek political culture has a tradition of incivism and mutual suspicion, with weak institutionalisation affecting both state coordination and efficiency as well as the autonomy of civil society (e.g. Mouzelis, 1990; Sotiropoulos, 1993). As

Putnam argues, social capital changes only over generations. Political structure and culture reinforce each other. Thus, in this rather basic and stylised model, Greek interest mediation suffers from a vicious circle in which cooperation is lost for want of accumulated trust. The reform agenda – indeed, the ‘modernisation’ project – suffers as a result.

The process of the Greek social dialogue is further affected by more specific factors. Successive governments have shown inconsistency as to its purpose and importance. The dialogue has followed a ‘stop-go’ pattern in how governments have sought to activate the process and in the agendas presented to it. Indeed, the government’s social partners have frequently been suspicious of its motives: seeing new initiatives as an opportunistic attempt to legitimise, in a rather hurried fashion, otherwise difficult and painful economic reforms. A lack of clarity over the strategic purpose that government assigns to the dialogue has been matched, on occasions, by contradictory tactics and signals from Ministers. Press leaks have cast doubt on government commitment to negotiation. Ministers of National Economy have undermined Labour Ministers: in April 2000, for example, Papantoniou all but scuppered Giannitsis’ attempts at social concertation by talking of the government’s separate and more radical agenda.

Whilst government has left the dialogue process fragile, the other social partners have been marked by problems of attitude and of representation. The political style is defensive, marked by short-termism, and concerned with narrow interests. On the union side, GSEE is controlled by the unions of the public utilities (e.g. OTE, the now partially-privatised telecommunications corporation, and the unions of the banking sector, OTOE), most of whom have enjoyed relatively stable and secure employment. ADEDY (Higher Command of Public Servants’ Unions), the public servants’ union, has also been resistant to changes in their employment conditions. Thus, a structural weakness of labour representation in Greece is that those who work in small and medium-sized businesses – constituting the vast majority of private employees – do not have a strong political voice in GSEE. On the business side, the larger firms are often alienated by the traditional and narrow outlook of the main employers’ federation, SEV. The latter represents firms coming from a long-term culture of oligopolistic position protected by the state. By contrast, medium-sized firms – a natural constituency for an agenda of market openness and flexibility – lack their own, effective representative association. Corporatism in Greece has a tradition, therefore, of being both distorted and disjointed (Mavrogordatos, 1988; Lavdas, 1997).

Alongside the problems of representation and of culture, the reform process in Greece is characterised by the obstacles placed before the input of independent, technical expertise into the policy process. There are very few high quality ‘think-tanks’ in Greece and even fewer than can claim to be independent. This obliges technical input to come through the Byzantine and compromising paths of the ‘party-state’. Ministries are typically large, ill-coordinated and clientelistic institutions with limited expertise at the top and very little beneath. Ministers have come to rely on ad hoc, individual inputs. By its nature, such inputs are private and can make limited contributions to a wider, non-party public debate. Policy leadership is thus denied to non-party experts and independent legitimisation of reform proposals highly problematic. The domestic sources of policy ideas also remain very thin in this

context. Domestically, policy networks and communities barely exist across the party divide, as Lavdas has noted (1997:88; see also Rhodes and Marsh, 1992). The involvement of Greek actors in EU-related networks represents a partial innovation revising the domestic tradition, but the overall effect remains limited.

## Conclusions

The case study presented here is one of relative failure of initiative and response. The Simitis Government had attempted to establish a new social dialogue in Greece, consistent with its modernisation project. The objective was to provide a breakthrough, creating consensus on a wide range of issues, including labour market reform. Yet, the Pact of 1997 was a disappointment: vague and limited in scope. When the Government brought forward its legislation on labour market reform in 1998, it went well beyond what the dialogue had discussed or agreed. It had achieved some of its reform priorities, but at the price of undermining trust in the dialogue as a process. Trust was further undermined in 2000 when Giannitsis initiated a second round of reforms. Now, there was no continuous or coherent consultation by government. Rather, it engaged in a series of bilateral negotiations. To compound the lack of commitment to a fulsome social dialogue, the content of Giannitsis' reform package upset both unions and employers. Crucially, he ignored the prospects of a bilateral agreement soon emerging between unions and employers. The Government's interests were defined separately and an autonomous strategy followed.

'Non-cooperation' was the inevitable outcome of an uncertain and divided purpose. Government flirted with building a new corporatist process, but it was not united in doing so. It was soon unable to trust the process as a means to achieving its objectives. Both unions and employers were also unclear about the purpose of the dialogue. Notably, many unions thought that the role of government was to legislate on the basis of their bilateral agreement with the employers, following the practice of the National General Collective Labour Agreements (EGSSEs). Moreover, the unions and employers had insufficient incentives to break the deadlock. Instead, their role was defined as serving their established (insider) interests. Prevailing legislation gave strong protection against redundancy. Employers were wary of expanding their workforce. Thus, the structure of the game favoured those in employment. Representation was skewed, the excluded had no voice, and the perspective was short-termist and defensive.

The stimulus to reform was blurred by the separate strategies and interests. Policy norms and interests did not converge amongst the actors. The external constraint also lacked some definition and potency. Whilst Maastricht had defined clear criteria – of nominal monetary indicators – for 'euro' entry, the link with labour market reform was at most indirect. Moreover, the Lisbon agenda and the 'Open Method of Coordination' sustained ambiguities of understanding and lacked a critical decision-point linked to EU participation. Domestic social actors in Greece did not receive signals obliging them to adapt in the short-term, whilst the Government displayed a divided and lack of commitment to consensualism.

'Europeanisation' is now widely understood to be a process mediated by domestic institutional settings (Featherstone and Kazamias, 2001; Cowles, Caporaso and Risse, 2001). The process of social dialogue highlights the relevance of culture (social capital) to the process of external adaptation. Social capital, as Putnam has argued, is

a structure set over generations. Modernising reforms are constrained by its limits. The implementation of the Simitis project is structured by it, to the undoubted frustration of its authors. However, the present case study shows that agency also matters: and, that the strategies and interests set by Ministers themselves undermined the wider goals of modernisation. For all the players, future ambitions were captured by the past: the traditions of non-cooperation, of state intervention, of defensive sectional interests, and the lack of credible commitment. 'Europeanisation' could not overcome such barriers to entry.

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## Notes:

<sup>1</sup> Interestingly however, neither the title of the social dialogue nor the invitations to the social partners made any reference to EMU! The reasons behind this omission are not entirely clear. A plausible explanation is that the government wanted to avoid the austerity connotations associated with EMU qualification and, at this early stage, was keen to get the fiercely eurosceptic communist wing of GSEE involved in the process (something that in the end did not prove possible).

<sup>2</sup> The 19 subject areas were: maintaining increases in real income under conditions of low inflation; public investment; private investment; investment in human resources; banking; 'lame duck' companies; industrial policy; effectiveness of the public sector; collective bargaining; pay and wages; working time; part-time work; social protection for those working in new forms of employment; territorial employment pacts; conditions for working pensioners; rights and obligations under the law 2434/96 on employment and vocational training; employment policy in the EU.

<sup>3</sup> For all its considerable width, however, the dialogue's agenda included some noticeable omissions. Despite union demands for the opposite, neither pension nor education policies were placed on the negotiating table. The government's refusal to do so was largely determined by political considerations. Recent attempts to reform both policies had been met with massive opposition from the unions and large sections of the Greek society. Revisiting these issues within the context of the social dialogue was likely to rekindle tensions and undermine the government's efforts to secure consensus. As a result, a 'mini package' of pension reform was to be subjected to a separate process of consultation in early 1998, following the conclusion of the current social dialogue. Education was altogether excluded from any 'formal' consultation process.

<sup>4</sup> These were Christos Protopapas, deputy Minister of Labour; Apostolos Fotiadis, deputy Minister of Economics and Tassos Giannitsis, chief economic advisor to the Prime Minister.

<sup>5</sup> Each delegate represented GSEE's three largest party-political factions participating in the process: PASKE on behalf of PASOK; DAKE on behalf of New Democracy and Altonomi Kintisi on behalf of Synaspismos (SYN). The KKE-controlled faction of GSEE (PAME), the third largest force within GSEE, from the outset refused to join the process. Representatives of the public sector union, ADEDY, also participated in the Political Secretariat when the agenda included issues relating to public sector employees.

<sup>6</sup> A further 22 organisations were also loosely associated with the process through the infrequent meetings of the social dialogue's plenary session, but without providing any significant input. A notable absentee from the process was the newly-established Economic and Social Committee (OKE). Moreover, no independent research institutes or non-governmental organisations participated in the social dialogue.

<sup>7</sup> 'Compulsory overtime' has been a peculiarity of the Greek labour market since 1975. It related to the management's prerogative of forcing employees to work overtime for 8 hours a week (over and above the normal 40-hour week) with a pay increase of 25%. Any employment over a 48-hour week was considered 'normal' overtime. Pay for such overtime ranged from 25%-75% (depending on the total number of overtime hours worked) over and above the normal pay.

<sup>8</sup> On 23 October 1997, GSEE went on a one-day strike accusing the government of inflexibility in the social dialogue and demanding above-inflation pay-rises for 1998-99. See *EIRO*, 28.10.1997.

<sup>9</sup> A strong believer in the state's regulating role over the economy, Giannitsis had served as the chief economic advisor to the Prime Minister under both Andreas Papandreu (1993-1995) and Costas Simitis (1995-2000). During this time he acquired a reputation of a hard working, low profile operator whose deep knowledge of economics had provided vital input into the design of the government's economic strategy leading to Greece's qualification into the third stage of EMU. Yet Giannitsis was not a politician by trade and had openly declared that his political ambitions did not extend beyond the lifetime of this government. In this sense his appointment as Minister of Labour was a gamble. On one hand his standing as an extra-parliamentarian Minister gave him a considerable degree of freedom from the re-election worries facing career politicians. On the other hand, unlike his predecessor, his knowledge of day-to-day politics was limited and, crucially, he lacked close links with the party's machinery and the unions. These were qualities that his Deputy Minister, Christos Protopapas (a former president of GSEE who had also served under Papaioannou) had in plenty.



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<sup>10</sup> These were: 1) EU Community Support Framework; 2) Qualitative improvement of support mechanisms for employment policies; 3) Fiscal, income and anti-inflationary policy; 4) Structural policies for competitiveness; 5) Policies for the development of entrepreneurship; 6) Institutional framework for human resources policies; 7) Initiatives for high-unemployment areas; 8) Active employment policies; 9) Safety net against exclusion, inequality and poverty.

<sup>11</sup> On 24 August 2000 GSEE temporarily walked out of the process of social dialogue accusing the government of submitting a paper that was far too general and was not backed by any statistical data to the social partners! GSEE also warned the government that it would not give its consent to any reforms that involved managerial prerogative on working time, the reduction of limits on mass redundancies and any strategy that would encourage the extension of part-time employment in the private and public sector. For its part, the government continued its consultations with the employers' side and promised to the unions that a detailed document with the government reform proposals would be presented to the social partners by early September (*EIRO*, 16.8.2000).

<sup>12</sup> Mass redundancy limits were set at 5 people per month for all businesses employing up to 250 staff. Under the previous system for businesses employing up to 49 staff the limit was set at 5 redundancies per month (up to 10% of the total workforce). For businesses employing between 50 to 250 staff the limit ranged from 1 to 5 redundancies per month (ranging from 1% to 2% of the total workforce).

<sup>13</sup> Pay for the three hours (40-43) of 'compulsory' overtime would increase from 125% of normal wages to 150%. For 'normal' overtime (on the basis of management-union consent) between 43-48 hours per-week pay would increase to 175% of normal wages (from 125% previously). For overtime over and above 8 hours per week (i.e. over 48 hours) pay was set at 250% of normal wages (up from 200%).

<sup>14</sup> On 10 October 2000, GSEE organised a one-day strike against the government's plans on labour market reform. See also *To Vima*, 1.10.00 and 15.10.00.

<sup>15</sup> See, for instance, the stormy discussions during PASOK's National Conference on Unemployment (3-4 November 2000) and the joint meeting of PASOK's Parliamentary Group on Employment with the party's trade unionists (23 November). During these discussions, PASOK's Secretary General Costas Skandalidis and Deputy Minister of Labour, Christos Protopapas played an instrumental role in winning over party doubters. On this see *Eleftherotipia*, 3.11.00; 5.11.00 and 20.11.00)