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Reforming the Economy without Society: Social and Institutional Constraints to Economic Reform in post-1974 Greece

ANTIGONE LYBERAKI & EUCLID TSAKALOTOS

The issue of reform has much exercised social scientists over the recent past. A central question has been the economy and, in particular, what type of economic policies and institutions are suitable for an increasingly internationalised and competitive world economic environment. In the 1980s, during the ascendancy of neoliberalism, the strategy supported by the international agencies has been termed 'modernisation via internationalisation' or 'imitation with integration'[1] as more countries were called upon—and an increasing number felt that they had few alternatives but—to follow a familiar package of structural reforms: privatisation and an increasing reliance on the market, deregulation of labour and financial markets, and so on. This was a return of 'modernisation theory' with a vengeance—the implication being that the only strategy for the economies of the East and South was to follow the economic policies and institutions of the increasingly (neo)liberal North. On the other hand, there was also a growing awareness that the model of the North that economies were supposed to be following was hardly a unified one: 'imitating the United States does not point one in the same direction as followed by Sweden or Japan'.[2] As the 'new institutionalists' had argued, modern capitalist economies display significant differences with respect to the role that the market and hierarchy (in firms) play in their economies. Furthermore, these mechanisms of economic governance interact in distinct ways with other mechanisms such as the state, formal associations and informal communities and networks.[3]

The approach of this article lies firmly within this latter tradition in two respects. First, we argue that the analysis of economic reforms should be explicitly predicated on the existence of choice and alternatives. To be sure, particular economies will face important constraints stemming from the forces of international liberalisation or regionalisation (for instance, the creation of monetary unions). Such factors may narrow the range of feasible economic reforms,

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but, given the institutional diversity that persists, we would argue that there is little to be said for the argument that there are no longer any meaningful choices to be made with respect to economic reform. Second, we place a great deal of emphasis on social regulation. There is by now a large literature that suggests that successful economic performance cannot be understood exclusively on the usual state–market axis.[4] Both the state and the market are embedded in a whole host of institutions, both formal (unions, production networks, etc.) and informal (social norms, cultural characteristics, etc.); and these, which for convenience can be referred to as social regulation, are important factors not only in economic performance, but also in understanding the experience of past reform attempts and the likely success, or otherwise, of future reform strategies.

To explore the validity of these arguments further, we consider two microeconomic reform initiatives, concerned with public sector economic activity, promoted in Greece in the 1980s and 1990s. As we shall see, these two sets of reforms were very different in their policy prescription and both were ultimately unsuccessful. What they shared in common was that they sought to address some common features of the Greek social formation that were believed to lie behind the poor economic performance of the economy in the period following the restoration of democracy in 1974—specifically, a bureaucratic and highly inefficient public administration; the prevalence of state intervention at all levels of the economy; and the mediation of this intervention through non-transparent and clientelistic political relationships. The economic consequences of these features, it was argued, led to economic actors (firms, cooperatives, farmers, etc.) coming to rely on state subsidies rather than their own dynamism; to resources not going where they were most needed; and growing macroeconomic imbalances as the result of non-transparent, often semi-corrupt, subsidies and other inefficiencies of the system. Given the above, there was a consensus over the necessity for reforms that would be structural and more long-term in nature.

While so much was common, the two reforms to be discussed implied a very different policy response. The first reform, promoted by the Greek socialist party, PASOK, in the 1980s, can be considered social democratic in inspiration. It entailed reforming the framework of state intervention in the economy, and, in particular, the role of public enterprises, by institutionalising the relationship between the state and various social groups, in order to promote both more transparent social control and economic efficiency. The other policy, carried out in the early 1990s by the conservative New Democracy government, sought a more radical severing of the relationship between the state and economic actors. The strategy of privatisation of public enterprises was explicitly based on a neoliberal attempt to create a more market-oriented and de-politicised economy.

The main argument of the article is that, whatever their differences, the failure of both initiatives can be traced back in part to the fact that both were based on an incomplete account of the nature of the problem posed by the existing social formation. It is not a question of a misspecification of the features of the regime alluded to above. Rather there existed no theoretical understanding, or practical grasp, of the fact that the social formation to be reformed was associated with a particular type of social regulation—one which, as we shall argue, was underdeveloped in social capital—and the extent to which this would provide serious obstacles to the proposed reform projects. By failing to engage with the question of social regulation, the two initiatives to be discussed decreased severely the likelihood of their success.

The article is organised as follows. The following section sets out the argument that successful economic reforms may need to rely on a supportive social context, a factor that is often ignored in the existing economics literature on reform. We point to some of the limitations of that literature and, in particular, the fact that it ignores the importance of social regulation. The next section examines some of the central features of the Greek social formation facing reformers and the nature of social regulation. The penultimate section shows the extent to which this social regulation impeded the two reform initiatives of the 1980s and 1990s, after which we reach our conclusions.

Social regulation and the political economy of economic reform

The economics literature on economic reform has flourished over the last few years and there has been a new emphasis on the political economy of policy making.[5] Some important questions have been asked. Why is it the case that structural economic reforms, which would improve efficiency, are so often postponed or even abandoned? Why is this phenomenon observed even if a majority of the population would clearly benefit from such reforms? Using the standard toolbox of neoclassical economics—individualistic microfoundations, rational choice, utility maximisation and so on—economists, and other social scientists employing the same methodology, have come up with some intriguing answers to such questions. We do not seek to provide a review of this literature here,[6] but there are certain important themes worth noting, such as the prevalence of uncertainty, the distorting effects of politicians and bureaucrats with their own agendas, and similar distortions resulting from the influence of powerful sectional interest groups. Thus Fernandez and Rodrik show how it is possible, when there is uncertainty about who exactly will benefit from a certain policy reform, that a majority can oppose it even when a majority stands to gain.[7] Alesina and Drazen outline what they describe as a ‘war of attrition’ problem when a policy reform that would be a benefit to, say, two groups is postponed because each group wants the cost of introducing such a reform to be borne by the other.[8] Finally, Olson’s work on the ‘logic’ of collective choice—for instance, on how small groups that can overcome free-riding can outmanoeuvre larger groups which would benefit from a reform but find it difficult to organise—has led to a large literature on the effect of organised interests on economic efficiency.[9]

Clearly, it is significant for economics that it has expanded its horizons to encompass such questions and few would doubt that such models capture important aspects of the policy reform process. That politics and social organisation can create distortions is now hardly in doubt, but this literature is not without its problems and blind-spots. The argument here is that these constitute a hindrance to fully understanding the nature of the obstacles to economic reform. The basic problem has to do with the methodological underpinnings of the neoclassical literature, especially its individualistic bias. Society has no existence which is not reducible to individuals. Furthermore, the nature of individuals is rarely part of the analysis—that is preferences are taken as given. On the whole individuals are also taken to be self-interested,[10] but whether this is the case, or whether the approach can allow for, say, altruistic preferences, there is little awareness that society and its institutions can affect preferences. This conception seems partial and leads to a misspecification of the relationship between the individual and society. For instance, it is not easy to encompass the idea that individuals are often committed to the 'common good'—that is to say, that they appear to cooperate not just when it happens to suit them but because cooperation can be an end, not just a means.[11] Furthermore, individuals are often developed by public activities,[12] or, to put it another way, they are often 'learners' in search of a role, rather than wholly formed 'choosers' with given preferences for all time.[13] Thus Bowles argues that the institutional context of society has a big role to play in extracting either the cooperative or self-interested traits that all individuals have.[14] This contrasts sharply with the neoclassical approach where the existence of egoistic or opportunistic behaviour is taken as a predetermined given.[15]

The above argument has a number of important consequences for how we conceptualise economic reforms. The first is that, while the scope of economic analysis has been broadened, its focus may still be too narrow. On the whole economists seem to accept Summers's view: 'Spread the truth—the laws of economics are like the laws of engineering. One set of laws works everywhere'.[16] In this guise the neoclassical orthodoxy is but a version of the 'modernisation' thesis, in which all economies are basically going towards the same destination of a market economy and the central task becomes thinking up clever solutions to overcome the political and social obstacles. The alternative conception is that 'economic action is always and inevitably social action, and for this reason depends for its successful conduct on a supportive social context'.[17] The 'embeddedness' of all institutions suggests that the content of a successful economic reform package, as well as the nature of the obstacles likely to be faced, are likely to be—contra Summers—society-specific.[18]

Second, the methodology of neoclassical economics may miss some crucial aspects of what a 'supportive social context' may entail. Take the issue of trust and its role in promoting cooperation in economic transactions in the presence of uncertainty. A working definition is that 'agents exhibit trust when they expose themselves to the risk of opportunistic behaviour of others and when they have reason to believe that others will not avail themselves of this opportunity'.[19] Now the importance of trust has long been accepted by economists,[20] but a central question remains over whether it is best understood in purely instrumental terms—that is, as the result of individual rational decision making. For a number of reasons this seems intuitively implausible. There is something odd in the statement that I trust you because it is in your interest not to let me down.[21] For trust suggests that, within reason, you may not let me down even if it is in your interest on occasion to do just that.[22] In short, trust is more effective when it is taken for granted.[23] The above suggests that trust may rely on informal rules, norms and habits[24] as much as on economic calculation. Thus economic reform needs to be sensitive that such informal institutions are not inadvertently undermined in the reform process.[25] More positively, economic reform needs to consider ways in which cooperative and trustful behaviour is enhanced, rather than assuming that self-interest and opportunism constitute behavioural constants.[26]

A third consequence, therefore, and implicit in the above, is that often that which in the economics approach may seem to constitute constraints or rigidities may in fact be playing an important and beneficial economic role.[27] Streeck, in arguing that certain social constraints on 'rational voluntarism' may improve economic performance, points out that 'the notion of beneficial constraint implies that there is no such thing as a self-sufficiently "rational", efficient economy apart from and outside society, into which the latter may or may not decide to intervene; and how "rational" an economy is depends on the social institutions within which it is enclosed'.[28] Thus trade unions may be a source of wage rigidity, but, on the other hand, they may be helping to reduce uncertainty by structuring the relationship of workers with their employers. Informal networks between producers may result in inefficient collusion or rent-seeking behaviour, but they may also form the basis for providing collective goods (such as a sufficient supply of skilled workers) and for long-term trust relationships that allow firms to learn about the behaviour of other agents, exchange information about technology or production values and so on.

Fourth, this alternative conception allows the possibility that social groups can play a more positive role than is allowed for in the mainstream neoclassical literature. As O'Neill has argued, it is not convincing to take all associations to be narrow interest groups—'professional associations, even when they are conspiracies against the public, are not merely conspiracies as the public choice theorist supposes—they also have an interest in the goods the profession serves be it medicine, education, philosophy, economics, nature conservation or whatever'.[29] Putnam has been particularly influential in stressing the importance of 'civic community', as evidenced in cases where there exist horizontally ordered groups such as cooperatives and mutual aid societies. A key concept here is, of course, social capital,[30] including norms such as that of generalised reciprocity, which can 'restrain opportunism and resolve problems of collective action'.[31] Social capital exists in, and is preserved by, communities, associations, networks, families and clans.[32] Again, the suggestion is that there may be important social institutions, which have a beneficial effect on economic efficiency, which were not created in order to promote economic efficiency. But even more important for our purposes is to underline that the extent to which individuals, or groups, act in the manner that is suggested by public choice models is not a given—under a different context they can act in a far more cooperative manner.[33]

Given the above, we can for analytical purposes distinguish two overall approaches to economic reform. On the one hand, there is the approach mentioned in the introduction, 'modernisation via internationalisation', which suggests that the essence of reform is to remove obstacles that distort the market. There may be some role for the state but, on the whole, economic processes and policy are seen to be threatened by society. On the other hand, the alternative approach takes the existence of social regulation much more seriously. At times, this may entail a more conservative attitude to the weakening of traditional ties and communities. More positively, it suggests the need to nurture institutions of civil society, although which of these have a beneficial economic role is not always easy to determine.[34] To go further and create new institutions, to promote, for example, greater cooperation, may seem to be an even more difficult venture. But even Putnam,[35] who has been criticised for being too deterministic over the path dependency of institutions and the slowness of institutional change, has argued that 'changing institutions can change political practice' by means of gradually changing identities, values and power. Humphrey and Schmitz argue that process-based trust is derived from the process of cooperation and that the state has a role in fostering the institutional context in which such trust can thrive.[36] It can promote networks and, by assuming the role of 'broker' or 'facilitator', can accelerate the diffusion of trust and the willingness to cooperate.[37]

To conclude here, there are two strands to our argument. The first is that economic reform should entail choice. Our own preference is for most 'institutional economies'—in the sense that the market and hierarchical firms are more integrated with other mechanisms of economic governance (state, associations, communities, etc.)—but any choice is bound to include important trade-offs. The advantages of institutional economies may be that they are associated with a stronger collective goods potential than market systems and that they may exhibit flexibility in decision making as the result of the existence of trust which may help by 'reducing the need for formal transactions, avoiding costly trial and error, and accelerating the diffusion of best practice'.[38] On the other hand, less institutional and more market-oriented economies may be more flexible because they need less consultation before acting. Furthermore, it may be thought that they have the edge when an economy is in need of important structural changes, involving winners and losers—that is, when the question is abolishing or reforming the *status quo* rather than making the *status quo* more efficient.

Whatever the merits of these two broad alternatives, the second strand of our argument is that both are, even if to varying degrees, reliant on appropriate social regulation. This may seem to be less obviously the case with the first more market-oriented approach in the sense that, in terms of the definition of social regulation given above, such a strategy sees only very limited cases where cooperation has the edge over competition. However, it is clear that the market as an institution is itself reliant on certain social norms (such as a certain amount of trust that contractual obligations will be fulfilled) that give structure and meaning to market relationships. The fact that these ethical presuppositions of the market have been more stressed by conservative political theorists, such as Burke, or sociologists, such as Durkheim, rather than neoclassical economists should not prevent us from seeing their importance to modern market economies. Thus reformers ignore society at their peril—the weakening of traditional ties and communities can have unintended consequences for the economic performance of the market economy itself, as well as leading to other phenomena such as corruption and social disorder.[39] This seems to be one of the main lessons coming out of the experience in Eastern Europe and the transition to a market economy, but we would not disagree that 'institutional economies' are likely to make greater demands on 'social capital' than the more decentralised economies of the US–UK model. Here cooperation plays a greater role and the approach calls for a more direct engagement with various social groups. It is in this sense, therefore, that the obstacles to reform are likely to be diverse depending on the nature of the reform project.

Social regulation in Greece

Putnam's work on social capital stems from his detailed work on Italy in which he argues that the relative economic success of northern Italy can be traced to a historical tradition rich in those institutions that make for a healthy civic community. His argument is that it is horizontal networks of civil engagement (in horizontally ordered groups such as cooperatives, mutual aid societies and even music and sports clubs) that are important in solving the dilemmas of collective action. Such horizontal networks are prevalent in the north, whereas the south is dominated by vertical networks and kinship ties.[40] Vertical networks, such as patron–client relations common in clientelistic politics, 'no matter how dense and no matter how important to their participants, cannot sustain social trust and cooperation', not least because 'in the vertical patron–client relationship, characterised by dependence instead of mutuality, opportunism is more likely on the part of both patron (exploitation) and client (shirking)'. Kinship ties, on the other hand, while horizontal, are also inimical to fostering wider ties and merely sustain cooperation within the (extended) family but not between groups. In the 'uncivic regions' public life is organised hierarchically, the 'very concept of citizen is stunted' as political 'participation is triggered by personal dependency or private greed, not collective purpose', 'laws are made to be broken', while 'corruption is widely regarded as the norm'.[41]

Putnam's conception that a social formation rich in horizontal networks is likely to be associated with better economic performance has not gone unchallenged,[42] but our argument in this section is that Greece shares many of the characteristics of southern Italy. Its underdeveloped social regulation can be seen in relation to three central features of the Greek social formation: the central role, until recently at least, of the state in economic development; the clientelistic organisation of state and party politics; and the lack of autonomous and well-organised intermediate social associations and institutions. While we can not give a full account of the historical roots and development of all these features here, they are on the whole well accepted by most analysts and can be easily summarised.

For many observers the large role of the state in economic development in Greece, as elsewhere, is related to the 'lateness' of industrialisation.[43] In the 19th century the insertion of the Greek economy in the world market and the process of urbanisation assigned an important role to the state in the areas of infrastructural provision, export promotion, agricultural price regulation and so on. There also began the rapid increase in public sector employment to compensate for the weak absorptive capacity of the private sector that was to be a dominant feature of the whole of the twentieth century as well.[44] When the industrialisation process gained momentum after the 1929 'great depression' the centralised state structures were in place and had an immense advantage over emerging autonomous social organisations and intermediate institutions. For the private sector in the economy this often entailed that it concentrated its activities on expanding the degree of protection, or the level of subsidy, rather than relying on its own dynamism to improve its competitiveness. For the postwar period, Katseli, borrowing the term from Kornai, has described this phenomenon in terms of a 'soft-budget constraint' where certain groups have privileged access to government resources, with obvious implications for economic efficiency.[45] Moreover, in this context employers' organisations were hardly likely to have the inclination, let alone develop an ability, to articulate a coherent strategy with reformist priorities.

The role of the state in economic development has also influenced the wider context of state–society relations. Two features are particularly worth highlighting: the prevalence of clientelistic political arrangements, and the bureaucratic and inefficient nature of the Greek state. Clientelism has been a feature of Greek politics since the 19th century.[46] Party organisation was based on vertically organised, and deeply unequal, relationships by the exchange of *rousfeti* (political favours) with the result that 'politics was a necessary evil, a self-defence mechanism used to uphold a traditional way of life, not an instrument of emancipation'.[47] Clientelism characterises to a large extent the mode of individual political participation[48] and extends beyond simply getting access to state funds or protection. For example, clientelistic ties can facilitate access to services to which an individual is in any case entitled (e.g. a state pension). All citizens are liable to be drawn into clientelistic behaviour, and not just selected groups, making it more difficult to form horizontal associations and pressure groups—hardly a context conducive to the discussion of, and mobilisation for, universalistic economic reform.

In this light, the well-known bureaucratic and inefficient features of the Greek public administration, with its bewildering myriad of laws and regulations, are not just a question of its size mentioned above, but are actually quite functional to the operation of the system—for clientelistic politics can ease access to state subsidies, licenses and other forms of protection.[49] Thus, as Sotiropoulos argues, the notion of a strong state in the Greek context can be somewhat misleading.[50] In the post-1974 period the Greek state can be characterised as a 'weak state' in two respects: the public administration has little power to resist successive governments and it has, compared to the political parties, relatively few organisational resources. Nor, given this situation, was it easy for the bureaucracy to develop the type of professionalism and public service mentality that is a crucial ingredient of successful public administrations.[51] The above suggests that one other possible source for the promotion of reforms—a zealous and public-spirited bureaucracy—was never likely to be a factor in the Greek case.[52]

The final feature that is also well-documented is the weakness of Greek civil society. If civil society is taken to mean the existence outside of the state of independent societal interests and institutions,[53] then Greece scores poorly on this count. There are only a few well-organised ethnic and linguistic minorities; the church is closely tied to the state; voluntary associations are sparse and social services are sanctioned by the state; while labour and social movements (gender, peace, environmental, etc.) usually fall under party tutelage. The Ottoman heritage of living under authoritarian, but more importantly arbitrary and volatile, sets of rules, and the bureaucratic, and often authoritarian but always inefficient, state of the twentieth century have played an important part in this underdevelopment of civil society.[54] One of the results, which we would argue has been particularly important for the economy, is a particular expression of short-termism. Arbitrary and changing rules of the state, and clientelistic ties that are 'here today and gone tomorrow', put a premium on extracting the maximum gain from any situation as quickly as possible and make cooperation with others in horizontal relationships very risky. This underlines the argument of the previous section that the amount of self-interested, or for that matter cooperative, behaviour depends on the context. The argument here is that for a number of reasons self-interest has been particularly prevalent in Greece with important implications for the reform process as we shall see in the following section.

Thus the Greek economy has been relatively more successful, since at least later Ottoman times, in such areas as commerce, banking, shipping and tourism. These have one or more of the following features. In some cases, these activities were not tied to either specific physical locations or legal jurisdictions. Moreover, the investment could be more easily realised if necessary, and with less uncertainty, since, even in the 18th and 19th centuries, there were more well-developed secondary markets for the physical assets involved. This reduced the sunk cost element associated with other activities such as manufacturing. Finally, it is not that the areas in which the Greek economy tended to specialise did not make many claims on trust and long-term relationships, but rather that these could be more easily nurtured within smaller groups, especially familial and wider kinship ties. This also explains the continuing prevalence of very small-scale firms: in a low trust environment kinship ties may offer some defence against opportunistic behaviour.[55] However, this type of 'ascribed' trust (based on family, ethnic or other attributes) may be highly vulnerable and prone to destabilisation by growth itself, economic differentiation and the increasingly significant role played by outsiders. Thus it is worth speculating that kinship ties played an important role in Greece's impressive growth period of the 1950s and 1960s, but were unable to do the same in the 1970s and 1980s when the Greek economy became less protected, in part because of its ever closer union with the then European Community.

The difficulty in developing strong intermediate ties can also be seen in the lack of a strong independent labour movement. Schmitter, in a comparison of organised interests and their capacity for class governance in southern Europe, shows how far the Greek case is from that of northern Europe.[56] Most Greek analysts describe the state's relationship with social interest groups as a form of corporatism, but are fully aware that this is very different from the social corporatism of the Nordic, or even central European, economies.[57] Nor did Greece's impressive record of economic growth in the 1950s and 1960s, in the aftermath of the civil war, rely on the type of institutions that elsewhere underpinned the 'golden age of capitalism' and the 'social democratic consensus'. Thus Eichengreen argues that the spectacular economic performance of that period relied on various commitment mechanisms that helped overcome problems of collective action; such as institutions that monitored compliance and disseminated information (for instance, German workplace co-determination) or bonding institutions which ensured that social interest groups were locked into the bargain (Eichengreen refers to government subsidies to firms that helped to tie in capital and the welfare state that did the same for labour).[58] In Greece any 'consensus' that was achieved was bound to be of the authoritarian kind in the political circumstances of the postwar period.[59] When major steps were taken to incorporate previously excluded strata in the socioeconomic system after the restitution of democracy in 1974, this was bound to lead to serious economic problems, at least over the short run.[60] Inevitably important groups, lacking a tradition of democratic, let alone social corporatist, accommodation and bargaining over inter-group priorities at any particular time or between short-run and long-run objectives, focused on what they could extract in the short run. This had very serious consequences in terms of the worsening macroeconomic balances of the late 1970s and 1980s.[61] But what is important to stress yet again is that this 'short-termism' of important social groups was socially and culturally determined by Greek history and not the result of some universal constant for self-interested behaviour.

At the level of shared values and implicit assumptions, which culturally help to regulate economic behaviour, Diamandouros in a much-quoted paper has written of the existence of two cultures.[62] The older culture—Diamandouros refers to it as the culture of the 'underdog'—which bears the imprint of Balkan, Ottoman and Orthodox Church influences, is characterised by its introversion, a statist preference for paternalism and protection rather than risk-taking, strong kinship ties and a hostility to the market, innovation and other institutions of modern capitalism. It is a primarily defensive tradition, particularly entrenched among the more traditional and least competitive strata of society, characterised by low productivity and competitiveness. The younger culture, on the other hand, is characterised by its secular and extrovert orientation, more favourable stance to the market and 'liberal' reforms, and a willingness to rely less on the state and more on those institutions which mediate between state and society.[63] Diamandouros's analysis is much richer than this short summary suggests and his approach allows for a far more sophisticated account of the societal forces working for or against reform in any concrete case than the neoclassical approach discussed in the previous section.[64] But, paradoxically, it also shares some of the features of the modernisation thesis we have already criticised. For instance, here too the nature of the appropriate reforms are taken to be relatively uncontroversial. It is not clear to us, to take just one example, why somebody who is hostile to free markets, in part because of an egalitarian or, for that matter communitarian, commitment, and who would promote a more 'institutional economy', should necessarily be identified with backwardness.

Our argument is rather different. Certain problems associated with the Greek social formation (bureaucratic state, clientelism, etc.) were well-understood by reformers of different ideological and political persuasion. However, irrespective of whether reformers sought to restructure the framework of the state–society–economy nexus, or to promote a radical severance of the ties between the state and the economy, we would argue that they misunderstood, or at least underestimated, certain other problems associated with the Greek social formation. On the one hand, we have seen that important groups (the private sector, labour associations, state bureaucrats) were unlikely to be favourable to reform of (almost) any type. Moreover, cooperative behaviour was likely to be at a premium. On the other hand, the social formation was particularly poorly endowed with the type of social capital that could have supported a range of economic reform projects—for we have argued that even a more radical pro-market reform strategy should not be indifferent to this issue. It is this latter consideration and a closer study of the relationship between social regulation and two very different reform projects to which we now turn.

Societal constraints on reform initiatives in Greece

In this section we discuss two examples of attempted structural reforms in order to show how the lack of social regulation impeded their successful implementation. The first example is drawn from PASOK's first term of office in the first half of the 1980s and concerns its attempt to reform the public sector by creating new institutions to promote both social participation and improved economic performance. The second example takes us to the early 1990s and New Democracy's very different conception of both the goals and means of economic reform, entailing the privatisation of a number of state-owned (or controlled) firms.

Socialising public enterprises

The adoption of institutional and structural economic reforms was central to PASOK's first government programme.[65] PASOK appeared to be aware of the limitations of both the private and public sectors in carrying out some of the major goals of its alternative strategy. Thus its reforms were based on a dual rationale. On the one hand, they were seen as extending participation and social control over the economy; on the other hand, they were seen as a means for the promotion of economic development.

The dual rationale for the public sector entailed introducing elements of social control, decentralisation and democratic planning. This 'socialisation' policy for the nationalised industries (especially telecommunications, electricity and transport) was codified in Law 1365/83. The new organisational structure included, aside from a Management Council and a General Manager (responsible for day-to-day matters), a body called ASKE (Representative Assembly of Social Control) consisting of 25 representatives from the state, employees, local government, consumer interests and so on. The ASKE was responsible for medium- and long-term planning and providing an input to the national plan in its respective areas. While the state retained its dominant position, the idea was that the ASKE could provide a form of control that went beyond the rather formal control of parliament through the relevant minister characteristic of Morrisonian nationalisation in the UK in the 1940s and 1950s. This conception thus sought to restructure the traditional relationship in Greece between state and public enterprises in the direction of greater social control, transparency and economic efficiency.[66]

This initiative, like so many in PASOK's first two terms (1981–89), suffered numerous delays and was never fully implemented. Postponement entailed that the initial euphoria, associated with electoral success, was quickly replaced by PASOK's retreating confidence in its capacity to promote reform in an environment of mounting macroeconomic imbalances.[67] The planning and interventionist mechanisms that were more or less clearly specified at the programmatic level proved difficult to translate into fully worked out operational plans. This meant that most initiatives tended to be spasmodic and uncoordinated. Furthermore, as in all other areas, PASOK's policies were crucially undermined by the role of clientelistic practices in the appointment of personnel, in the use of the new institutions as informal instruments of selective social policy in order to consolidate PASOK's social and electoral base, and by *ad hoc* political interventions at all levels. Instead of the new institutions developing new initiatives and administrative practices, they merely reproduced the practices of the existing public administration.

In this context, it could be argued that PASOK was not particularly serious in promoting such reforms and that they merely represented populist gestures, rather than serious proposals for change, but such an argument, while not altogether unconvincing, may miss the point. The proposals were after all introduced. Our argument is that with a different social context they could have fared better, but that the Greek social formation was particularly infertile ground. Thus the lack of autonomous trade unions with a strong sense of the type of reforms they would want to see, the underdevelopment of consumer organisations and the traditional dependence of local government on the state meant that their representatives on the ASKE were in no position to exploit the new legislation. Given society's organisation along the lines of vertical linkages, discussed in the previous section, they had neither the knowledge, nor the resources, nor the stock of social capital to enter into the type of long-term trust relations and cooperation entailed by the new legislation. Instead mutual suspicions between the groups, and between such groups and the government—whose inclination, let alone ability, to enter into long-term credible commitments was, somewhat justifiably, always in doubt—made the focus on short-term gains the dominant strategy, fatally weakening the policy of socialisation even before it had got off the ground.

The failure of the socialisation policy was not the only example of unsuccessful microeconomic structural reforms during PASOK's first two terms of government in the 1980s. Experiments with planning agreements, sectoral industrial policies and the use of a state holding company to restructure a large number of 'ailing companies' (taken over by the state after they had assembled considerable debts) were no more successful.[68] The socialisation policy is characteristic of the type of problems confronted when trying to introduce interventionist microeconomic reforms in an economy such as Greece. Moreover, the focus on the short term, which we have argued here and in the previous section was so characteristic of many of the most important actors, also had severe consequences for macroeconomic policy, with macroeconomic imbalances approaching crisis proportions by the end of the 1980s whereupon PASOK lost power. PASOK, it could be argued, was never able to articulate a strategy to coordinate the long-term aspects of its reforms—and any efficiency gains of extending stakeholding in the public sector were likely to take time in materialising—with the short-term desire to promote its social agenda, preserve employment and hold together its electoral coalition.

Although it takes us slightly beyond the scope of this article we can perhaps say a little about PASOK's record in the 1990s and examine whether the latter record necessitates any alteration in our provisional conclusions. By 1993 PASOK returned to power with a much more orthodox agenda where macroeconomic stabilisation in order to achieve the Maastricht criteria was the central concern and the microeconomic reforms that were pursued were of the 'modernisation via internationalisation' type mentioned in the introduction. The macroeconomic strategy was successful and Greece has indeed been accepted as the twelfth participant in Economic and Monetary Union (EMU). Moreover, the reduction of inflation and public deficits, as well as the stabilisation of the debt, has been achieved in a context of high growth and investment and with fairly good growth in earnings. The downside, of course, has been the rise in unemployment to over 12 per cent—that is, from well below the EU average to above.

However, what is more interesting for our purposes is that PASOK has not had much more success with its more structural reforms. Delays in getting the appropriate legislation together, spasmodic and incomplete implementation, and attempts at avoiding the political cost were just as evident in the 1990s as they were in the 1980s. Take, for instance, pensions reform which has been considered for a very long time to be at the top of the list of structural reforms—the system is expensive, unjust and in constant need of public subsidies, while the demographic trends have created a general sense of insecurity. The approach after 1993 was to consolidate the revenue gains of two previous laws passed by non-PASOK governments.[69] After 1996 the need to solve the problem in a more decisive manner was solemnly announced and there ensued a public debate in 1997 with a 'final' bill to be introduced in '1997'.[70] The publication of a report on pensions and the demographic problem by an independent committee headed by Professor John Spraos[71] found public opinion so unprepared that the pension problem was unceremoniously relegated to the period after the next election. The PASOK manifesto of 2000 once more confidently announced that 'we will cut the Gordion Knot of the social security problem'.[72] Pension reform was indeed once again announced for 2001. A similar story can be made in relation to education and health reform where numerous laws were introduced in the 1990s which were either only partially implemented, or unenforced, or quickly taken over by new legislation. Reform in these areas is still a priority, but little progress has been made. In sum, the feeling that PASOK has succeeded in its macroeconomic policy, but failed in its structural reforms is widespread.[73]

Given the above, what conclusions can we draw? First, macroeconomic reform—inflation control and fiscal consolidation—may be easier to implement than microeconomic structural reform. We would argue that successful macroeconomic reform is less reliant on a supportive social environment. Of course, this says nothing about the costs of such reform and it is too soon to say whether macroeconomic adjustment will prove in Greece to have been at the cost of real convergence or whether the problems created, such as unemployment, will be long-lasting. Second, success in macroeconomics does not automatically cross over to success in other areas. PASOK, it seems, was no better able to promote its more orthodox agenda than its more interventionist one of the 1980s. It was also no better at coordinating the long-term and short-term aspects of its policies. The only difference was that the onus of the short term in the 1990s was on European integration and the Maastricht criteria, while in the 1980s it was on promoting a social agenda. In both cases the longer-term structural reforms were much less successful. PASOK's problems with its reform agenda in the 1990s suggest that a supportive social environment may be important even for a more orthodox reform agenda. To test this hypothesis in greater detail, we turn to examine such a policy reform exercise carried out by a party that was supposedly more committed in the 1990s to such an agenda.

Privatising public enterprises

New Democracy's strategy of privatisation constitutes a very different reform initiative in the direction of a more radical severance of the relationship between the state and public enterprises. In 1990, the new government faced severe macroeconomic imbalances—high inflation, budget deficits and public debt.[74] These imbalances were particularly problematic given Greece's wish to take part in European monetary union. Moreover, as elsewhere in southern Europe,[75] the government considered it important to question the whole basis of previous policies and dismantle, weaken or restructure the distribution coalitions which sustained them. Integral to this 'free market' shift was the announced privatisation programme which, in theory at least, aimed to roll back the frontiers of the state by means of transferring ownership rights to the private sector.

As with PASOK's reforms, there were significant delays with the implementation of policy. The original Interministerial Privatisation Committee (IPC), which involved the Ministers of National Economy, Finance and Industry, was set up to drive forward the process, even though it was not a decision-making body. Perhaps as a result it failed to push through the privatisation programme and legislation was introduced in late 1991 which was more 'hands on' and provided for detailed procedures for privatisation or liquidation if the latter proved impossible to carry out. The role of the IPC was upgraded with executive responsibility which could by-pass the cabinet.[76] The most widely discussed candidates for privatisation included large public utility companies (especially the national telecommunications organisation), financial institutions and a number of 'ailing industries' that had been taken into public ownership as a result of their high indebtedness. But perhaps a weakness of the legislation was that it did not explicitly list the companies to be included in the privatisation programme, thereby furthering more delays in the procedure.[77]

As with PASOK's socialisation strategy, this reform strategy of privatisation hardly got off the ground and there were few successful privatisations carried out by the time New Democracy fell from power in 1993.[78] Some of the reasons for this have to do with the particular political conjuncture. New Democracy formed a weak government with a parliamentary majority of only one. Furthermore, it had been excluded from power since 1981, with the result that party officials were far from prepared for the necessary reform initiatives and failed to take advantage of the 'honeymoon period'.[79]

Given the orthodox nature of the reforms it is clear that many of the factors of concern to a neoclassical approach played an important role. Thus uncertainty regarding the distribution of gains and losses from the reform programme goes some of the way to explaining the opposition of public sector employees. This uncertainty was accentuated by aggregate macroeconomic uncertainty and the lack of policy credibility.[80] The 'war of attrition' framework also seems a possible fruitful analytical tool for explaining New Democracy's delays and its reluctance to bear a disproportionate share of the burden. Furthermore, many of the public sector enterprises were hopelessly unattractive, or required extensive organisational, financial and managerial restructuring to prepare them for privatisation. The state's inclination and capacity to carry out such a venture was limited and thus 'one of the major pressures to privatise—the need to rid the state of costly loss-making enterprises—has also been a constraint on its capacity to do so'.[81] Another crucial factor was the inadequacy of financial markets, in particular the immaturity and 'shallowness' of the Stock Exchange and the inefficient operation of the banking system.[82]

Some other factors are more easily understood within an analysis that emphasises societal constraints. Thus Pagoulatos seeks to understand the failure of the privatisation programme in terms of intragovernmental politics and state organisational constraints. The latter is of particular importance from the perspective of this article. Pagoulatos argues that the programme was not helped by the existence of a bureaucracy 'with deep-rooted insecurity and suspicion towards superiors, dating back to traumatic experiences of partisan appointments, promotions and eliminations at the higher echelons'. To take just one example, fear of public exposure, or even legal entanglement, often meant that 'tenured legal advisers of ministries would refuse to take responsibility and place their signature under even the minor details of privatization-related documents, referring everything to the upper hierarchical levels all the way up to the Assembly of the Legal Council of the state. At the very least all this entailed significant delay'.[83]

The problem was not merely one of inaction, for one of the few areas where the bureaucracy could mobilise itself was in 'defending the patch' of its own ministry. To quote Pagoulatos again, 'in this context, the attitude of "standing for the department's rights" could be interpreted as a preemptive adaptation of higher bureaucrats to what they regarded as their minister's political expectation from the job, namely maximising available opportunities for power and control. In any case, departmentalism—even if more a result of intragovernmental feudalization than an expression of bureaucratic autonomy—tended to constrain the efficient formulation and implementation of IPC decisions'.[84] The response to such phenomena was equally problematic—relying on the dynamism of individual pro-privatisation ministers, treating procedural details with disregard in order to quicken the process and other *ad hoc* mechanisms were bound to create as many problems as they solved.

The delays that naturally resulted from the above were particularly serious in that they entailed 'the failure to create a "critical mass" of successfully privatised companies in order to work as paradigms for full completion of the programme'.[85] Such a failure is similar to that experienced by PASOK with its own reform agenda.[86] As will be clear, these themes relate closely to the earlier analysis where we argued that the Greek state, and in particular the bureaucracy, was unlikely to be a strong source of reform given its entanglement in hierarchical clientelistic relationships where uncertainty, 'shirking' and 'exploitation' are more frequent behavioural norms than trust and cooperation. Perhaps realising this, New Democracy attempted to short-circuit the process with the IPC. In doing so it followed in PASOK's footsteps in the sense that, rather than trying to reform the public administration, it attempted to create new structures to promote its goals. As with PASOK, this reticence to deal directly with the public administration proved fateful. Thus, as Pagoulatos, amongst others, has noted, there is often a major contradiction in trying to achieve non-statist goals by statist means. In terms of our argument in this article the contradiction stems, in part, from conceptualising reform merely in terms of the appropriate point on a state–market axis without taking into account a third pole of what we have termed social regulation. The institutional failure of privatisation at the level of government described above graphically illustrates the difficulty of reform when trust, cooperation and initiative are at such a premium.

What is more surprising is that the privatisation reforms in the Greek case failed to be supported even by forces which would appear, at first sight, to be the natural allies of such initiatives. The Federation of Greek Industries never became a major pro-privatisation lobby[87] and the Greek context did not provide fertile ground for the development of the type of neoliberal ideology that underpinned privatisation drives elsewhere. Powerful economic interests against reform included public sector suppliers (in particular, those that supplied telecommunication material, or construction companies that had won contracts to undertake large public works) and other private sector companies which feared the increased competition that could arise from the privatisation of firms in their industry. Such phenomena, which clearly have a strong Olsonian flavour, are easily conceptualised within a neoclassical framework,[88] but the latter approach may still be relatively insensitive to important institutional and cultural differences, and the path dependency of these differences, and thus tend to underestimate the strength of the obstacles to reform in concrete situations. In the Greek case, such path dependency operated even more strongly at the wider level of social norms and attitudes, which were also not conducive to the strategy. The lack of prospective domestic buyers further weakened the case for privatisation by making it appear more as a sell-out to 'foreigners' and less as one element in a strategy of modernisation. In this context opposition to privatisation reflected a number of shared assumptions and beliefs: an aversion to the market mechanism, a preference for protection and income-support mechanisms, a belief in the 'devil-you-know' *status quo*, a certain nationalistic current that made learning from experiences elsewhere difficult and a general reluctance to take risks. This merely underlines the point, initially made in the first section, that the market itself is dependent on social norms. The problems in the Greek context may not have been as severe as in the privatisation experiments in Russia and Eastern Europe, but they were enough to ensure powerful societal forces working against the reform strategy.

What can we say about the privatisation programme in the period after 1993 when PASOK returned to power with, as we have seen, a far more orthodox agenda? On the one hand, the privatisation programme had to a certain extent been discredited by the previous experience and it was one of the reasons for the fall of the New Democracy government in 1993. On the other hand, PASOK looked more favourably on such reforms and, indeed, had a number of advantages over New Democracy—a stronger government mandate, more docile unions and a 'Nixon goes to China' syndrome whereby certain policies are more easily implemented by their traditional opponents.[89] One should not exaggerate either the number of privatisations carried out by PASOK, or the size and importance of the public enterprises that were privatised.[90] Though shares were sold in the telecommunications company OTE, fixed voice telephony services were only due to be opened to competition in 2001, Greece having made full use of the derogation period granted by the EU. Management of OTE still remains firmly under the control of the state. Repeated attempts to solve the problems of Olympic Airways have only resulted in increasing sums of capital being channelled into the company with little or no effect. The Public Power Company was made into a joint stock company only in late 2000 and not a single share has yet been sold. Successful privatisations were concentrated in the financial sector,[91] where pressure from the integration of European financial markets was particularly acute. Other privatisations were of much less significance (including the Neorion Shipyards, the Athens and Salonika Port Authorities and Water Supply, and the Duty Free Shops), certainly not enough to convince investors in the stock market who consistently put part of the blame for the crisis in the Athens Stock Exchange after September 1999 on the failure to proceed with the privatisation programme. Although it is only fair to say that privatisation never became a programmatic flagship for PASOK, it was an important component of its structural reforms after 1993. Once more, whatever progress has been made has been painfully slow, underlining the argument not so much that such reforms are impossible to carry out in Greece but that the social context is particularly unfavourable.

Conclusions

We have argued that much of the existing neoclassical literature on economic reform, while it may have important insights into the nature of the reform process, also has important blind spots. We have stressed that an individualistic methodological bias tends to misspecify the relationship between the individual and society. In a sense this is not surprising for neoclassical economics during its marginalist turn, under such theorists as Jevons and Walras, was explicitly intended to abstract from various social factors. That being the case, it is doubly important that care is taken when this methodology is then employed to understand processes, such as economic reform, that are deeply social in nature. In order to make this argument clearer, we have focused on the relationship between reform and social regulation.

We have shown how the nature of social regulation in Greece has acted as an obstacle to different types of reform strategies. Important actors that may have been expected to initiate reform—we have discussed the role of employers' and workers' organisations as well as state officials in this respect—were unlikely to do so in the Greek case. It could be argued that this is not surprising—why should firms, for instance, go against their own interests to reform a system that may be of benefit to them? This is a reasonable, but ultimately unsatisfactory, response. For firms need to think not only about how best to exploit existing institutional constraints and possibilities, but whether they could not do even better in a changed institutional environment—either because the existing structure cannot last for ever or because there are important possibilities not being exploited by keeping the existing structure. Part of our argument has been that in a low trust society with underdeveloped social capital the dominant strategy is precisely to stick with the 'devil you know', avoiding reforms, almost of any type and clinging to existing relationships. This is likely to be privately 'optimal' only in a very short-termist sense and can clearly often go against what is socially optimal.

More importantly, perhaps, we have shown that the nature of social regulation in Greece meant that, once reform was initiated, it fell upon infertile ground. This was perhaps clearer in PASOK's more social democratic reforms which would have needed to make greater claims on social capital if they were to succeed. Institutions, including informal institutions such as social norms and attitudes, were not conducive to the type of framework of trust, credible commitments and long-run relations that could have provided societal support for such a reform initiative. While accepting that more market-oriented reforms may need to make lesser claims on social capital, we have also shown how this factor was important in New Democracy's reform strategy of privatisation.

Finally, we have stressed throughout that the analysis of economic reforms should be explicitly predicated on the existence of choice and alternatives. Therefore, while the social should feature in all accounts of economic reforms, different reform projects will need to rely on different societal prerequisites and will face different societal constraints.

Notes

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1. A. Przeworski *et al.*, *Sustainable Democracy* (Cambridge University Press, 1995).
2. *Ibid.*, p. 13.
3. C. Crouch & W. Streeck, 'The future of capitalist diversity', in: C. Crouch & W. Streeck (Eds), *Political Economy of Modern Capitalism* (Sage, 1997), pp. 1–18.
4. J. Hollingsworth & R. Boyer (Eds), *Contemporary Capitalism: The Embeddedness of Institutions* (Cambridge University Press, 1997).

5. D. Rodrik, ‘Understanding Economic Policy Reform’, *Journal of Economic Literature*, Vol. 34 (1996), pp. 9–41.
6. For an excellent review, see *ibid.* P. Liargovas, ‘The changing role of the Greek state in view of EMU’, in: A. Mitsos & E. Mosialos (Eds), *Contemporary Greece and Europe* (Ashgate, 2000), pp. 205–21, discusses this literature in the context of the Greek experience.
7. R. Fernandez & D. Rodrik, ‘Resistance to Reform: *Status Quo* Bias in the Presence of Individual-Specific Uncertainty’, *American Economic Review*, Vol. 81, No. 5 (1991), pp. 1146–55.
8. A. Alesina & A. Drazen, ‘Why are Stabilisations Delayed?’, *American Economic Review*, Vol. 81, No. 5 (1991), pp. 1170–88.
9. M. Olson, *The Logic of Collective Action* (Harvard University Press, 1965); and M. Olson, *The Rise and Decline of Nations* (Yale University Press, 1982).
10. This, of course, is not necessary to rational choice theory—in which it can be just as rational to be altruistic as selfish—but is the case in most models of the public choice school.
11. A.O. Hirschman, *Essays in Trespassing* (Cambridge University Press, 1981).
12. A. Graham, ‘The UK 1979–1995: myths and realities of conservative capitalism’, in: Crouch & Streeck, *Political Economy of Modern Capitalism*, pp. 127–31.
13. S. Bowles & H. Gintis, *Democracy and Capitalism: Property, Community, and the Contradictions of Modern Social Thought* (Routledge, Kegan & Paul, 1987), pp. 121–51.
14. S. Bowles, ‘Endogenous Preferences: The Cultural Consequences of Markets and Other Economic Institutions’, *Journal of Economic Literature*, Vol. 36 (1998), pp. 75–111.
15. Of course, elsewhere in the social sciences (including classical political economy in the tradition of Smith and Mill), a concern for how institutions, such as the market, will affect individuals, the level of trust and cooperation, and the moral basis of society in general, has a long history.
16. Quoted in D. Miliband, ‘The New Politics of Economics’, in: C. Crouch & D. Marquand (Eds), *Ethics and Markets* (Blackwell, 1993), p. 25.
17. Crouch & Streeck, ‘The future of capitalist diversity’, p. 5.
18. On the embeddedness of institutions, see M. Granovetter, ‘Economic Actions and Social Structures: The Problem of Embeddedness’, *American Journal of Sociology*, Vol. 91 (1985), pp. 481–501; and Hollingsworth & Boyer, *Contemporary Capitalism.*
19. J. Humphrey & H. Schmitz, *Trust and Economic Development*, IDS Discussion Paper, No. 355, 1996, University of Sussex, p. 4.
20. See K. Arrow, ‘Gifts and Exchanges’, *Philosophy and Public Affairs*, Vol. 1 (1972), pp. 343–62.
21. W. Streeck, ‘Beneficial constraints: on the economic limits of rational voluntarism’, in: Hollingsworth & Boyer, *Contemporary Capitalism*, pp. 197–219.
22. On the origins of social norms, such as trust, and the fact that it is mistaken to merely assume that an adequate account of them must be in terms of economic self-interest, see D. H. Hausman & M.S. McPherson, *Economic Analysis and Moral Philosophy* (Cambridge University Press, 1996), pp. 56–57.
23. Humphrey & Schmitz, *Trust and Economic Development*, p. 7.
24. See G. Hodgson, *Economics and Institutions* (Polity Press, 1988), pp. 167 and 205.
25. Such theorists as Horkheimer, Schumpeter, Polanyi and Hirsch are only the most well-known examples of those that have expressed the view that the market may well undermine its own success by eroding the societal prerequisites of its success.
26. For more on trust as a ‘non-calculable social norm’ and the importance of the wider social context in forming the attitudes and predispositions of economic agents towards trusting (and non-trusting) behaviour, see N. Luhman, ‘Familiarity, confidence, trust, problems and alternatives’, in: D. Gambetta (Ed.), *Trust: Making and Breaking Cooperative Relations* (Blackwell, 1988); O. Williamson, ‘Calculativeness, Trust and Economic Organisation’, *Journal of Law and Economics*, Vol. 36, No. 2 (1993), pp. 453–86; and M. Storper, ‘The Resurgence of Regional Economies: 10 Years Later’, *European Urban and Regional Studies*, Vol. 2, No. 3 (1995).
27. Hodgson, *Economics and Institutions*, p. 205; Streeck, ‘Beneficial constraints; and G. Agell, ‘On the Benefits from Rigid Labour Markets: Norms, Market Failures, and Social Insurance’, *Economic Journal*, Vol. 109 (1999), pp. F143–64.
28. Streek, ‘Beneficial constraints’, p. 198.
29. J. O’Neill, *The Market: Ethics, Knowledge and Politics* (Routledge, 1998), p. 170.
30. On social capital, see, for instance, J.S. Coleman, ‘Social Capital in the Creation of Human Capital’,

American Journal of Sociology, Vol. 94, supplement (1994) and, for a range of articles, P. Dasgupta & I. Serageldin (Eds), *Social Capital: A Multifaceted Perspective* (World Bank, 2000).

31. R. D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton University Press, 1993), p. 172.
32. *Ibid.* and K. Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Beacon Press, 1957).
33. Again rationality has little to do with the issue—both self-interested and cooperative behaviour can be equally rational. What it is rational to do will be influenced by the context.
34. Streeck, 'Beneficial constraints', discusses the interesting example of the German guilds which after 1945 many thought to be an anachronism but which were later acknowledged to be central to the excellent training and skills record of the German economy.
35. Putnam, *Making Democracy Work*, pp. 183–4.
36. As opposed to ascribed trust which is based on the characteristics of the partners (family, ethnic or some other pre-existing attribute). See Humphrey & Schmitz, *Trust and Economic Development*.
37. A. Krishna, 'Creating and harnessing social capital', in: Dasgupta & Serageldin, *Social Capital*, shows how social capital can actually be developed by getting people to debate and shape their common ends together. Again this conception sits uneasily beside the methodology of the neoclassical literature where, as in most neoclassical theorising, ends are given. In Krishna's conceptualisation, social capital is not just a means to help people achieve given ends, but a framework for debating ends as well.
38. Crouch & Streeck, 'The future of capitalist diversity', p. 7.
39. See Graham, 'The UK 1979–1995'.
40. Putnam, *Making Democracy Work*, pp. 174–5.
41. *Ibid.*, p. 115.
42. Putnam has been criticised on a number of counts—that the analysis is too deterministic and relies too heavily on path-dependency, that it fails to provide an adequate theory of horizontal networks and tends to romanticise traditional communities etc. See, for instance, M. Levi, 'Social and Unsocial Capital: A Review Essay of Robert Putnam's *Making Democracy Work*', *Politics and Society*, Vol. 24, No. 1 (1996), pp. 45–55 and a number of other contributions to the same issue of *Politics and Society*.
43. N. Mouzelis, *Politics in the Semi-Periphery* (Macmillan, 1986).
44. On the extraordinary growth in public sector employment, see G. Dertilis, 'The autonomy of politics from social contradictions in the Greece of the 19th Century', in: F. Vegleris *et al.* (Eds), *Social and Political Forces in Greece* (Exantas, 1977) and C. Tsoukalas, *State, Society and Work* (Themelio, 1977).
45. L. Katseli, 'Economic integration in the enlarged European Community', in: C. Bliss & J. Braga de Macedo (Eds), *Unity with Diversity in the European Economy* (Cambridge University Press, 1989), pp. 235–309.
46. N. Mouzelis, *Modern Greece: Facets of Underdevelopment* (Macmillan, 1978); and G. Mavrogordatos, *Between Pytiokamptis and Prokroustis: Professional Organisations in Modern Greece* (Odysseas, 1988).
47. D. Sassoon, *One Hundred Years of Socialism* (Fontana, 1996). On the new twist given to clientelism by the strengthening of party machines after 1974, see N. Mouzelis, 'Continuities and discontinuities in Greek politics', in: K. Featherstone & D.K. Katsoudas (Eds), *Political Change in Greece* (Croom Helm, 1987), pp. 271–87.
48. D. Sotiropoulos, 'Civil society and the Greek state in the Third Hellenic Republic', in: C. Lyrintzis, E. Nikolakopoulos & D. Sotiropoulos (Eds), *Society and Politics* (Greek Political Science Society, Themelio, 1996), pp. 118–38.
49. M. Petmetzidou-Tsoulouvi, *Social Classes and the Mechanisms of Social Reproduction* (Exantas, 1987).
50. D. Sotiropoulos, 'State Bureaucracy and the Populist Party: The Case of PASOK, 1981–89', *Synchrona Themata*, Vol. 49 (1993), pp. 45 and 52.
51. In cases of asymmetric information where the nature of the good, or service, is complex with many attributes, professionalism (in academics, doctors, and public servants) can act as a powerful social norm preventing the professionals from exploiting their informational advantage and therefore limiting the scope of self-interested and opportunistic behaviour. See Hirschman, *Essays in Trespassing*, p. 220.
52. See G. Pagoulatos, 'The six syndromes of structural adjustment or what Greek privatisation can teach', in: E. Mossialis & A. Mitsos (Eds), *Contemporary Greece and Europe* (Ashgate, 2000), pp. 223–42.
53. J. Keane, *Democracy and Civil Society* (Verso, 1988).
54. N. Diamandouros, *Cultural Dualism and Political Change in Post-Authoritarian Greece*, Working Paper 1994–50, Centro de Estudios Avanzados en Ciencias Sociales, Instituto Juan March de Estudios e Investigaciones.

55. Humphrey & Schmitz, *Trust and Economic Development*; and A. Lyberaki, 'Networking, flexible specialisation and small companies', in: C. Pitelis & N. Antonakis (Eds), *International Competitiveness and Industrial Strategy* (Gutenberg, 1998).
56. P.C. Schmitter, 'Organised interests and democratic consolidation in southern Europe', in: R. Gunther *et al.* (Eds), *The Politics of Democratic Consolidation: Southern Europe in Comparative Perspective* (Johns Hopkins University Press, 1995), pp. 284–314. On the long history of state intervention and party domination in the Greek labour movement, see Mavrogordatos, *Between Pytiokamptis and Prokroustis*; Sotiropoulos, 'State Bureaucracy and the Populist Party'; and S. Zambarloukou, 'The trade union movement and state interventionism in post-1974 Greece', in: C. Lyrintzis *et al.*, *Society and Politics*, pp. 91–118.
57. On the nature of Greek corporatism, see C. Tsoukalas, 'Radical reformism in a pre-welfare society', in: Z. Tzannatos (Ed.), *Socialism in Greece* (Gower, 1986), pp. 24–34; Mouzelis, *Politics in the Semi-Periphery*; Mavrogordatos, *Between Pytiokamptis and Prokroustis*; and Sotiropoulos, 'Civil society and the Greek state in the Third Hellenic Republic'. There are some different nuances between the authors but, for our purposes in this article, these constitute variations on the same theme.
58. B. Eichengreen, 'Institutions and economic growth: Europe after World War II', in: N. Crafts & G. Toniolo (Eds), *Economic Growth in Europe since 1945* (Cambridge University Press, 1996), pp. 38–72.
59. G. Alogoskoufis, 'The Two Faces of Janus: Institutions, Policy Regimes and Macroeconomic Performance in Greece', *Economic Policy*, No. 20 (1995), pp. 149–92.
60. J.M. Maravall, 'Politics and policy: economic reforms in southern Europe', in: L.C.B. Pereira, J.M. Maravall & A Przeworski (Eds), *Economic Reforms in New Democracies* (Cambridge University Press, 1993), pp. 77–131; and E. Tsakalotos, 'The Political Economy of Social Democratic Economic Policies: The PASOK Experiment in Greece', *Oxford Review of Economic Policy*, Vol. 14, No. 1 (1998), pp. 114–38.
61. See Tsakalotos, 'The Political Economy of Social Democratic Economic Policies'.
62. Diamandouros, *Cultural Dualism and Political Change in Post-Authoritarian Greece.*
63. The latter culture, Diamandouros argues, is strongly linked to the Greek diaspora communities and those with strong links with the diaspora—for instance, those involved in outward-oriented economic activities.
64. Others such as G. Pagoulatos, 'Believing in national exceptionalism: economic convergence and divergence in southern Europe', unpublished mimeo, 1999, have developed some of the themes of Diamandouros by suggesting that a culture of 'national exceptionalism', in which policy experts but also wider social strata consider that Greece is in some sense special, has resulted not in a healthy concern with how to apply reforms in a local context but in an isolationism which is backward looking and in the end acts as a barrier to modernising reforms.
65. For a full account of the underlying rationale and implementation of PASOK's 'alternative economic strategy', see E. Tsakalotos, *Alternative Economic Strategies: The Case of Greece* (Avebury, 1991).
66. Interestingly, this can be compared to the recent discussions on the importance of stakeholders. See G. Kelly, D. Kelly & A. Gamble (Eds), *Stakeholder Capitalism* (Macmillan, 1997).
67. See Tsakalotos, 'The Political Economy of Social Democratic Economic Policies'.
68. See Tsakalotos, *Alternative Economic Strategies.*
69. PASOK since 1981 has only been out of power in the period 1990–1993.
70. PASOK 1996 election manifesto.
71. The report was published as *The Economy and Pensions: A Contribution to the Public Debate* (Committee for the Examination of Long-term Economic Policy, 1997).
72. See P. Tinios, *Society, Economy, Pensions: Hidden Treasure?* (Papazisi, 2001).
73. It is reflected in the very sharp fall in the Athens Stock exchange after September 1999, losing about 50 per cent of its value. Financial analysts have repeatedly linked the crisis of the stock exchange to the failure of structural reforms. The European Commission in its latest report on Greece's 'Stability and Growth Programme' also draws attention to the delays in much-needed structural reforms. Indeed government ministers, clearly feeling that they are on the defensive, have increasingly argued that, since Greece has achieved its European integration goal, it is now time to concentrate on structural reforms.
74. For an analysis of the extent and underlying causes of these imbalances, see Tsakalotos, 'The Political Economy of Social Democratic Economic Policies'.
75. See G. Pagoulatos & V. Wright, 'The Politics of Industrial Privatisation: Spain, Portugal and Greece in a European Perspective', *Rivista Trimestale di Dizitto Pubblico*, Vol. 3 (1999), pp. 613–62.

76. See G. Pagoulatos, 'The Enemy Within: Intragovernmental Politics and Organizational Failure in Greek Privatization', *Public Administration*, Vol. 79, No. 1 (2001), pp. 125–46.
77. See N. Haritakis & C. Pitelis, 'Privatisation in Greece', in: D. Parker (Ed.), *Privatisation in the European Union* (Routledge, 1998), p. 129.
78. See *ibid.*, p. 133.
79. Pagoulatos, 'The six syndromes of structural adjustment or what Greek privatisation can teach'.
80. P. Liargovas, 'The changing role of the Greek state in view of EMU', in: A. Mitsos & E. Mosialos (Eds), *Contemporary Greece and Europe* (Ashgate, 2000), pp. 205–21; and D. Papoulias & C. Tsoukas, *Directions for Reforming the State* (Kastaniotis, 1998).
81. Pagoulatos & Wright, 'The Politics of Industrial Privatisation'.
82. H.D. Gibson & E. Tsakalotos (Eds), *Economic Integration and Financial Liberalisation* (Macmillan, 1992).
83. Pagoulatos, 'The Enemy Within', pp. 133 and 134.
84. *Ibid.*, pp. 138–9.
85. Haritakis & Pitelis, 'Privatisation in Greece', p. 134.
86. Although this consideration was probably more critical for some of the other structural interventions of PASOK than with the socialisation policy discussed in this article. See Tsakalotos, *Alternative Economic Strategies*.
87. Y. Caloghirou & A. Lyberaki, 'Privatisation: The Political Economy of Resistance to Adjustment', *Economikos Tachydromos*, No. 39 (25 September 1997).
88. For a range of views within the Greek context, see S. Alexandropoulos, *Social Action and Interest Representation in Greece*, unpublished PhD thesis, Panteion University, Athens, 1990; D. Kioukas, *The Organisation of Interest Groups in Greece* (Exantas, 1994); Zambarloukou, 'The trade union movement and state interventionism in post-1974 Greece'; and Liargovas, 'The changing role of the Greek state in view of EMU'.
89. Pagoulatos, 'The six syndromes of structural adjustment or what Greek privatisation can teach'.
90. Certainly from their annual Economic Surveys on Greece, we can deduce that the OECD was distinctly unimpressed.
91. The largest financial institution to be privatised was the Ionian bank, the others being much smaller.