

# TESTING THE EUROPEANIZATION HYPOTHESIS: MACROECONOMIC ADJUSTMENT PRESSURES AND THE SOUTHERN EUROPEAN WELFARE MODEL

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## ABSTRACT

The literature on Europeanization investigates the ways in which processes of European integration and EU-level policy-making affect domestic institutional structures. The extent to, and the ways through which member states respond to adaptational pressures stemming from the EU will depend on the ‘goodness of fit’ between the EU policy regime and member states’ policies.

This paper seeks to test the empirical validity of the Europeanization hypothesis regarding the impact of macroeconomic adjustment policies followed in Greece and Spain since the mid-1980s on domestic social policy arrangements. According to the Europeanization hypothesis, Southern European economies would constitute the largest ‘misfits’, thereby inviting massive adaptational pressures for macroeconomic adjustment. Such pressures would lead to a substantial weakening of their welfare model and a radical restructuring of their labor regulation systems. We examine welfare programs and labor relations, and identify political and institutional structures acting as intervening variables between adaptational pressures and reform outcomes. Contrary to the Europeanization hypothesis, very low levels of adaptational pressure in Spain have led to a disproportionately high level of change in social policy. What is more, higher levels of adaptational pressure in Greece have failed to translate into sweeping social policy change. In both cases, the restructuring of their labor regulatory systems has been less dramatic than originally predicted.

## 1. Introduction

In recent years, Europeanization has attracted increased scholarly interest. It has been seen as a two-way process, with policy input flowing both from the EU level to the member states and vice-versa (Cowles et al. 2001). Their focus is on the top-down path and Europeanization is synonymous with the formation of policies and institutions at the European Union level. In order for these to work, a certain ‘goodness of fit’ is required. EU policies will have a discernible impact on the domestic level only if there is a certain difficulty in their domestic absorption. If the existing policy framework fits well with the EU, there will be little discernible effects since pressures for change will be minimal. In cases of a ‘moderate fit’ however, changes will be rather significant and Europeanization likely to have the biggest impact possible. This approach owes a lot to new institutionalism as it highlights the role of domestic institutions and policy actors in rejecting or embracing ‘Europe’.

Starting from the 1980s, the project of European integration was relaunched following years of institutional and political stalemate. The signing of the Single European Act (SEA) in 1986 was not only an institutional breakthrough for the moribund Union but also provided the

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foundations upon which the Economic and Monetary Union (EMU) would be built. Prior to EMU, the Maastricht Treaty of 1991 codified the preconditions necessary for Member States to join EMU. Thus, Europeanization can be defined as the development of the European integration process and its impact on member states' policies. As a result, the Europeanization hypothesis refers to the expected changes in member states' policies resulting from economic and monetary integration. In this paper, we concentrate on social and labor relations policies. The design and implementation of the convergence criteria agreed upon in Maastricht put pressure on fiscally lax states to cut public expenditure in order to reduce deficits and retrench debt levels. The adoption of EMU was allegedly the result of Europe's neoliberal turn that endangered both mature and rudimentary welfare states. Countries that had been prone to deficit spending would now be put under additional pressure to install fiscal discipline. This could mean that social expenditure would have to be curtailed in an attempt to enhance the competitiveness of the economy and remain within the limits set in Maastricht. It also meant that the existing labor regulatory regime would have to be transformed to a neoliberal, i.e. deregulatory orientation.

This paper seeks to test the empirical validity of the Europeanization hypothesis regarding the impact of macroeconomic adjustment policies followed in Greece and Spain since the 1980s on domestic social policy arrangements. Our case study selection is based on a most similar system design. According to the Europeanization hypothesis, Southern European economies constitute the largest 'misfits', since they were characterized not only by 'severe labor market rigidities and segmentation [and] an extraordinary level of fragmentation in welfare provision structured largely along occupational lines and employment status' (García and Karakatsanis, 2006: 92) but also extraordinarily high public fiscal imbalances. In that context, both countries were expected to invite massive adaptational pressures for macroeconomic adjustment and the restructuring of their labor relations and welfare state structures. However, an important difference was that Greece faced much larger adaptational pressures due to its extremely high levels of debt and deficit compared to Spain. This was, at least to some degree, caused by the absence of policy concertation in Greece during the 1970s and 1980s, which led to the sharp deterioration of macroeconomic indicators. By contrast in Spain a series of successful social bargains between 1977 and 1986 meant that macroeconomic considerations entered the collective bargaining arena (Royo, 2002: 81). Thus, macroeconomic stability became a policy priority in Spain at a relatively early stage following democratization.

In what follows, we will first review the existing literature on the impact of Europeanization on labor relations and welfare states. In doing so we will also refer to various facets of Europeanization and their implications, and specify the variables on the basis of which Europeanization will be assessed. Following that, we discuss changes in labor relations in Greece and Spain on the basis of the variables identified earlier. These are wage bargaining, unionization rates and labor market deregulation. The next section discusses welfare state trajectories in the two cases reflected in changes in social expenditures and welfare state programs. The concluding section will bring together the paper's main findings.

## **2. Literature Review**

### *2.1 Labor Relations*

The process of Europeanization understood as economic integration since the Single Market program was launched in the 1980s was often seen as signaling the beginning of a process leading to the deregulation of labor markets. This was deemed inevitable in the face of the need to conform to the market dynamics emanating from the liberalization of capital. To the

extent that labor regulation constrained market forces in their search for competitiveness and profitability national labor relations regimes had to be restructured along the lines of a neoliberal direction (Mahnkopf and Altvater, 1995). The Union's Social Dimension was deemed ineffective and minimalist in reversing the deregulatory policy agenda initiated with the Single Market and intensified with the Maastricht Treaty and EMU. Social dumping resulting from competitive and deregulatory market pressures manifested itself in Europe over the same period (but see Goodhart, 1998).

Crouch and Streeck (1997) argued that internationalization and the process of integration meant that a convergence towards the Anglo-Saxon model was increasingly becoming the only option for industrial relations systems. European integration has meant that firms engage in an intense competitive struggle to achieve the highest rates of return for their investments and unions are put on the defensive as a result of capital flight and production relocation (Scharpf, 1997). The appeal of this approach was enhanced over the 1980s as a result of employer strategies for the flexibilization of work and production strategies, a shift away from pay and work condition issues and towards production issues as well as their insistent attempts at the decentralization of collective bargaining to the lowest possible level to allow higher wage differentials and productivity-related payment (Regini, 2000). When the paradigmatic case of centralized wage bargaining and strong union coordination to achieve solidaristic wage policy, Sweden, succumbed to the pressure of decentralization and higher wage differentiation (Swenson, 2002), these scenarios became even more powerful in the academic and political discourse.

In order to assess the accuracy of such predictions for the Greek and Spanish cases, a number of variables need to be identified. The first one is the level of wage bargaining, considering that the Europeanization hypothesis would predict wage bargaining decentralization as a result of employers' empowerment. Bargaining at cross-industrial and/or industrial level allows for a higher degree of coordination among firms and provides trade unions with more opportunities in influencing wage and work conditions on a national level. Plant-level and/or individual bargaining on the other hand reduces the ability of unions to act as an effective mediator in the process of labor market exchange and increases the scope for higher wage differentials as well as arbitrary pay rewards to some employees. In addition, employers are expected to push for decentralization to reduce labor costs and enhance productivity in the context of the Single Market and EMU. The process is expected to lead to industrial conflict on the appropriate level of reaching collective bargaining agreements (Rhodes, 2005).

Secondly, the paper will look at unionization rates and their development. It is widely accepted that "encompassing" trade unions distinguished by high density rates are in a position to strike more successful bargains with both employers and the government. Their high membership rates offers them an added layer of legitimacy and constitutes an important power resource from which they can draw at times of major policy reform. Lower union density rates on the other hand signify labor weakness and reduced ability to resist pressures on deteriorating conditions of labor regulation (Mahnkopf and Altvater, 1995).

The final variable herewith identified as useful in measuring the degree of labor market (de)regulation in Greece and Spain is the legal framework governing flexibility on work entry and exit (Regini, 2000). The ability of employers to "hire and fire" at will has often been described as a precondition for adjusting to an increasingly competitive European and global market. Evidence of change towards a looser legislative framework on entering and exiting work would constitute evidence of a deregulatory impact on Greek and Spanish national industrial relations systems. Theoretically at least, European integration should release employers and the state from burdensome regulatory tools of this kind. After all, the 'Eurosclerosis' thesis sought to underline the rigid regulatory framework of European labor

markets in failing to meet the adaptability and flexibility criteria necessary for survival in the Common Market and globalization more generally (Seferiades 2003).

## 2.2 Welfare State

Changes in European economic governance since the 1980s in general and attempts at completing the Single Market and the Economic and Monetary Union in particular have led to pessimistic scholarly expectations for Europe's welfare states. Especially from the late 1980s onwards, the standard thinking on the issue of the future of European welfare states has come to emphasize that the most direct and pressing constraints on the European Social Model would emanate from the very process of economic and monetary integration. The economic integration process relaunched through the SEA was expected to have adverse social consequences for Europe's welfare states (Scharpf, 1999, 2000; Streeck, 1995, 1998, 2000). The institutionalization (read, *Europeanization*) of economic and monetary governance in this process was in fact viewed as the prime source of pressure on Europe's welfare states rendering them "semi-sovereign" (Leibfried and Pierson, 1995). With respect to the consequences of the SEA, for example, Teague (1998: 129) observes that 'the autonomy and viability of national welfare systems in Europe have been effectively undermined by market integration'. Market integration through the 1992 project, according to many, symbolized the "marketization of everything" (Williams, Williams and Haslam, 1991) or a "costly neoliberalism" (Grahl and Teague, 1989) which was expected to culminate in minimalist welfare provision across Europe. Martin and Ross (1999) summarize the mechanisms through which the SEA would undermine the European welfare states: "By giving European institutions the authority to unleash Europe-wide market forces", the Single European Market Program was seen as "leaving national social welfare programs vulnerable to erosion by competition. It was argued that companies and others interested in profits or jobs would seek social regulations that imposed the least costs. This would generate a dynamic of competitive deregulation or social dumping". Such a scenario would result in a "race to the bottom" not only in industrial relations, but also in social protection systems.

Although scholars admitted that there was much less social dumping than anticipated and no evidence of competitive retrenchment due to the SEA by the 1990s, they claimed that further Europeanization through EMU would ultimately sacrifice Europe's welfare states. For example, claiming that "Europe integration is headed in an ominous direction", Martin and Ross (1999: 171, 172) warned that "the potential for the deterioration of the European model of society inherent in EMU is more real". With respect to EMU's direct pressures on national welfare states, many mechanisms were cited in the literature through which economic and monetary integration would undermine the European Social Model. Some argued that, given the high level of budget deficits and public debt during the early 1990s, the convergence process within the context of the transition phase would require radical fiscal retrenchment for EMU membership. Since social security programs are largely publicly funded and constitute a big ticket item in total overlays, restricting deficit and debt levels would ordain diminishing resources for welfare states (Teague, 1998; Martin, 1996; Rhodes, 1996; Ferrera and Rhodes, 2000; Scharpf, 2000; Pierson, 1999; Bonoli, et al., 2000; Delsen, et al., 2000; Pierson and Leibfried, 2000). Others added that EMU, as a recessionary 'macroeconomic policy regime', has broader implications than exerting pressures on social expenditures through the fiscal criteria alone. The Maastricht austerity, in their view, would put sustained pressures on total output and employment, and the eventual falling incomes would lead to declining tax revenues leading to smaller spending budgets out of which social expenditures are financed. This, they conclude, would lead to a crisis of welfare state financing with severe implications

for social protection (Burkitt and Baimbridge, 1995; Rhodes, 1996, 1997; Begg and Nectoux, 1995; Martin, 1996; Leibfried, 2000; Pierson, 1999; Grahl and Teague, 1997). On top of these mechanisms, still others added that EMU would ultimately institutionalize a ‘neo-liberal’ policy paradigm and that this would impose minimalist welfare states. EMU would unleash fiercely competitive market forces and make social benefit costs more transparent across the eurozone. This would result in, yet again, “social dumping” by putting producers in high social protection jurisdictions in a disadvantaged position vis-à-vis their competitors from locations with lower social standards. In order not to lose competitiveness welfare states would face a downward spiral in social provision – a ‘race-to-the-bottom’ – leading eventually to rudimentary welfare states (Leander and Guzzini, 1997; Rhodes, 1997; Tsoukalis and Rhodes, 1997; Martin and Ross, 1999; Pierson, 1998; Ross, 2000). As such, these commentators invariably predicted that European integration would ‘spell the death-knell’ of European Social Model (Martin and Ross, 1999: 171).

Thus scholars working on the social consequences of European integration have come to agree on the view that Europeanization, understood as market integration through the SEA and economic and monetary integration through EMU, would have adverse consequences for Europe’s welfare states. EMU, in the eyes of many, would simply complete the neo-liberal circle drawn by the SEA. According to the Europeanization hypothesis, therefore, a decade after another of economic and monetary integration in Europe would result in retrenched social expenditures in the name of cost-containment and curtailed welfare state programs.

### **3. Labor Relations in Greece and Spain**

#### *3.1 Wage Bargaining*

##### Greece

In the 1980s, a series of changes led to the emergence of concerted action on the part of labor and business representatives. Firstly, the toning down of the Socialist Party’s (PASOK) anti-business rhetoric after 1985 meant that the employers’ confederation (SEV) acquired a dominant position in business representation. After PASOK’s election victory in 1981, SEV contributed to the establishment of a business front, ESIP, hostile to the government. ESIP gradually emerged as an antagonistic force to SEV, but lost in importance after PASOK’s 1985 U-Turn in economic policy (Lanza and Lavdas, 2000: 222-224). SEV also managed to achieve important growth rates in both coverage and membership in the late 1980s and the beginning of the 1990s.

Secondly, the liberalization of the legal framework regarding interest representation assigned equal status to business and labor as legitimate representatives of their respective members. Concretely, Law 1876/1990 passed under a National Unity government and with the assent of both the main labor union confederation (GSEE) and three employer confederations (SEV, GSEVEE and ESEE) institutionalized free collective bargaining. It also created a framework for decentralized bargaining and restored the notion of collective autonomy by abolishing compulsory arbitration. It is impossible to underestimate the importance of such change, as in the new framework of arbitration, conditional upon the joint request of the two sides, the incentives for commonly agreed solutions have been greatly enhanced (Zambarloukou, 2006: 217). For the first time, two new levels were recognized in the bargaining sphere, the sectoral and enterprise levels. The tradition of craft-based representation was therefore made irrelevant. The two new levels dominate collective bargaining and complement the centralized National General Collective Labor Agreement (EGSSE) that SEV and GSEE have been regularly signing every few years since the early 1990s. EGSSE sets minimum wages and

basic labor conditions, is legally binding and covers all employment relationships (OKE, 2002). In reaching centralized agreements, no need for arbitration has occurred to date and the 2006 round of negotiations led to one more two-year collective agreement signed by GSEE and SEV. Also, Law 2738/1999 introduced collective bargaining to the public sector (OKE, 2003).

## Spain

The Spanish wage bargaining regime dates to the early post-Franco period and the legislative changes introduced at that time. The 1977 strike law and the 1980 Workers' Statute offered concrete rights to workers and permitted their association, thus opening up the possibility of free collective bargaining. They also confirmed the autonomy of unions and employers from state control. Policy legacies form an important part in understanding Spanish labor relations in the democratic era. Francism was based on a type of corporatism that until the 1950s and 1960s severely weakened labor by loosening the resistance of left-wing unions and parties to the repressive nature of the regime. After the 1950s and 1960s industrial relations started to change as economic liberalization policies were followed. In that period labor became more assertive in its demands but the transition to democracy had a paradoxical effect. The emphasis on living and working conditions was now replaced by a desire for democratization and political liberalization stemming from the same forces that during the dictatorship were mainly addressing welfare-related concerns (García and Karakatsanis, 2006). During the 1980s, collective bargaining displayed little articulation and was characterized by excessive informal decentralization (Valdés, 2001). Collective bargaining was very limited in scope and a key reason behind that, aside from the fact that bargaining was usually limited to bread and butter issues, was the fact the bargaining provisions were only rarely applicable to SMEs. These were, however, important in the Spanish economy – and were also distinguished by their complete lack of unionism (Miguélez and Rebollo, 1999).

In 1980 the Workers' Statute was introduced. This affirmed the autonomy of collective actors from the state and introduced a voluntaristic dimension to the country's industrial relations system (Romo, 2005: 15). The first reform of collective bargaining occurred in 1994, a year after the Socialist Party (PSOE) government submitted a proposal for labor market reform. This sought to strengthen the connections between the different levels of wage determination and enhance the autonomy of social partners in striking deals. According to the reform's provisions, the old Labor Ordinances (mandatory regulations of working conditions) were now abolished. The changes strengthened collective bargaining as the main regulatory source for labor relations and increased the bargaining autonomy of the collective actors.

Romo (2005) has pointed out that although the provisions of the agreement stressed the role of the social partners in bargaining, the autonomy of the bargaining system was far from confirmed. The end-effect of the reform was a rather disorderly picture in the bargaining pattern. The previous rigidity was replaced by an anarchic system whereby limits to the ability of companies to engage in local bargaining were virtually absent. Under the terms of the 1994 deal productivity-induced pay was encouraged and wage differentiations permitted to rise further. The reform "encouraged a disorganized collective bargaining structure, which failed to match the existing structure of union organization; it strengthened the role of autonomous regional unions; and it empowered employers to modify unilaterally the conditions negotiated at multi-employer level" (ibid.). It comes as little surprise then that the unions were bitter with the reform. However, employers and unions did reach a subsequent deal. Employers would not make use of the opt-out clauses from sectoral agreements if the unions remained committed to wage moderation in line with EMU prerogatives. In 1997 a new reform was introduced under the auspices of the centre-right Popular Party (PP)

government. This Interconfederal Agreement on Collective Bargaining (AINC) was reached through the skillful role of the Labor Minister who wished to bring about a more orderly system (Romo, 2005). The AINC created a new hierarchy in the bargaining system according to which the sectoral level of bargaining dominates both the national confederal and the regional. The sectoral level defines the pay norms within which lower level negotiations may be conducted and sets out the minimum levels of pay increase for lower-level bargaining (Goerlich, 1997: 112). Having said that, there is a clear and increasing tendency towards company-level bargaining over the last five years (*EIROOnline*, 2007).

### *3.2 Unionization Rates*

#### Greece

There are two important elements that deserve attention in discussing unionization in Greece. Firstly, unionization rates in the public sector are considerably higher than in the private sector. The fact that one of the two national confederations organizes exclusively public sector workers (ADEDY) is indicative. The historical links between the state and unionism in Greece (Zamabrloukou 2006) are one of the explanations behind this. Sectoral labor unions have traditionally been strong in what used to be state-monopoly enterprises such as electricity and civil aviation. Secondly, data reliability on unionization rates should be treated cautiously. Some calculations can, however, be made and they indicate that Greek union density rates are slightly below the EU average.

“Generally, it has been estimated that in the late 1970 the overall trade union density was between 27 and 32 percent, while the EC average was 42 percent. Today it is estimated that the density is approximately 25 percent, while the European Union average is 37.6 percent” (Sotiropoulos 2006). Fluctuations took place during the late 1970 and early 1980s, which was a period of union growth, and the 1980s and early 1990s when unionization fell considerably. Since the 1990s the drop in membership rates has accelerated (Seferiadis, 1999).

The drop in union density is not difficult to understand. Next to the decreasing salience of manufacturing – where unionization was traditionally highest – comes the sharp rise in Greek unemployment. From an estimated 4% in 1981 unemployment rose to 7% in 1991 and close to 10% by the end of the 1990s.

#### Spain

Labor market deregulation in Spain has had a clear impact on union density. By the year 2000, Spain had a union density rate of 15% (OECD 2004 and Table 1). Though the figure is on the increase since the 1980s, it is still at very low levels. This trend is attributed to characteristics of the Spanish labor market over the same period related to union activity and changing employment patterns. To start with, labor confederations in Spain are still seen as primarily operating to serve the needs of those on permanent contracts. Statistics show that only 18% of the CC.OO union confederation members are temporary workers whereas among the general population the equivalent figure is 34% (Royo, 2001). This has reinforced the insiders-outsiders dichotomy in the labor market. The shrinking of the manufacturing industrial workforce in a period of work restructuring has compounded the problem of unionization in Spain.

### 3.3 Labor Market Deregulation

#### Greece

The legal framework in Greece was rigid prior to the launch of the European economic integration project as a result of state interference in industrial relations and limited union autonomy. Broadly speaking, it remains so today. Law 1387/83 sets the limit of allowed dismissals to 2-3% a month and a whole series of laws and regulations prescribe exact rulings as to overtime, rest, nightshifts and other types of work conditions. In order for a contract to be terminated, prior notice has to be communicated to the Labor Ministry and the compensation to which the former employee is entitled can reach 24 months of severance pay plus bonuses in case of a dismissal (García and Karakatsanis, 2006: 93). In 1998, the PASOK government introduced legislation to allow a more flexible calculation of weekly and annual working hours (Seferiadis, 1999). Greece has one of the lowest part-time work rates in the EU.

Further legislation regulating working time was introduced under the centre-right New Democracy (ND) government in 2005. The law was passed in an attempt to reduce labor costs and enhance the competitiveness of Greek firms after repeated warnings by the employers. One of the new law's distinguishing features is that it bypasses the social partners when no agreement is reached as to working time arrangements with a 4-month reference period. Instead, the law foresees the appointment of a 5-member Working Times Arrangement Committee responsible for introducing proposed arrangements (*EIROOnline*, 2005).

It is important to note that the non-implementation of laws, a recurrent Greek theme that extends beyond the industrial relations regime, means that rigidity is in practice much less of an issue in the Greek labor market. "The 'firing rigidity'... is exaggerated and affects an exceedingly small percentage of firms ... flexible labor practices such as 'subsidized short-time work', 'intermittent employment' and 'temporary lay-offs' are quite prevalent, but ... usually overlooked in most statistical and policy documents highlighting Greece's low percentage of part-time work" (Seferiadis, 1999). To this the prevalence of the informal economy needs to be added. This is an important indicator of "flexibility" in the labor market as it is not subject to any of the laws and regulations applicable to the formal economy. Data among 15 OECD nations indicates that the percentage of the informal economy amounted to 28.5% of the country's GDP, the highest among all countries surveyed. Spain emerged third with 22.9% second only to the Greek leaders and Italy with 27.0% (Schneider, 2002).

#### Spain

As stated above, the 1980 Workers' Statute in Spain was a rigid legal instrument that provided a permanent source of conflict between employers and unions. The 1994 reform agreed upon by the two employers' confederations CEOE and CEPYME with the two union confederations CCOO and UGT sought to replace the Labor Ordinances inherited from the Franco era (Royo, 2002: 82). The reform was called upon by the then weak Spanish government and was viewed as a precondition for EMU participation. Employers welcomed the strong role of the government in the process since the articles of the AINC allowed for more flexibility in working conditions. Under the PP government in 1997 a tripartite social dialogue procedure was initiated and led to the agreements outlined above. The labor unions were in decline following the 1994 provisions that had led to a more chaotic collective bargaining scene. Now they sought to improve the articulation of their demand while employers sought to keep the conflict-prone system intact (Romo, 2005: 18).

Legal constraints on dismissals had been very elaborate in Spain ever since the Franco era. CCOO and UGT agreed to a relaxation of dismissal rules to enhance hire and fire flexibility in return for collective bargaining reform and new rules for fixed-term and temporary contracts. Particularly the latter had greatly expanded in the Spanish labor market as labor relations became more individualistic and firms sought to restrain costs and organize production in as flexible a manner as possible. Statistics confirm this. Between 1984 and 1997 temporary employment contracts rose from 7.5 to 39 percent of the total. In 1990 81.5 percent of all new workers were employed on a temporary basis (Royo, 2007: 52). The 2002 inter-confederal agreement, signed after the government's threat of intervention did little to change the more flexible direction of hiring and firing rules in Spain. The trend regarding labor market deregulation over the last ten years is to allow for more flexibility for part-time contracts. The PP government's reforms have reduced compensation for dismissal from 42 to 24 months of pay and permitted employers to arrange part-time workers shifts and working hours in a more flexible manner (García and Karakatsanis, 2006: 133-34).

#### **4. The welfare state in Greece and Spain**

##### *4.1. Welfare State Trajectories I: Social Expenditures*

###### Greece

Although Greece had entered the 1980s with social expenditure levels as a share of GDP substantially lower than those of Spain (1980 11.5% in Greece compared with 15.9% in Spain), by the middle of the decade these levels converged, both hovering around 18 percent of GDP. These levels were not far from the European Community's average spending levels of the time.

In fact, the steep increase in spending levels in the early years of PASOK during the early 1980s reached a plateau around 17-18% in the second half of the 1980s. By the end of the early 1990s, however, Greek social spending levels exceeding 20% almost reached the EC-12 average. After the recession of the early 1990s, dramatic increases in social spending across the EU was not followed in Greece and spending levels remained rather stable between the 20%-22% percent range. By the early 2000s, Greek social spending levels exceeded 24%, an all-time high in Greek history. The growth of the Greek social spending levels is all the more remarkable when the base levels in the early 1980s (11.5%) are compared with those of the early 2000s (24.3%).

###### Spain

In Spain, following a period of sustained growth throughout the 1980s, social spending levels stood at around 20% just like in Greece approaching the EC-12 average. In contrast to Greece, however, the recession of early 1990s led to notable growth of spending during the period 1990-1994. After this period of expansion, however, came a period of slow, yet secular decline. By the beginning of the 2000s, Spanish social spending levels receded back to their 1990 levels. Nevertheless, when one compares the period between early 1980s (15.9%) with the early 2000s (19.6%) during which the Spanish economy grew faster than that of the EU as a whole, one observes that the Spanish social expenditures have risen substantially faster than the growth of GDP in the country.

#### 4.2. Welfare State Trajectories II: Program Development and Reform

##### Greece<sup>3</sup>

After Greece became a member of the European Community in 1981, the two decades whereby Greece's welfare state has grown phenomenally began with the landslide victory of the socialist PASOK in the general election that took place later that year. Capitalizing on its huge parliamentary majority, PASOK enacted a series of reforms that contributed to the full-institutionalization of the Greek welfare state by the end of the decade. Almost immediately after coming into office, in 1982, the Papandreou government increased the statutory minimum wage on which social insurance minimum pensions and other benefits were indexed. The rise in minimum pensions was followed by an expansion in the eligibility rules and the benefit levels of the flat-rate non-contributory pensions paid to agricultural workers. At the same time, a social assistance pension was introduced for the elderly with insufficient social insurance contributions and inadequate incomes. In 1983, the government introduced a national health service, which led to mass recruitment of doctors and an ambitious program of hospital expansion. The government also made some improvements in open-care centers for the elderly and introduced new categories of social assistance disability benefits. Towards the end of PASOK's first term in office, the size and scope of Greece's welfare state had expanded remarkably. Despite the increasing budget deficits and soaring inflation, PASOK won a clear majority in the general election of 1985. The new national economy minister, Costas Simitis introduced a "stabilization program" to rein in the mounting budget deficit and reduce inflation. As the government was facing fast-approaching general elections it felt the need to abandon the austerity program and relax macroeconomic policies.

Despite populist measures to win the vote, PASOK lost the 1989 elections amid allegations of corruption reaching PASOK's top echelons. After two coalition governments and two general elections, ND party under Mitsotakis returned to power with a paper-thin majority in Parliament. The new government embarked on a macroeconomic program aimed at cutting public expenditure and curtailing the soaring deficit of the pensions system which accounted for about 50 percent of the overall budget deficit. A decade of welfare state expansion seemed to be coming to a close. A sizable pension reform package was announced, but was withdrawn when a massive wave of strikes and demonstrations almost plunged the country into chaos. Only when the reform legislation was watered down could the bill be passed in Parliament. This was followed by another piece of legislation concerning loopholes and abuses of the system in 1992. In 1993, the government introduced higher contributions and lower benefits for workers entering the labor market after 1993. As side-payments to opposition, cash benefits for large families were introduced and the duration of the unemployment benefit was extended. With respect to healthcare, the government raised the *per diem* rate paid by sickness funds for hospitalization of their members.

After an internal split in the conservative party, Greece went to elections in 1993 and PASOK under Papandreou returned to power with a comfortable majority. When Papandreou resigned due to ill health, the government under Simitis called and won elections. The new government, self-described and hailed as "modernizers", introduced a new income-tested supplement to lowest social insurance pensions. At the same time, Simitis was intent on meeting EMU entry requirements. Despite the magnitude of the budgetary consolidation effort required, the government was largely unsuccessful in introducing a major package of social security reform which ended up being shelved. Within an environment of permanent austerity, however, the government could subsequently pass a "mini social security reform" in

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<sup>3</sup> We rely on Petmesidou (1996), Guillen and Matsaganis (2001), Featherstone, (2005), Matsaganis (2002) and Triantafyllou (2004) for drafting this section.

1998 rather modest in content. When it became evident that Greece would comply with the convergence criteria in 1999, Simitis introduced welfare reform before the upcoming elections which, in fact, resulted in an expansion of Greek social security. During the following short-lived government founded in 2001, Simitis proposed to reform the pensions only after EMU entry was guaranteed and managed to pass it through Parliament in a much diluted form in 2002.

It is striking that although Greece came continuously under intense budgetary pressures to meet the Maastricht targets during this period, these did not translate into across-the-board retrenchment in Greek welfare state programs which the Europeanization hypothesis would point to. Greece's first decade in the EU was in fact one of phenomenal expansion of the welfare state. While such expansionary trend got somewhat subdued in the face of immense macroeconomic austerity, even this second decade of membership is characterized much less by across-the-board downsizing than by stability. Thus the predicted direction of the Europeanization hypothesis is simply not borne by evidence on the trajectories of Greek welfare state programs.

#### Spain<sup>4</sup>

In parallel to the expansion of the Greek welfare state, it is during the period following the transition to democracy in the 1980s that the Spanish welfare state expanded in terms of spending levels and coverage (Guillen, 2006). The late 1970s saw the old Institute for Social Provision re-institutionalized under four national institutes for social security, health, social services and unemployment. It is in this institutionalization period that democratization deepened hand-in-hand with increased participation of social partners in policy-making especially in the area of social security. Public preferences grew increasingly in favor of expanding public social protection and welfare services.

The 1982 newly elected PSOE government was advocating neo-Keynesian measures of strengthening internal demand by means of increasing public and social expenditure and the Spanish looked forward to a European-style welfare state system. In the early 1980s welfare programs expanded through a new ambitious legislation concerning disability programs. At the same time, the public healthcare system was reformed with the Ministry of Health becoming independent from the Ministry of Labor and Social Security. The period following the coming to power of the socialists under Gonzalez saw the acceleration of reforms when the democratic regime was fully consolidated. Unemployment protection was expanded in 1983 and the healthcare system went under reforms in 1984. In 1985, the General Health Law was passed which united all public healthcare networks under a single roof. In 1989, the healthcare system became fully universalized. In fact, through program expansion Spanish healthcare spending grew at the highest rate among the EC in the 1980s. The spectacular growth in healthcare spending in the 1980s gave way to cost-containment measures during the 1990s including those on limiting the supply side and contracting the drugs lists. In the second half of the 1980s, social services in general and services for the elderly, the youth and children in particular underwent considerable expansion which was accelerated by the creation of the Ministry of Social Affairs in 1988. Although family policies received scant attention from the socialist governments, they were reformed in 1990 after the PSOE won the 1989 elections, making them both universal in scope and targeted to low-income families. Additionally, the maternity program was reformed and placed under social security and benefit replacement ratios had increased. At the same time, however, the unemployment

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<sup>4</sup> We rely on Guillen and Matsaganis (2001), Guillen, Alvarez, and Adao e Silva (2003), and Moreno (2000) for drafting this section.

insurance program became more restrictive in 1992 after a decade of expansion, in terms of coverage (tightened eligibility) and level (lower replacement ratios).

In the meantime, the government in 1985 unilaterally reformed the contributory pensions by reducing the pension replacement ratios without consulting the unions, promising instead that pensions would be indexed to inflation later. When unions thought that the government would not keep its promise, they went on a general strike in 1988 and managed to have the benefits indexed to inflation. In 1991, new legislation made the pension system universal. In 1995, all political parties signed a pact in order to ensure the fiscal sustainability of the pension system. The earlier pact among the political parties (“Agreement on Employment and Social Protection of Agrarian Workers”) gave way to the Toledo Pact signed between unions and employers’ associations in 1996. The resulting Social Security Law in 1997 led to lower pension replacement ratios and extended the contribution period. Pensions were reformed twice again. In 1999, the “Agreement on the Amelioration of Pensions” increased contributory pensions and in 2001 the “Agreement for the Amelioration and Development of the Social Security System” again increased widows’ pensions, offered longer protection periods for orphans, and facilitated the convergence among the different social security professional schemes in terms of access and benefits levels.

Although cost-containment pressures have dominated the 1990s on the road to EMU membership, the last quarter of the century can be characterized less by retrenchment in the Spanish welfare state programs than by stability or even expansion. In this period, the Spanish welfare state grew out of its rudimentary nature despite increasingly salient macroeconomic adjustment pressures. Although the rate of expansion of the Spanish welfare state programs have slowed down during years of austerity in the name of EMU entry, the Spanish welfare state of the 2000s is not really “leaner and meaner” than that of two decades ago. This comes in direct contrast to expectations of proponents of the Europeanization hypothesis.

## **5. Conclusion**

Europeanization is in this paper understood as the process of intensified economic integration inaugurated in the mid-1980s through the Single European Act and continued in the 1990s through the convergence criteria set out at Maastricht (1991) leading to the creation of a Economic and Monetary Union (EMU) by the beginning of 2000s. The Europeanization hypothesis predicts the transformation of European labor relations as a result of intensified cross-country competition. Consequently, scholars predicted the neoliberalization of labor regulation exemplified in the decentralization of wage bargaining, the flexibilization of labor market through changes in the legislative rules concerning hiring and firing as well as a drop in unionization rates. Empirical findings on Greece and Spain do not confirm those predictions. Whereas unionization rates have dropped in Greece from their peak level at the early 1980s, available data for Spain indicates the reverse, i.e. an increase in union density from the 1980s to 2000. Though density remains low in Spain, it is nonetheless on an upward trend. With regard to labor market flexibility, both countries have indeed proceeded with a liberalization of their rigid hiring and firing regulatory framework. Once again, it is worth noting that their starting point, in the Spanish case a legacy of authoritarianism, was extreme as both entry and exit from the labor market were prohibitively expensive. While Spain has reformed the old system substantially, Greece has been much slower in doing so despite the higher pressures it faced as a result of Europeanization. Finally, wage bargaining decentralization has occurred in Spain but not in Greece. In fact, in both countries social pacts (Spain) and a mixture of social partnership and legislative changes (Greece) have led to a re-regulation of bargaining along better coordinated lines compared to the 1980s. A process of coordinated decentralization has been evident in Spain since the 1990s.

In parallel to the predictions on changes in labor relations, scholars working on the impact of economic and monetary integration have proposed that Europeanization as such would have adverse consequences for Europe's welfare states. The neoliberalization process starting with the SEA and continued with EMU, according to standard thinking, would simply lead to welfare state downsizing through a host of mechanisms ranging from the imposition of budgetary austerity to competitive pressures resulting in processes of social dumping. Under this Europeanization hypothesis welfare states across Europe in general and the cases under study here in particular would have to go through a process of wholesale retrenchment. The empirical evidence provided in the two cases discussed above, however, are far from confirming these expectations. First, although the rate at which social expenditures grew decelerated during the 1990s, the efforts on the part of the member states at budgetary consolidation carried out as a cost-containment strategy and the competitive pressures of regime competition have not resulted in the predicted effects of downsized social spending levels. Second, despite widely shared expectations of downsizing in welfare state programs our case studies show that the period characterized by intense pressures emanating from the SEA and the EMU can be described much less by retrenchment than by stability, if not expansion.

Searching for an explanation as to the limited applicability of the Europeanization hypothesis in our two case studies, we suggest that domestic institutions have been at work. In the case of labor relations, social pacts in Spain and legislative change combined with a different approach by the social partners in Greece have meant that labor has participated in the process of restructuring and welfare reform. Participation has often meant an ability to influence policy outcomes and shape the new environment regarding labor regulation and welfare in a way conducive to parts of the unions' agenda. The 1997 Spanish reform on wage bargaining is a case in point. Therefore, our empirical findings confirm the salience of domestic institutional arrangements in filtering the impact of Europeanization on member states. This suggests that future studies on the subject would benefit from trying to detect the precise mechanisms through which domestic institutions mediate pressures emanating from processes such as Europeanization.

**Table 1: Total Public Social Expenditures as % of GDP**

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Greece</b>	11.5	13.8	16.2	16.9	17.2	17.9	17.7	17.7	16.4	17.5	20.9	20.1	20.2	21.1	21.2	21.4	22.1	22.1	22.8	23.6	23.6	24.3
<b>Spain</b>	15.9	17.0	17.1	17.8	17.6	18.2	17.9	17.8	18.3	18.5	19.5	20.3	21.4	22.5	22.0	21.4	21.6	20.9	20.3	19.9	19.9	19.0

*Source:* OECD Social Expenditure Database (2004)

**Table 2: Union density in OECD countries 1970-2000**

	1980	1990	2000
<b>Greece</b>	<b>39</b>	<b>32</b>	<b>27</b>
<b>Spain</b>	<b>7</b>	<b>11</b>	<b>15</b>

*Source:* Table 3.3 OECD Employment Outlook, 2004

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