Comparing Labour Market Reform in Greece and Italy in the 1990s

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Abstract

In the early 1990s the political economies of Italy and Greece had many characteristics in common that could be expected to contribute to path-dependant resistance to labour market reform. This paper examines the attempts at reform in the two countries during the decade and the factors that contributed to their significantly different outcomes. It argues that the political and economic crises facing Italy triggered an alteration in the orientation of interests and practices of key actors, the new direction being largely defined by the effects of Europeanization. In Greece, by contrast, the absence of path-altering factors reinforced the status quo and thus resulted in stalemate for years to come.

Introduction

In the early 1990s the political economies of Italy and Greece had many characteristics in common that could be expected to contribute to path-dependant resistance to labour market reform. This paper will sketch out the institutional similarities between the two countries and then examine the reform attempts that were made during that decade. The aim is to bring to light the factors that contributed to the significantly different outcomes. It will be argued that the political and economic crises facing Italy triggered an alteration in the orientation of interests and practices of the two main actors involved, the government and the trade unions, the new direction being largely defined by the effects of Europeanization. In

Greece, by contrast, the absence of path-altering factors allowed the status quo to persist and resulted in stalemate for years to come.

What type of reforms and why?

The fundamental problem that labour market reforms in Greece and Italy sought to address was high unemployment. In Greece, unemployment rose steadily throughout the 1990s, from 6.4% in 1990 to 9.2% in 1995 and 11.6% in 1999. In Italy, the unemployment rate rose from 8.9% at the start of the decade and reached 11.7% in 1998 (Commission of the EC 2002).

At the time, the high levels of unemployment prevailing in European countries were often blamed chiefly on labour market rigidities, implying that the solution lay in reforms to increase labour market flexibility (OECD 1994; Siebert 1997) If the causal link between labour market rigidities and unemployment in Europe were accepted, then the need to proceed with such reforms would be all the greater, since, according to OECD metrics, in the mid-1990s Greece's labour market was the second most heavily regulated in Europe, after Portugal's, and Italy occupied fourth place (OECD 1999). More specifically, Italy's labour market was considered one of the most rigid in the industrialized world in terms of the rules on hiring and firing and the use of non-standard employment contracts (Lazear 1990; Grubb and Wells 1993), as was Greece's when it came to regulations on temporary employment (Burtless 2001: 462)

Needless to say, the notion that increasing labour market flexibility helps to reduce unemployment is far from universally accepted, but the debate on this issue is beyond the scope of this paper.

Similarities between the two countries

When assessing Italy's and Greece's capacity to implement labour market reforms, it is imperative to examine the institutional foundations of their economies. Based on the "Varieties of Capitalism" school of political economy, (Hall and Soskice 2001) the two economies can be classified as "mixed market economies", combining both market and non-market coordination. In economies of this type, according to Molina and Rhodes (2007), one is likely to encounter coordination problems, a central role of the state during adjustment processes, and investment by interest groups in wielding or influencing political power, thus engendering strong patronage links with political parties.

Another characteristic of these economies that Molina and Rhodes identify – one that was crucial in the cases of Italy and Greece – is the fragmentation of organized interests, which makes it difficult for them to play a constructive role in policy-making (2007: 231). Observers have repeatedly noted that the lack of cohesiveness of the Italian and Greek labour movements barred any hope of promoting policy initiatives through political exchange (Regini 1984; Rhodes 2008). The likely outcome is a perpetuation of inefficiencies: in the absence of a mechanism capable of providing collective goods and of a state independent enough to oversee lobbies, actors will seek to protect their independent interests, leading to a stalemate.

An important corollary to the above is that although trade unions, and often employers, may not be organized to a degree that would facilitate concerted action, they nevertheless do possess enough power to effectively veto government actions. In Greece and Italy, this power is enhanced by widespread industrial unrest. According to the General Index of Propensity to Strike for the period 1970-93, Greece ranked first in Europe (7.244) and Italy second (4.813) (Edwards and Hyman 1994).

When assessing the potential for change in an economy, path dependency is of key importance. In the vast majority of cases, changes present a close "fit" with the institutional structure. In order to evaluate the potential for reform in mixed market economies, say Molina and Rhodes, two factors must be taken into account: "domestic demands from reform coalitions trying to gain access to the policy making process and to impose formal and/or informal vetoes upon it; and the degree to which executive action is vulnerable to such pressures. The relative importance of these factors in driving change will be mediated by the structural features of the political system" (2007: 230).

Greece and Italy were also strikingly similar in how their political structures functioned and in the prevailing attitudes embedded in those structures, which directly affected the ability to carry out reform with success. Ferrara (2004: 122) paints the following picture, and while he is referring to Italy, he could just as easily be discussing Greece: "a spoils-centred model of party-government, a weak and inefficient public administration, a highly institutionalised system of political relations between the government and organised interests, and the distributive nature of labour and social policies. Many of these common elements can be attributed to the traditionally central role of the state in both countries, which has resulted in a significant portion of the population depending on it with regard to the distribution of income, benefits, influence etc. A complex constellation of rent-seeking vested interests with strong ties to various sections of the state has been established throughout many decades, creating seemingly immovable structural and strategic obstacles to reform". Furthermore, as Zambourkoglou (2006: 225) notes, "both countries had a tradition of adversarial industrial relations and unions plagued by partisan divisions," while "economic pressures and growing insecurity among workers created doubts about the continuing capacity of unions to defend rank-and-file demands."

Finally, in both countries the government and employers recognized the need for stability in combination with improved economic performance and the imperative of the Maastricht criteria.

Reforms: Italy

Policy-making in Italy in the 1990s was characterized by concerted action emerging amidst political and economic uncertainty following the 1992 "Tangentopoli" scandal (more on this later).

The first step towards labour market reform came with the social pact of 1993 under the government of technocrats led by Carlo Azeglio Ciampi, which laid new foundations for industrial relations and collective bargaining. Among its pivotal provisions, the reform did away with wage indexation in order to tackle Italy's high inflation rate. Wage indexation had been introduced in 1945, and in agreeing to its abolition the trade unions departed from their long-standing strategy, following major changes to the system in 1975, explicitly aimed at protecting wages and reducing wage differentials (Brandolini et al. 2007). Regarding labour market flexibility, the pact – signed by the three major labour confederations and the leading employers' associations – introduced supplementary collective bargaining at company or regional level, but without allowing wages below the basic levels set by the national agreements. Consequently, while second-level bargaining allowed flexibility in order to achieve a tighter link between wages and productivity, the floor for wages significantly limited its use (Schindler 2009). The 1993 social pact had a scant impact on the reform of the labour market, which is hardly surprising since this was not its major objective (ILO 2005). What is relevant here, instead, is the way the agreement was reached: the majority of union members accepted it, and those opposed to it did not mount a mobilization. This outcome was facilitated by the reforms promoting the democratization of trade unions (Locke and Baccaro 1996), whose significance will become more apparent below.

The most substantial labour market reforms in Italy during the 1990s were contained in the 1997 package of measures bearing the name of Tiziano Treu, labour minister in the Prodi government. Their goal was to increase flexibility by easing the regulation of new apprenticeship and work-training contracts, regulating temporary and fixed-term employment contracts, and creating incentives for on-the-job training and intraregional labour mobility. The Treu Act also legalized worker-dispatching agencies (OECD 2009: 247), reorganized the vocational training system, introduced social programmes for the unemployed, and created two new scholarship and loan programmes for first-time job seekers (ILO 2005). In the same year as the Treu Act, Law 469/1997 abolished the principle of a public monopoly on employment services.

Ferrara (2004: 146) stresses the contribution of institutionalized concerted action during this reform process, seeing it as one of the chief factors that "enabled government, the unions, and business associations to continue to cooperate in an atmosphere of growing loyalty and reciprocal trust."

It would be wrong, however, to overstate the scope and impact of the Treu measures. They shied away from a number of major issues, including, most significantly, the relaxation of job protection legislation for permanent employees. The attempt to come to grips with the problem of Italy's two-tier labour market was limited: the "insiders" were essentially left untouched, and would remain so for many years.

Reforms: Greece

The Simitis government that came to power in 1996 placed a high priority on rectifying the problems of feeble job creation and the incomplete regulation of the Greek labour market. To tackle these issues, the government initiated a social dialogue with employers' and union representatives on "development, competitiveness and employment" in March 1997 (Ministry of Labour 1997). The government sought to achieve consensus among the social partners, and ultimately to legitimize its reform agenda, which had a direct bearing on its plan for Greece to enter the Economic and Monetary Union (EMU) by 2001.

This is not the place to rehearse the details of the social dialogue, but, in connection with the above discussion of institutional foundations, let us note that among the most controversial issues was the introduction of part-time employment in the public sector. The Confederation of Civil Servants (ADEDY) called that proposal a "non-starter" (Featherstone and Papadimitriou 2008: 128) During the six month-long dialogue, it proved impossible to find common ground between the social partners, owing to fundamental differences in the way the problems of the Greek labour market were perceived (Featherstone and Papadimitriou 2008: 129). Consequently, in order to keep the social partners on board, the document that was eventually signed – the "Confidence Pact between the Government and the Social Partners towards the Year 2000" – only referred in broad and vague terms to the reforms that were needed. Although the mere signing of the pact allowed the government to claim an achievement, especially given the country's divisive political tradition, this did not alter the fact that the social partners continued to have different assessments of the direction the reform process should take (Papadimitriou 2005: 386). As expected, the Labour Market Act (Law 2639/98) that passed Parliament on 7 August 1998 fell short of the more ambitious goals of the government – and employers. Union consent remained essential for changes in the calculation of working hours and the introduction of agreements on backward areas that allowed wages to be set below the national minimum. Private recruitment agencies were allowed to operate, but only subject to severe restrictions, while the introduction of part-time employment in the public sector was limited to state-controlled companies.

Political-cum-economic crisis

Before proceeding to investigate the factors responsible for different labour market reform outcomes in Italy and Greece, we must touch on the major political scandal known as *Tangentopoli*[1] that rocked Italy beginning in 1992 and signalled the transition from the First to the Second Republic. Investigators laid bare an all-pervasive network of political corruption involving political leaders, party members and well-known businessmen, leading to several high-pro-

[1] *Tangentopoli*, or "Bribeville", was the popular name for the nationwide system of political corruption uncovered by the 'Clean Hands' investigation launched in Milan in February 1992.

file convictions, the retirement of a significant portion of Italy's political establishment and a broader de-legitimization of the ruling class (Ferrara 2004: 125).

In the same period, the country's main political parties fractured or dissolved. In 1994 a new election law fostered the creation of two broad coalitions: a centre-right alliance orbiting around Silvio Berlusconi's Forza Italia party and a centre-left coalition led first by the Democratic Party of the Left (PDS) and, after 1998, by its successor, the Democrats of the Left (DS).

It could be argued that Greece faced a similar situation during the corruption scandals in the late 1980s, which riveted Greek public opinion and resulted in the prosecution of key members of the PASOK (Panhellenic Socialist Movement) government, with allegations lapping at Prime Minister Andreas Papandreou himself. However, the analogy does not hold, for the Greek scandal was much more circumscribed than *Tangentopoli*, involving only one party. This was demonstrated a few years later when PASOK, led once again by Papandreou, returned to power in 1993 (Dobratz and Whitfield 1992).

Italy's political crisis in 1992 was accompanied by an economic crisis sparked by wave after wave of speculation against the Italian lira, which was forced out of the European Monetary System and lost 50% of its value against the Deutschemark within a few months. (Vaciago 1993) Currency depreciation posed the immediate danger of an inflationary spiral. To make matters worse, the country's public finances were in a dire shape, the deficit standing at around 10% of GDP in 1992 and 1993 and the public debt reaching 125% of GDP in 1994 (OECD). Plainly, this helped create a sense of urgency for fiscal restraint and reforms.

The Greek economy suffered stagflation throughout the 1980s, accompanied by rapidly rising public debt. In 1993 the country's budget deficit and debt ratios reached 15.9% and 110.1% of GDP, respectively. But, while the situation of the Greek economy was very strained, it is difficult to pinpoint a specific shock that had an impact like the one experienced by the Italian economy.

For a thorough interpretation of the reasons why Italy was relatively more successful in reforming its labour market, it is necessary to examine the crises in combination with other factors, bearing in mind the point made by Williamson and Haggard (1994: 565): "Crisis is clearly neither a necessary nor a sufficient condition to initiate reform. It has nevertheless often played a critical role in stimulating reform." So I turn now to other important factors, namely the effect of Europeanization and the roles played government and trade unions in the reform process.

The effect of Europeanization

Europeanization influenced the reform process in both Italy and Greece. This "external constraint" took a very specific and binding form in the Maastricht criteria for joining the European Monetary Union: an inflation rate not more than 1.5 percentage points higher than the average of the three best-performing (lowest-inflation) member states of the EU, debt below 60% of GDP, and an annual budget deficit not exceeding 3% of GDP. As both countries were far from satisfying the debt and inflation criteria, it could have been expected that they would come under similar pressure to implement the reforms commonly perceived as imperative in order to modernize their economies, make them more competitive and put their public finances in order. Indeed, this would appear to apply more strictly to Greece, whose inflation rate in 1992 was 19.5%, more than three times higher than Italy's rate of 6.3% that year (OECD). Yet the fact that there appears to have been no sense of urgency in Greece to meet the Maastricht standards indicates that these did not, in reality, constitute a strong source of external pressure on economic and political actors in European countries.

It follows that the "European factor", meaning pressure to meet the Maastricht criteria, does not in itself provide an adequate explanation for Italy's relative success in implementing reforms. Why, then, was Italy more receptive to this pressure. The answer lies partly in a process of social learning initiated in previous decades.

In order to evaluate the broader impact of Europeanization, we require an appropriate definition of that expression. One is provided by Dyson and Goetz (2003: 20): "Europeanization denotes a complex interactive 'top-down' and 'bottom-up' process in which domestic polities, politics and public policies are shaped by European integration and in which domestic actors use European integration to shape the domestic arena. It may produce either continuity or change and potentially variable and contingent outcomes."

While domestic actors will logically be inclined to protect their – often narrow – interests, Europeanization has the potential to act as a driver for social learning under the right circumstances (e.g. the presence of norm entrepreneurs[2] and a sense of failure of existing policies), inducing actors to redefine their interests and consequently to alter their actions (Börzel and Risse 2000, Checkel 1999, Fligstein and Mara-Drita 1996, Rhodes 1998).

What sort of influence might we expect Europeanization to produce? From the creation of the single market program in 1985, the European Community's goal had been to boost competitiveness by liberalizing the European economies, i.e. by reducing state intervention, taxation and welfare provision. After the Maastricht Treaty was signed, significant steps were taken in this direction, and specifically towards increased labour market flexibility; these included the Delors White Paper on "Competitiveness, Growth and Employment" in 1993 and the European Employment Strategy in 1997. Given the more extensive influence of Europeanization in Italian policy-making, this was an additional factor serving to legitimize the attempt in Italy to carry out labour market reforms. As for the prevailing norm regarding trade unions in Europe, Bieling (2001: 107) argues that most European trade unions seemed to have agreed to a new "competitive bargain," which, although inevitably asymmetrical, nonetheless provided them with the opportunity to play an important role in negotiations about "the concrete realisation and political framing" of the economic policy goals.

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[2] This expression was introduced by Sunstein (1996) to indicate actors interested in altering social norms.

Concerning the impact of Europeanization on Italian and Greek policy-making, it must be borne in mind that Italy was a founding member of the European Community, whereas Greece had joined it in 1981. This had important implications. Starting from the 1970s, Italian policy-makers considered anchoring their country firmly to Europe as greatly beneficial to its future development. The idea was that the European Community, acting as an external constraint, could force Italy to adopt policies that would propel its modernization. A combative advocacy coalition of academics and policy-makers, which transcended ideological and party lines, gradually assembled around this concept (Ferrera 2004).

The strong impact of Europeanization on Italian policy-making has also been ascribed to memories of the economic adversities – fiscal profligacy, high inflation and currency instability – associated with the country's failure to conform to the external constraint in the 1970s. By contrast, Italy's participation in the European Monetary System since its inception in 1979 was regarded as having assisted Italy's international competitiveness. This historical legacy helps to explain why the European Community was perceived as a source of legitimacy for Italian policy-makers, and why the adoption of EC policies was considered crucial for Italy's economic success (Giavazzi and Spaventa 1988; Dyson and Featherstone 1996). While public and political support for the European project ran high in Italy in the 1980s, this did not, however, translate into a significant reconfiguration of institutions and effective implementation of policies to meet EC guidelines (Quaglia and Radaelli 2007; Giuliani 2000).

By contrast, Europeanization had virtually no impact in Greece during the 1980s, when the PASOK party led by the populist and anti-EC Andeas Papandreou dominated the country's politics. During this period, Greek trade unions rejected EC-inspired reforms as neo-liberal measures that would be catastrophic for workers. As Tsarouhas (2008: 362) remarks, "the close links between the unions and PASOK in the absence of widespread crisis conditions meant that the costs of accepting reforms in the name of a project until recently portrayed as antithetical to the national and party interest were disproportionately high." According to the Standard Eurobarometer, until the late 1980s support for European membership in Greek public opinion was significantly below the European average.

A consensus concerning the need to conform to European Union norms and practices began to emerge during the Simitis government in 1996 (Pagoulatos 2003), but prevailing norms and conceptions of interests could not shift radically overnight in the absence of a crisis. Consequently, the trade unions continued to defend their narrow interests, and those reforms that were passed could be seen more as a show of compliance with EMU requirements than as an attempt to implement structural change.

Greek public support for the European Union rose with respect to the EU average in the 1990s, in inverse relation to declining satisfaction with national democracy. Yet, the latency of the shift in both political orientation and public perception regarding the EU meant that the process of Europeanization was built upon much less solid foundations than in Italy, despite the latter's failure to adapt to EU policy norms.

The role of trade unions

From its inception around the turn of the twentieth century, the Greek labour movement was characterized by extensive state intervention, intense segmentation and almost permanent organizational flux, and thus a limited level of institutionalization (Seferiades 1999: 14-21) Trade union autonomy was subjected to further strong governmental constraint in the 1950s and 1960s (Kritsantonis 1992). The type of collective bargaining that emerged was centralized and heavily controlled by the state, which also wielded decisive influence on the functioning of unions (Zambarloukou 2006: 216).

Following the collapse of the military dictatorship in 1974, efforts were made to liberalize and institutionalize the labour movement, but this did little to increase trade union autonomy: the political parties continued to try to hold sway over the trade unions, and the result was adversarial labour relations marked by a high propensity to strike (Mavrogordatos 1988; Zambarloukou 1997, 2006).

Even this brief overview shows that the history of the Greek labour movement has shaped deep-seated traits that prevent it from acting as a reliable social partner. On the other hand, its high level of militancy and political involvement give it considerable power to oppose legislation. Furthermore, in the light of the strong ties between political parties and trade unions, it is plausible that governments will be hesitant to act counter to the interests of the unions. This contributes to a status quo in which whatever kind of radical reform faces strong headwinds. Until the mid-1990s the Greek labour movement remained highly sceptical of the EU project (Moschonas 2003).

Italy also suffered from a non-cohesive labour movement in the post-war years. It was therefore equally unlikely to be able to engage in political exchange of the kind needed for a concerted form of decision making. This view is reinforced by the deep rifts that existed between the state and the unions in the policy arena, most importantly the communist/anti-communist divide (Golden 1988). Attempts in the 1980s to create an environment of concerted action between the social partners and the government bore practically no fruit, largely because the unions lacked representative power, owing to the persistent divisions in their ranks generated by the divergent policies of the political parties with which they were affiliated (Regini 1997).

The upheaval in Italy's political arena in the 1990s and the formation of new parties and coalitions served to reduce partisan divisions within the unions by creating a setting in which, as Baccaro et al. (2003: 48) remarks, "the unions' traditional political sponsors had either disappeared or were (for the first time in Italy's postwar history) sitting together in the same centre-left coalition."

It is interesting to note that at the beginning of the decade Italy ranked very low according to indicators of corporatism, so low, indeed, that it was considered no more corporatist than the United States (Dell'Aringa et al., 1992). This was mainly attributable to the factors mentioned above, notably partisan divisions within the unions and confrontational industrial relations. How, then, did corporatism emerge in Italy?

We have seen that Europeanization and the sense of urgency created by the economic crisis, as well as the revamping of the political landscape by political scandals in the early 1990s, were decisive in paving the way for reforms. But we need to look more closely at the process that enabled Italy's trade unions to play such a constructive role in the reform process. Baccaro (2002) asserts that the case of Italy proves that corporatist policy-making can emerge through different mechanisms from those described in the standard neo-corporatist theory.[3] Locke and Baccaro (1996: 290-1) stress the importance of organizational changes within the Italian unions, "democratising their internal decision making processes, and thus enhancing their ability to aggregate and represent diverse interests within the labour movement." All reform proposals that involved concerted action were preceded by workplace assemblies and binding ratification votes among the workers. According to Baccaro (2002), these democratic procedures gave union leaders the opportunity to persuade their base of the necessity of the proposed reforms, allowing them to substantially affect the formation of the rank and file's preferences. Indeed, this setting appears to provide a close fit with two of the three conditions that Checkel (1999: 550) says must be met for persuasion, leading to social learning, and consequently interest redefinition, to occur. Specifically, Checkel observes that agents tend to be particularly conducive to persuasion when they are "in a novel and uncertain environment and thus cognitively motivated to analyse new information", and when "the persuader is an authoritative member of the in-group to which the persuadee belongs."

[3] For more on neocorporatist theory, see Lehmbruch and Schmitter 1982; Schmitter 1974.

The role of government

Governments are pivotal actors in any reform process, so the role they played in the cases under study deserves special examination. It should be stated at once that there was a crucial difference between the two countries' political systems owing to their different electoral systems: majoritarian in Greece and proportional representational – later replaced by a mixed electoral system – in Italy. This usually resulted in governments with a strong parliamentary base in Greece and weak ones in Italy. For instance, in the 1996 Greek elections, PASOK's 41.49% of the vote translated into 162 seats in parliament out of a total of 300, while Nea Dimokratia's 38.12% gave it just 108 seats (Ministry of Interior 1996). Indicative of the degree of government instability in Italy is the astonishing statistic that between 1954 and 1994 governments remained in office for an average of between 12.1 and 12.8 months (the latter figure in the period 1980-94) (Lane et al, 1997: 123-139).

This brings us to Lehmbruch's (1979) proposition concerning the tendency of weak governments to include labour and employer organizations in decisions about unpopular policies, a proposition that applies all the more in the case of the 1993 technocratic governments in Italy, which lacked a clear parliamentary majority and whose legitimacy was therefore minimal. Baccaro and Lim (2007: 30), considering the consensus in the relevant literature, comment that it seems "governments are especially disposed towards policy concertation when they are too weak to pass reform on their own."

Apart from this factor, Ferrara (2004: 140) points out that concerted action came to be considered a substitute for policy-making by parliament, whose efficiency was undercut by rules giving extensive veto powers to all minor parties.

Viewed from a different angle, the existence of a large number of partisan "veto players" (Tsebelis 2002), as is the case in coalition governments, should be likely to result in a smaller winset for policy reform and therefore in a decreased probability of change in the status quo. The events that took place in the turbulent political landscape of Italy in the 1990s obviously did not bear out this prediction.

In a country with dominant single-party governments like Greece, one might expect that labour market reforms would be easier to introduce. But even though the government was at the same time the sole institutional and partisan veto player in the reform attempts of the 1990s, two important factors undermined its position.

First, the ruling party (PASOK) lacked cohesion, so there was no consensus within the cabinet. The distrust towards EU-inspired reforms that had its roots in PASOK's radical past remained strong among many party members, although the government's official goal was convergence with European norms and practices. Based on several case studies, Corrales (2000) underscores the importance of government-party dichotomy when 'statist' political parties win an election and form a government that seeks to promote market-oriented reforms. He concludes that in such cases the greatest obstacle to reform is often the conflict of approaches between the government and the ruling party (as expressed by its platform and ideological history).[4]

Furthermore, the history of relations between the government and organized interests, traditionally characterized by patronage and domination, reduced the government's credibility in the eyes of the social partners (Papadimitriou 2005: 394). This view was reinforced during the reform attempts under examination by what they considered to be inconsistencies in the government's approach to social dialogue (OKE 2003).

The second factor weakening the position of the Greek government was the ideological and programmatic distance separating it from its opponents. According to Tsebelis' veto player approach (2002), the probability of a change in the status quo in situations like this is small. Indeed, the Greek political system's limited capacity for reform has often been blamed on the country's political culture,

[4] A more extreme manifestation of this dichotomy appeared almost 20 years later in Greece, when a large number of SYRIZA MPs refused to vote in favour of a third memorandum in 2015, forcing the government to call snap elections only 8 months after it had come to power on a radical anti-austerity platform.

plagued by a lack of broad-based consensus and mechanisms that facilitate interest reconciliation (Tsarouhas 2008).

This lack of political consensus can be ascribed in no small measure to the limited impact of Europeanization on Greek politics and policy-making. In Italy, by contrast, the technocratic governments, and the coalition governments that succeeded them, were more inclined to accept the need for reform.

Crisis leading to reform

After the delegitimization of the political order in Italy, new actors entered the scene, a considerable number of whom were inclined to pursue solutions in accordance with European policy-making preferences (OECD 2009: 248). The advent of so-called technical or technocratic governments facilitated the implementation of reforms in the early 1990s, creating a precedent for concerted action that was utilized in the 1997 Treu reforms.

The governments that were appointed following the *Tangentopoli* scandal turned to the trade unions and business associations for a joint effort to meet the economic crisis and the challenge of joining the EMU. The sense of urgency that prevailed led to what Ferrara (2004: 141) calls "emergency political exchange". Highlighting the central role played by organized groups during this period, he observes that they "tended to replace political parties at that time and were given the chance to […] openly […] provide the keys and formulas of economic and social policy (in lieu of parties)."

One cannot overstate the importance of Europeanization in shaping the policy beliefs of the technocratic elite that came to represent perhaps the sole viable alternative to the bankrupt traditional political system. It is hard to imagine what alternative the Greek political system could have provided, even in the case of such a sweeping crisis.

In Italy, therefore, political crisis was the catalyst for change, but it would not have produced such an effect in the absence of the powerful influence of the EU, which largely defined the direction of the shift in the political system.

In Greece, instead, with the PASOK government holding sway practically without a break in the 1990s, the deep patronage links that had been established during the 1980s continued to crimp the capacity for reform and there was essentially no incentive to challenge vested interests. Consequently, the outsiders in the Greek labour market had no way to affect policy-making, and the insider-dominated labour market was left to function in the inefficient manner that suited its members.

Tomassi (2003: 4-7) identifies the mechanisms that link an economic crisis to reform, and most of them have a close bearing on the Italian case. He notes the importance of learning, i.e. that a crisis leads to a "reassessment of the mapping from policies to outcomes, in particular to a realization of how costly some previous policies were" (2003: 4). As we have seen, a process of learning had already been initiated in Italy thanks to EU rules that provided an alternative to a policy-making framework shown to be inefficient. Tomassi also outlines the importance of "special politics", that is to say an extreme situation in which institutional power is reallocated permanently, or else effective power is reallocated permanently among interest groups, in response to problems whose solution admits no delay. The relevance of this to the Italian case is striking. Finally, he describes circumstances in which crises can be interpreted as a "situation in which a very low expected future payoff of continued non-cooperation might induce actors to switch to more cooperative policymaking, which is instrumented through the reform of some institutions" (2003: 7). This applies directly to the reorientation of the Italian trade unions in the early 1990s.

Italy's economic crisis, combined with the conditions created by the contemporary political crisis and with the impetus imparted by Europeanization to a learning process, fulfilled many of the requisite conditions for initiating a process of reform.

Conclusion

This paper has addressed the question of why Italy managed to carry out significant reforms in its labour market in the 1990s while Greece failed almost completely to do so, given that the two countries faced a similar set of circumstances, including labour market rigidities, vested interests, non-cohesive interest representation, governmental and public sector inadequacies, and pressure to meet the EMU criteria.

We have argued that reform in Italy was catalysed by the political and economic crisis that shook the country in the early 1990s. The seismic effects of political scandals radically reshaped the political scene, allowing new actors to emerge and reconfiguring the constellation of vested interests and partisan divisions which had been – and in the case of Greece continued to be – highly obstructive to reform. The economic crisis bestowed urgency and legitimacy on the process, because it demonstrated the ineffectiveness of the policies that had been pursued.

But, if a vehicle is headed in the wrong direction, gaining the power to alter its course is crucial but ultimately irrelevant in the absence of an idea of an alternative, better route for it to take. This paper has highlighted the role of Europeanization in propelling a process of social learning, and consequently in shaping perceptions of the main actors' interests with regard to the direction of reform. This effect was strong in Italy, thanks to the country's traditional 'trust' in the effectiveness of EU policy rules and to the central role played by technocrats in the revamped political scene.

The organizational innovations introduced in the Italian trade unions established democratic procedures in their functioning, and consequently helped to enhance the effect of social learning and to give legitimacy to the agreed reforms, thus limiting potential protests. The unions were therefore active participants in a policy-making process that forged reform through concerted action.

By contrast, in Greece, in the absence of widespread crisis, there was relatively little impetus for reform and the process ended in deadlock. Path dependency, engendered by decades of patronage links, partisan divisions, vested interests and incompetent governments, proved too strong to be overcome, and the labour market's rigidities remained largely intact. Furthermore, few, if any, of the preconditions for the diffusion of European policy-making norms through a process of social learning were present. The status quo was impervious to change, and in the absence of Europeanization effects it would, in later years, remain resilient even in the face of extreme crisis.

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