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DUAL CONVERGENCE OR HYBRIDIZATION? INSTITUTIONAL CHANGE IN ITALY AND GREECE FROM THE VARIETIES OF CAPITALISM PERSPECTIVE

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Abstract¹

The article tracks institutional changes within two central spheres for Varieties of Capitalism (VoC) theory: the industrial relations system and the finance/corporate governance system. Italy and Greece are examined in comparative perspective vis-à-vis CME and LME paradigm cases. The review of recent developments reveals that while industrial relations in both countries show signs of greater coordination, the finance/corporate governance system acquired increasingly liberal market characteristics. Thereby, this analysis casts doubt to the dual convergence thesis, arguing that the hybrid character of the two countries was exacerbated over the last two decades.

Keywords: corporate governance, industrial relations, comparative political economy, Greece, Italy.

1. Introduction

For the last two decades, scholarly work in comparative political economy has been dominated by the Varieties of Capitalism (VoC) literature. Among other things, this strand of literature re-launched with vigor the debate between convergence and divergence. The essence of the convergence thesis was that countries will eventually get into a common trajectory following a

1 An earlier version was presented at the 5th CEU Graduate Social Sciences Conference (Budapest, 19-21 June 2009) and at the 4th LSE Hellenic Observatory PhD Symposium (London, 25-26 June 2009). Detailed feedback from Christa van Wijnbergen (LSE), Kevin Featherstone (LSE), and two anonymous referees has been very helpful in revising this article. I also thank Waltraud Schelkle (LSE), Marco Simoni (LSE), and Thomas Fetzner (CEU) for their comments. Financial support from Bodossaki Foundation and LSE is gratefully acknowledged. Any remaining errors are my own.

single "logic of industrialism"². The same thesis appeared in the early 1990s within the context of the globalisation debate, foreseeing convergence to the Anglo-Saxon model of capitalism. Contributions from the VoC literature provided a counterweight to easy arguments about globalisation and refuted the idea of an imminent convergence to a single model³. Instead, they argued that there are more than one ways to achieve high performance in the global economy. The subsequent debate was largely structured around the two successful models of capitalism: Coordinated Market Economies (CMEs) and Liberal Market Economies (LMEs).

A landmark publication by Hall and Soskice⁴ elaborated on specific institutional complementarities that countries derive from the tight coupling of a set of institutions. Complementarities denote a functional interdependence between different institutional domains including the industrial relations system and the system of finance and corporate governance. Hall and Soskice argued that when these institutions cluster together in specific combinations, then they are able to produce increasing returns and contribute to high economic performance.

As a result of the above conceptualisation, VoC effectively replaced the (single) convergence thesis with a dual convergence thesis allowing for two options –rather than the no alternative type of argument. The pressures from globalisation and liberalisation are expected to accentuate the differences between LMEs and CMEs. The interesting question that this raises is what will happen to cases (countries) that lie in an ambiguous position?

2 Clark Kerr, John Dunlop, Frederick Harbison and Charles Myers, *Industrialism and Industrial Man* (Cambridge; Mass: Harvard University Press, 1960).

3 Colin Crouch, "Models of Capitalism" *New Political Economy*, 10 (Dec 2005):439-456; Wolfgang Streeck and Kathleen Thelen "Introduction: institutional change in advanced political economies" in *Beyond continuity: institutional change in advanced political economies*, eds idem (Oxford: Oxford University Press, 2005), 1-39.

4 Peter Hall and David Soskice "An Introduction to Varieties of Capitalism", in *Varieties of Capitalism: institutional foundations of comparative advantage*, eds., idem (Oxford: Oxford University Press, 2001), 1-68.

Southern European countries are hard to classify as LMEs or CMEs. Later works in the literature grouped the cases of Greece, Italy, Portugal, Spain and France under a new ideal-type: Mixed Market Economies (MMEs).⁵ The common thread linking these cases is that they lack the institutional cohesion of LMEs or CMEs (i.e. they are construed as hybrids) and certainly lack the crucial complementarities which are necessary for high performance. As will be argued below, these countries are “hard cases” for propositions of institutional change, and therefore, appropriate to assess the plausibility of the dual convergence hypothesis.

The main research question of this article is whether institutional change in Italy and Greece is taking place in line with the expectations of the dual convergence hypothesis. If the hypothesis is plausible, then we should expect to see these cases changing unambiguously towards the LME or the CME direction. The article shows that institutional change in the two countries is not taking place along these expectations. Despite common pressures from globalisation and liberalisation, industrial relations are becoming more coordinated and corporate governance/finance more liberal. The core insight of this paper is that different institutions may be changing in different directions, and this should be taken into account in the academic debate over institutional change. The empirical part documents this possibility with evidence from Italy and Greece, which are examined in comparative perspective *vis-à-vis* Germany and Britain. The latter pair provides two imperfect proxies of the CME and LME ideal-types, respectively.

The rest of the article is structured as follows. The next section discusses the main works in the convergence/divergence debate. It also substantiates the interpretation of the VoC framework as having the observable implication of the “dual convergence” thesis. The third section examines earlier works on Southern Europe from a VoC perspective. This section aims to delineate the

5 Bob Hancké, Martin Rhodes and Mark Thatcher, “Introduction: Beyond Varieties of Capitalism” in *Beyond Varieties of Capitalism: Conflict, contradiction and complementarities in the European Economy*, eds. idem, (Oxford: Oxford University Press, 2007), 3-38.

added value of the present article compared to previous approaches. Additionally, it justifies why Italy and Greece can be construed as “hard cases” for claims of institutional change, especially in the spheres of industrial relations and corporate governance. The fourth section explores changes in the industrial relations sphere, while the fifth section tracks changes in the realm of finance/corporate governance. The evidence examined show that the former has moved closer to the coordinated type, whereas the latter has become more liberalized. The final section summarises the main argument of increased hybridization and discusses the wider implications of this analysis.

2. Convergence, Divergence and Dual Convergence across Varieties of Capitalism

The debate between convergence and divergence theorists is probably as old as social science itself. Marx, for example, predicted the inevitable self-destruction of the capitalist system and the convergence to a socialist system, in which the state would eventually wither away. A team of Harvard institutional labour economists addressed that prediction in the 1960s and argued against Marxian convergence; they claimed, instead, that advanced capitalist countries are likely to converge to a single model of “pluralistic industrialism”.⁶ Several years later, a team of scholars under the auspices of John Goldthorpe challenged the Harvard’s team idea of convergence to pluralistic industrialism, highlighting the corporatist responses of Western European countries.⁷

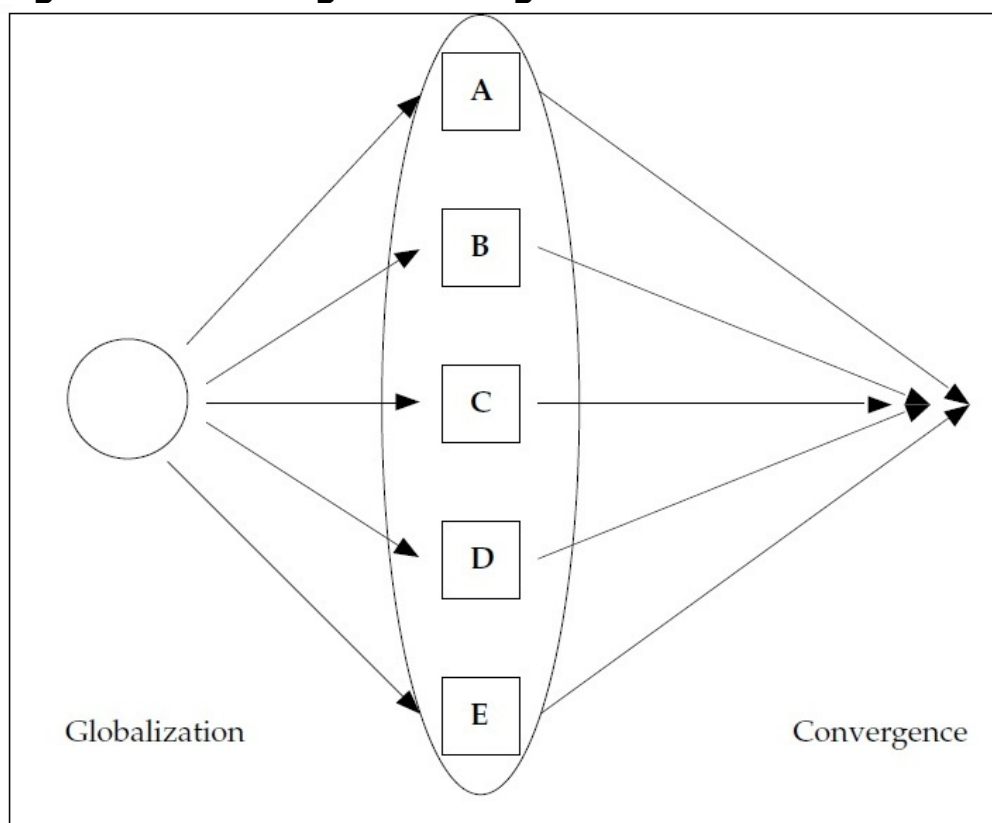
The convergence argument reappeared in the 1990s within the wider globalization debate. A series of popular and polemical works led the discussion, putting forward the proposition that pressures from globalization will force different countries to

6 Clark Kerr et al., *Industrialism and Industrial Man* (Cambridge; Mass: Harvard University Press, 1960).

7 John Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism* (Oxford: Clarendon, 1984).

converge to the Anglo-Saxon model of capitalism.⁸ This vision was shared by International Political Economy scholars, who recognised the potential for clash between different models of capitalism⁹ and argued that global market integration pushes countries towards convergence¹⁰. Thereby, convergence to a single neo-liberal model gained credence in literature (Figure 1).

Figure 1. The Single Convergence Thesis



Source: Hay, "Common Trajectories, Variable Paces, Divergent Outcomes?", 234.

8 Michel Albert, *Capitalism against Capitalism* (London: Whurr, 1993), Will Hutton, *The State We're In* (London: Jonathan Cape, 1995), Lester Thurow, *Head to Head: The Coming Economic Battle among Japan, Europe, and America* (London; New York: Brealey; Morrow, 1992).

9 Robert Cox, "Global Restructuring: Making Sense of the Changing International Political Economy," in *Political Economy and the Changing Global Order*, ed. Richard Stubbs and Geoffrey Underhill (Basingstoke: Macmillan, 1994), 49.

10 Susan Strange, "The Future of Global Capitalism; or, Will Divergence Persist Forever?," in *Political Economy of Modern Capitalism*, ed. Colin Crouch and Wolfgang Streeck (London: Sage, 1997), 182.

In response to these arguments, scholars from Comparative Political Economy developed an alternative vision of "divergence". They showed that similar pressures are mediated differently across models of capitalism, and refuted the neo-liberal convergence thesis.¹¹ According to Colin Crouch, one of the main accomplishments of this literature is that it provided an "intellectual counterweight to easy arguments about globalization".¹²

The landmark publication by Hall and Soskice¹³ put forward two main types of political economies: CMEs and LMEs. Importantly, it elaborated on specific "institutional complementarities" that different models derive from the tight coupling of their institutions and argued that these complementarities give rise to comparative advantages, which are reinforced in the context of globalization. While Hall and Soskice do not speak explicitly of a "dual convergence" thesis, if we are to follow King *et al.* methodological suggestion of testing the "observable implications of a theory"¹⁴, then this thesis (Figure 2) is such an observable implication of the VoC theory.

This interpretation is shared by other scholars in the literature.¹⁵ Most notably, Colin Hay in an article in the prestigious *Review of International Political Economy* writes:

11 Suzanne Berger and Ronald Dore, eds., *National Diversity and Global Capitalism* (Ithaca: Cornell University Press, 1996), Colin Crouch and Wolfgang Streeck, eds., *Political Economy of Modern Capitalism* (London: Sage, 1997), Herbert Kitschelt et al., eds., *Continuity and Change in Contemporary Capitalism* (Cambridge: Cambridge University Press, 1999), Kathleen Thelen and Christa van Wijnbergen, "The Paradox of Globalization: Labor Relations in Germany and Beyond," *Comparative Political Studies* 36, no. 8 (2003).

12 Colin Crouch, "Models of Capitalism," *New Political Economy* 10, no. 4 (2005): 439.

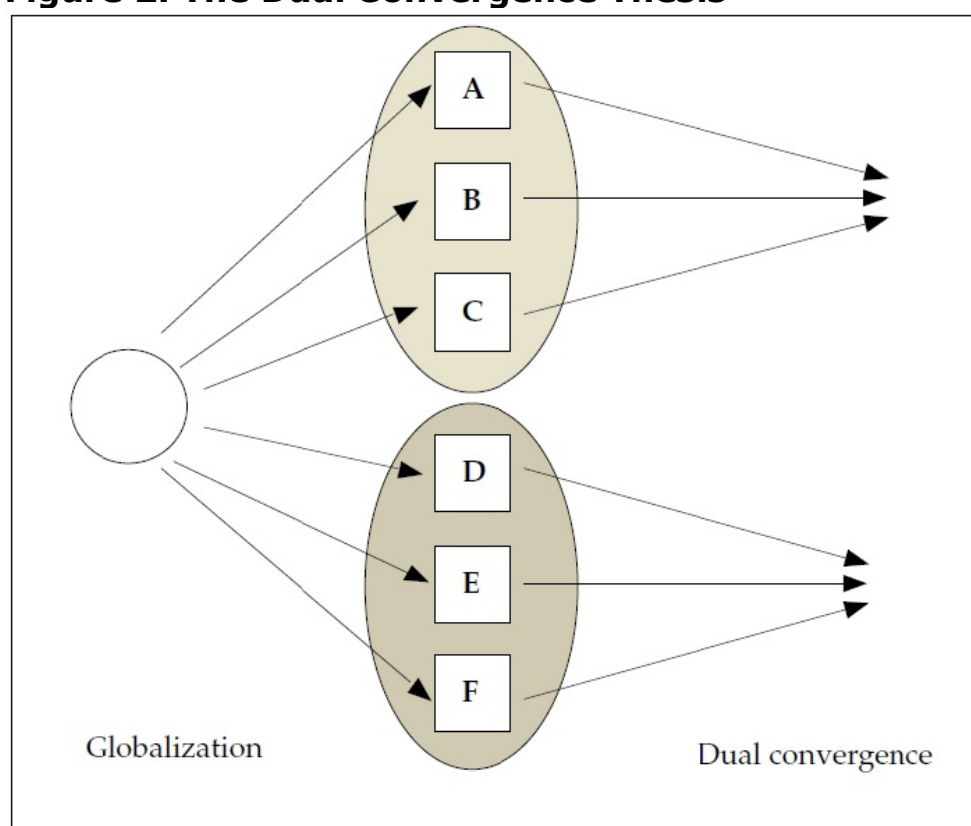
13 Peter Hall and David Soskice, "An Introduction to Varieties of Capitalism," in *Varieties of Capitalism: Institutional Foundations of Comparative Advantage*, ed. Peter Hall and David Soskice (Oxford: Oxford University Press, 2001).

14 Gary King, Robert Keohane, and Sidney Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research* (Princeton; NJ: Princeton University Press, 1994), 208.

15 Marc Blyth, "Same as It Never Was: Temporality and Typology in the Varieties of Capitalism," *Comparative European Politics* 1, no. 2 (2003): 15, Waltraud Schelkle, "Collapsing Worlds and Varieties of

Altogether more sophisticated theoretically, altogether more exhaustive empirically, and increasingly influential in contemporary debates is the so-called '*dual*' or '*co-convergence thesis*' advanced by a range of prominent neo-institutionalists ... This perspective represents perhaps the most systematic attempt to date to explore, expose and detail the institutional mechanisms involved in process(es) of convergence and divergence....¹⁶

Figure 2. The Dual Convergence Thesis



Source: Hay, "Common Trajectories, Variable Paces, Divergent Outcomes?", 236.

Welfare Capitalism: How to Step out of Weber's Long Shadow," Oxford Centre for the Study of Inequality and Democracy Working Paper Series, no. 01 (2008): 4.

16 Colin Hay, "Common Trajectories, Variable Paces, Divergent Outcomes? Models of European Capitalism under Conditions of Complex Interdependence," Review of International Political Economy 11, no. 2 (2004): 235-6.

The dual convergence thesis starts from the assumption that there are two main political economic models (LMEs and CMEs) capable of achieving high performance in the new global environment. The pressures from neo-liberal globalization and liberalization are expected to accentuate the differences between the two models forcing mid-spectrum cases to converge to either political-economic model.

One could reasonably wonder: what are the scope conditions of VoC theory? In other words, should we at all expect that other countries (be they Italy, Estonia or Uganda) will converge with one of the models? Hall and Soskice were very clear that their theory encompasses advanced industrialised countries defined as "large OECD nations".¹⁷ As a result, it is questionable whether a country like Estonia is within VoC scope conditions, while a developing country like Uganda is likely out of bounds.

Still, the literature in the last decade has expanded the universe of cases in such a way that the above demarcation is blurred. On the one hand, Schneider and Soskice applied the VoC perspective to Latin American countries (which are not OECD members except for Mexico and very recently Chile) dubbing them as "Hierarchical Market Economies".¹⁸ On the other hand, several works¹⁹ applied or challenged the VoC perspective using cases from Central and Eastern Europe, looking at both OECD members (Czech Republic, Hungary, Poland), and non-members (Estonia, Slovenia, Ukraine). Nonetheless, Southern European countries like Italy and Greece that have been OECD members since the 1960s, have

17 Hall and Soskice, "An Introduction to Varieties of Capitalism," 19.

18 Ben Ross Schneider and David Soskice, "Inequality in Developed Countries and Latin America: Coordinated, Liberal and Hierarchical Systems," *Economy and Society* 38, no. 1 (2009).

19 Dorothee Bohle and Béla Greskovits, "The State, Internationalization, and Capitalist Diversity in Eastern Europe," *Competition & Change* 11, no. 2 (2007), Magnus Feldmann, "The Origins of Varieties of Capitalism: Lessons from Post-Socialist Transition in Estonia and Slovenia," in *Beyond Varieties of Capitalism*, ed. Bob Hancké, Martin Rhodes, and Mark Thatcher (Oxford: OUP, 2007), Vlad Mykhnenko, "Strengths and Weaknesses of 'Weak' Coordination: Economic Institutions, Revealed Comparative Advantages and Socio-Economic Performance of Mixed Market Economies in Poland and Ukraine," in *Beyond Varieties of Capitalism*, ed. Bob Hancké, Martin Rhodes, and Mark Thatcher (Oxford: OUP, 2007).

been capitalist economies for decades also have a long experience of EU membership. Therefore, they fall definitely within VoC scope conditions. The next section reviews in more detail earlier works on Southern European countries that shared this VoC angle.

3. Southern Europe among Varieties of Capitalism

3.1. Southern Europe as a Distinct Variety of Capitalism

Interestingly, Hall and Soskice allowed for a third variety of capitalism in their initial contribution, foreshadowing what would later be dubbed as "Mixed Market Economies":

'[Six countries are left]...in more ambiguous positions (France, Italy, Spain, Portugal, Greece, and Turkey). However, the latter show some signs of institutional clustering as well, indicating that *they may constitute another type of capitalism, sometimes described as 'Mediterranean'* (emphasis added).²⁰

While Hall and Soskice did not elaborate on this third type, other scholars concurred with this argument. They maintained that these countries are likely to belong to a distinct variety of capitalism termed as Mediterranean or Southern European.²¹ Working within the initial Hall and Soskice framework, recent work has elaborated more on the characteristics of this third variety of capitalism dubbing the term "Mixed Market Economies" and including the cases of Italy, Greece, Spain, Portugal and France.²²

20 Hall and Soskice, "An Introduction to Varieties of Capitalism," 21.

21 Bruno Amable, *The Diversity of Modern Capitalism* (Oxford: Oxford University Press, 2003), Richard Hyman, "Varieties of Capitalism, National Industrial Relations Systems and Transnational Challenges," in *International Human Resource Management*, ed. Anne-Wil Harzing and Joris van Ruysseveldt (London: Sage, 2004).

22 Bob Hancké, Martin Rhodes, and Mark Thatcher, "Introduction: Beyond Varieties of Capitalism," in *Beyond Varieties of Capitalism*, ed. Bob Hancké, Martin Rhodes, and Mark Thatcher (Oxford: OUP, 2007), 23, Oscar Molina and Martin Rhodes, "The Political Economy of Adjustment in Mixed Market Economies: A Study

In Mixed Market Economies the logic of coordination is mixed (both market and non-market), the state has a distinctive "compensatory role" while the emphasis is on the "misfit" between institutions. The "misfit" denotes a deviation from the institutional clustering observed in coherent cases like LMEs and CMEs and results in an absence of "institutional complementarities". In their analysis the authors conceptualize the new ideal-type as a "hybrid" that is bound to under-perform.²³

Apart from the above works offering a grand ideal-type to accommodate Southern European cases, there are more specific Southern European country-studies with a VoC angle. The next section reviews the approach, areas covered and conclusions of those studies, establishing what the added value from the present article is.

3.2. Southern European Country-Studies from a VoC Perspective

One of the earliest attempts to look at Southern European countries from a VoC perspective is Regini's attempt to depict the Italian variety of capitalism.²⁴ Regini follows a micro-level approach; his primary focus is the production system and the product market strategies that Italian firms utilize. He maintains that "flexible specialization" is the production strategy pursued in the Italian industrial districts, revealing comparative advantage "particularly in certain niche productions in clothing and textiles".²⁵ He then relates the institutional environment to the production system and argues that the combination of "weak

of Spain and Italy," in *Beyond Varieties of Capitalism*, ed. Bob Hancké, Martin Rhodes, and Mark Thatcher (Oxford: OUP, 2007), 225-27.

23 Ibid., 225-27.

24 Marino Regini, "Social Institutions and Production Structure: The Italian Variety of Capitalism in the 1980s," in *Political Economy of Modern Capitalism*, ed. Colin Crouch and Wolfgang Streeck (London: Sage, 1997).

25 Ibid., 105.

institutional regulation" and "unstable voluntaristic regulation" explain why this type of production strategy was the most prosperous.²⁶ Finally, he concludes that Italy is not an intermediate case between Rhenish and Anglo-Saxon capitalism; instead, it comprises a distinct model of capitalism.²⁷

Della Sala also looks at the Italian model of capitalism but takes a macro-level approach.²⁸ Della Sala reviews developments in two domains: finance/corporate governance and the industrial relations/labour markets. He observes that Italy has adopted elements of both LMEs and CMEs. On the one hand, reforms took place towards the direction of liberalizing industrial policy, increasing the importance of equity markets, and greater diffusion of corporate ownership. On the other hand, more concertation through social pacts has been introduced in industrial relations. Della Sala concludes that Italy remains a dysfunctional state capitalism model. His approach has the advantage that it makes sporadic, but not systematic, comparisons with LMEs and CMEs, but it does not engage with a discussion of the implications for the dual convergence thesis.

Zambarloukou also considers Greece from a VoC prism.²⁹ In a 2006 article she reviews efforts of concertation at the industrial relations system during the 1990s. She claims that Greece is closer to what has been termed "state capitalism", while her explanation for the absence of social pacts in Greece dwells on "the lack of trust between the social partners" and "the absence of a culture that promotes dialogue and consensus".³⁰ In her approach there are sporadic comparisons with the experience of social pacts in other countries especially Italy. But her study focuses on only one realm (industrial relations) and does not

26 Ibid., 105.

27 Ibid., 116.

28 Vincent Della Sala, "The Italian Model of Capitalism: On the Road between Globalization and Europeanization?," *Journal of European Public Policy* 11, no. 6 (2004).

29 Stella Zambarloukou, "Collective Bargaining and Social Pacts: Greece in Comparative Perspective," *European Journal of Industrial Relations* 12, no. 2 (2006).

30 Ibid.: 215-21.

attempt to look at other institutional domains as the VoC framework would require. Finally, Zambarloukou does not offer any quantitative indicators on collective bargaining centralisation or coordination.

Royo also looks only at the industrial relations realm when examining the Spanish model of capitalism.³¹ He reveals some notable cases of cooperation between firms, unions and regional governments in Valencia, Castellon, Basque, Catalonia and Madrid. His conclusion is that the "trajectory of change [in Spain] parallels developments in CMEs more closely than those in LMEs".³² In contrast, Molina and Rhodes claim that in Spain "waves of liberalization and state retrenchment, have tended to reinforce sub-system complementarities in an LME direction".³³

Finally, Molina and Rhodes examine Italy and Spain in comparative perspective with a special focus on two institutional domains: the welfare regime and the production regime. The choice of two domains reflects more closely the VoC framework. For Italy they conclude it has achieved greater "autonomous coordination" and less "market colonization" and explain this development on the basis of a "more even balance of power" between labour and capital.³⁴ The comparison between Italy and Spain is supplemented with systematic indicators from CMEs and LMEs. Thus, they provide better evidence to support their conclusion that Spain has moved towards an LME direction.

To conclude, the value of the present article is that it combines the strengths of previous approaches. This article shares with Della Sala the focus areas covered: industrial relations and corporate governance/finance system. However, the approach reflects more the Molina and Rhodes contribution, tracing

31 Sebastián Royo, "Varieties of Capitalism in Spain: Business and the Politics of Coordination," *European Journal of Industrial Relations* 13, no. 1 (2007).

32 *Ibid.*: 49.

33 Molina and Rhodes, "The Political Economy of Adjustment in Mixed Market Economies: A Study of Spain and Italy," 248.

34 *Ibid.*, 17-18.

developments in two Mixed Market Economies (Italy and Greece) and pursuing a systematic comparison with LMEs and CMEs. A final novelty of this article is that it presents new data (such as the composite indicators from the ICTWSS database) which reflect as closely as possible the institutional variables highlighted by VoC theory.

3.3. Italy and Greece: "Hard Cases" for Institutional Change

According to Hall & Thelen, Southern European countries (MMEs) are considered as "hard cases" for propositions of institutional change.³⁵ Mixed Market Economies like Italy and Greece lack a coherent institutional arrangement and are construed as hybrids. If the dual convergence thesis is theoretically plausible, then we should expect to see hybrid cases changing towards the one (LME) or the other (CME) direction.

VoC theory maintains that globalization reinforces the complementarities in the institutionally coherent models (LMEs and CMEs). In contrast, countries characterised by institutional incoherence (MMEs) are bound to be affected by global changes: they are likely to be less resistant to pressures from globalization and liberalization, and we should expect them to be moving closer to one of the two ideal-types. Therefore, they are most appropriate for a "plausibility probe" to the dual convergence thesis.³⁶

The choice of industrial relations and corporate governance/finance realms is theoretically motivated. Höpner has pinned down the importance of those two domains for the development of CME-type and LME-type institutional

35 Peter Hall and Kathleen Thelen, "Institutional Change in Varieties of Capitalism," *Socio-Economic Review* 7, no. 1 (2009): 26.

36 King, Keohane, and Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research*, 209.

complementarities.³⁷ Further, Hall and Gingerich³⁸ have used these same two exact domains to compute the overall coordination scores for LMEs, CMEs, and MMEs. In doing so, they support the argument that these spheres are very good proxies for the mapping of countries along capitalist models. Thus, if there is a move towards more institutional coherence it should be observable in those two critical institutional spheres. The next section begins the examination of these two spheres by turning first to industrial relations.

4. The Industrial Relations System

In the stylized picture of LMEs, collective bargaining is decentralized and uncoordinated, industrial relations are adversarial, the state intervenes very little in industrial relations, and collective bargaining coverage is low. In the stylized picture of CMEs, collective bargaining is centralised and coordinated, industrial relations are cooperative, the state intervenes in an enabling manner that facilitates the coordination, collective bargaining coverage is high and workers enjoy strong shop-floor rights such as co-determination. This section tracks developments in those institutional variables within Italy and Greece, seeking to gauge the direction of change during the last two decades.

4.1. Collective Bargaining Coordination & Centralization

The turning point for the industrial relations systems of both countries is placed in the early 1990s. Across Italy and Greece a re-organisation of collective bargaining framework took place under coalition governments with the agreement of the social partners. In Italy it was the tripartite agreement of July 1993 under the technocratic government of Ciampi, whereas in Greece

37 Martin Höpner, "What Connects Industrial Relations and Corporate Governance? Explaining Institutional Complementarity," *Socio-Economic Review* 3, no. 2 (2005).

38 Peter Hall and Daniel Gingerich, "Varieties of Capitalism and Institutional Complementarities in the Political Economy: An Empirical Analysis," *British Journal of Political Science* 39, no. 3 (2009).

it was Law No.1876 of 1990 under the ecumenical government of Zolotas.³⁹

In the recent literature on social pacts, Italy has been portrayed as an exemplary case, with the 1990s delivering a series of social pacts that re-invigorated neo-corporatist concertation.⁴⁰ However, the nature of concertation in the 1990s has been very different from the 1970s and was therefore dubbed "competitive corporatism".⁴¹ On the one hand, the stick and carrot of EMU entry forced national governments to strike coalitions with organised interests, taking measures to reduce budget deficits and lowering inflation through wage restraint. On the other hand, pressures from demographic change and rising unemployment guided the content of social pacts towards reform of pension systems and labour markets.

At first sight, Greece contrasts sharply with a poor record of only one social pact in 1997 and several failed attempts in social dialogue with respect to the reform of labour market and pension-system.⁴² However, if one looks at developments in the collective bargaining system, a more nuanced picture emerges. Notably, the national biennial collective bargaining agreements "have operated as functional equivalents to social concertation".⁴³ Indeed, this point can be justified on several grounds.

39 Giannis Kouzis, "The Consequences of E.M.U. For Industrial Relations: The Case of Greece," in *The Impact of E.M.U. On Industrial Relations in European Union*, ed. Timo Kauppinen (Helsinki: Finnish Labour Relations Association, 1998), Marino Regini and Ida Regalia, "Employers, Unions and the State: The Resurgence of Concertation in Italy?," *West European Politics* 20, no. 1 (1997).

40 Regini and Regalia, "Employers, Unions and the State: The Resurgence of Concertation in Italy?," 210-30.

41 Martin Rhodes, "The Political Economy of Social Pacts: 'Competitive Corporatism' and European Welfare Reform," in *The New Politics of the Welfare State*, ed. Paul Pierson (Oxford: Oxford University Press, 2001).

42 Kevin Featherstone and Dimitris Papadimitriou, *The Limits of Europeanization: Reform Capacity and Policy Conflict in Greece* (Basingstoke: Palgrave, 2008), Vassilis Monastiriotis and Andreas Antoniadis, "Reform That! Greece's Failing Reform Technology: Beyond 'Vested Interests' and 'Political Exchange'," *LSE Hellenic Observatory Papers on Greece and Southeast Europe*, no. 28 (2009).

43 Maria Karamessini, "Continuity and Change in the Southern European Social Model," *International Labour Review* 147, no. 1 (2008): 49.

To begin with, social pacts in Italy can be construed as the "national level" of bargaining, in which the three⁴⁴ major trade union federations negotiate agreements with the government and/or the employers. In Greece the collective bargaining system provides *by design* a national level of bargaining. While its main function is to set the minimum wages, other topics have been negotiated at this level. Importantly, these topics have been object of social pacts negotiations elsewhere. For instance, health and safety issues were negotiated through social pacts in Portugal but a pact on this issue was plainly unnecessary in Greece. Health and safety issues were negotiated through national collective bargaining in the mid-1990s and were eventually delegated to the corporatist venue of the Institute for Health and Safety. Another topic of negotiations has been the tax-system reform, which was negotiated repeatedly through social pacts in Ireland. But the same issue was successfully negotiated in Greece through middle-level social dialogue committees in 2002, and the agreement resulted in a new bill rather than a social pact.

Second, there were indeed failed attempts for *ad hoc* social dialogue with respect to labour market and pension system reform in Greece, while similar attempts were successful in Italy. But failed attempts for *ad hoc* social dialogue are not unlikely, even in more corporatist countries, for instance in Germany the failure for *Bündnis für Arbeit* and in Sweden the failure for *Allians för Tillväxt*. Moreover, the successful reform of the Italian pension system should not strike as a surprising accomplishment. Trade unions hold the majority in the board of directors of the institute that manages pensions (INPS)⁴⁵ and their consent would be absolutely necessary for any reform.

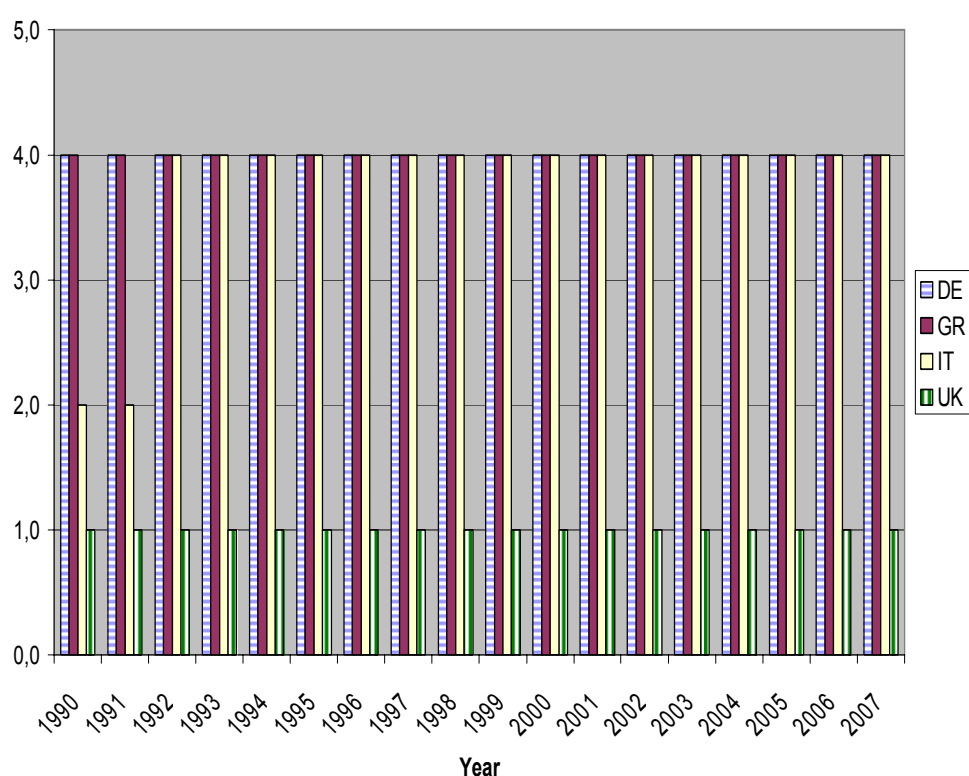
The broader point made here is that trade unions in both countries have abandoned much of their 1980s militancy, adopting a more consensual discourse during the 1990s. By no

44 To be precise, some social pacts were not signed by the ex-communist/socialist CGIL.

45 Regini and Regalia, "Employers, Unions and the State: The Resurgence of Concertation in Italy?," 215.

means does this imply that social dialogue has been solidly embedded in Greek or Italian industrial relations. But it does provide a more nuanced picture of developments in the industrial relations realm, concurring with scholars observing a “transmutation” of state corporatism in Greece into an increasingly “neo-corporatist mode of interest representation”.⁴⁶

Figure 3. Coordination of Wage Bargaining 1990-2007



Source: Data retrieved from ICTWSS Database, at: <http://www.uva-aias.net/208> (accessed 25 January 2010).

The proliferation of social pacts in Italy and the consistent signing of national collective agreements in Greece are reflected on high(er) coordination and centralization scores for both countries’

46 George Pagoulatos, *Greece’s New Political Economy: State, Finance, and Growth from Postwar to E.M.U.* (New York: Palgrave Macmillan, 2003), 185.

bargaining systems. Wage coordination has clearly increased in Italy during the 1990s matching German levels, while Greece is also depicted as having CME-levels of wage coordination (Figure 3).

Additionally, indicators of collective bargaining centralization show a gradual increase throughout the 1990s with both Italy and Greece moving closer to the German levels of centralisation, moving further away from LME levels (Table 1).

Table 1. Collective bargaining Centralisation Index

	1990	1995	2003
DE	0,48	0,47	0,47
GR	na	0,33	0,39
IT	0,25	0,35	0,34
UK	0,12	0,13	0,13

Source: European Commission, *Industrial Relations in Europe 2004*, (Luxemburg: European Commission, 2004), 43. Available at: <http://ec.europa.eu/social/main.jsp?catId=329&langId=en&furtherPubs=yes> (accessed 25 January 2010).

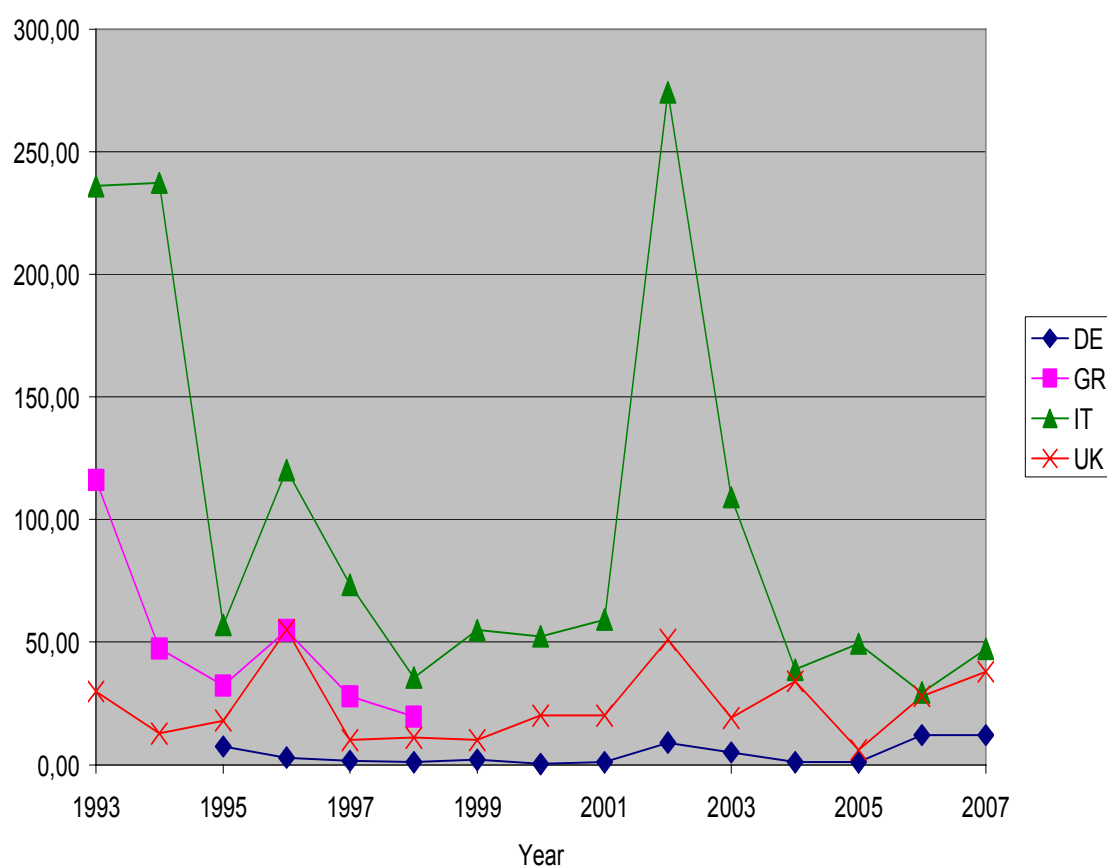
4.2. Government Intervention and Industrial Conflict

Italy and Greece share a tradition of a statist and adversarial industrial relations systems, with industrial conflict being an endemic characteristic. Figure 4 tracks the level of industrial conflict for the last two decades. Until 1998 the level of industrial conflict in Italy and Greece stood at higher levels than that of Germany or Britain. Still, if one compares these levels with data from the 1970s-80s⁴⁷, one can see that there is a trend towards decline in strike activity and stabilisation at historically lower levels by the late 1990s/early 2000s. This observation should be

47 Nicos Kritsantonis, "Greece: The Maturing of the System," in *Changing Industrial Relations in Europe*, ed. Anthony Ferner and Richard Hyman (Oxford: Blackwell, 1998), 525, Ida Regalia and Marino Regini, "Italy: The Dual Character of Industrial Relations," in *Changing Industrial Relations in Europe*, ed. Anthony Ferner and Richard Hyman (Oxford: Blackwell, 1998), 485.

qualified by the fact that strike statistics are unavailable for Greece after 1998.

Figure 4. Working Days Lost per Worker 1993-2007

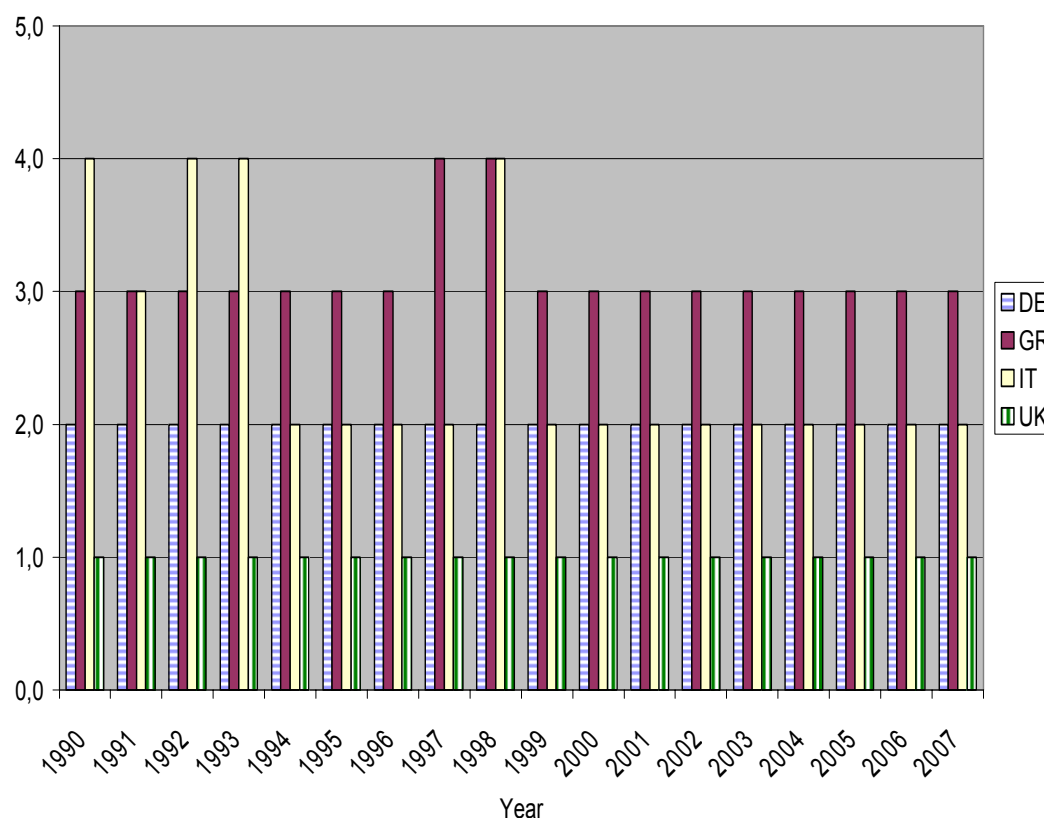


Source: Eurostat, Labour Disputes, available at: <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/> (accessed 25 January 2010).

Furthermore, the role of the state has been historically very important in the industrial relations systems of the two countries. The state was involved in all possible ways: as an employer in the extensive public sector, as a public mediator during industrial disputes and as a legislator setting the institutional framework. Figure 5 depicts government intervention in wage bargaining over time. The high levels of government intervention in the early 1990s document the statist tradition in Italy and Greece.

However, throughout the 1990s both countries reduced the levels of government intervention, with Italy matching the CME levels encountered in Germany.

Figure 5. Government Intervention in Wage Bargaining 1990-2007



Source: Data retrieved from ICTWSS Database, at: <http://www.uva-aias.net/208> (accessed 25 January 2010).

4.3. Collective Bargaining Coverage

A recurring theme in the scholarship on organized interests in Southern Europe is the so-called "representation problem" of employees' and employers' associations. Most recently, Matsaganis argued that Greek trade unions have acted as "narrow interests" opposing reform of the (indeed) inegalitarian

pension system and contrasted them with their Italian counterparts' involvement in pension reform.⁴⁸ One may read into this argument an underlying Olsonian logic of the role of "narrow interests", as opposed to "encompassing interests", in undermining public goods provision.⁴⁹ As argued above, the mere fact that Italian unions were involved in this reform should not strike as a surprising accomplishment: pensioners comprise most of Italian trade unions' membership and hold seats in the institute that manages pensions.

Conventionally, the representation problem has been understood through membership rates. For example, Scandinavian unions with union density reaching nearly 100 per cent are considered exemplary cases of encompassing trade unions. A corrective to this view is brought by Philippe Schmitter, who argued that trade unions in Southern Europe are more representative than their membership rates would indicate, because of the legal extension of collective agreements.⁵⁰ Trade union membership in Greece and Italy followed a declining trend in line with international developments. Italian union density stood at 38.8 per cent in 1990 and settled to 33.8 per cent in 2005, while Greek union density dropped from 37.5 in 1990 to 23 per cent in 2005.⁵¹ Still, if one looks at *collective bargaining coverage*, the Greek and Italian rates are even higher than the German rates.

Table 2 documents that trade unions in Italy and Greece effectively represent 70-82 per cent of the salaried wage earners. In addition, there are other actions which strongly show that

48 Manos Matsaganis, "Union Structures and Pension Outcomes in Greece," *British Journal of Industrial Relations* 45, no. 3 (2007): 537-55.

49 Mancur Olson, *The Rise and the Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven; London: Yale University Press, 1982).

50 Philippe Schmitter, "Organized Interests and Democratic Consolidation in Southern Europe," in *The Politics of Democratic Consolidation: Southern Europe in Comparative Perspective*, ed. Richard Gunther, Nikiforos Diamandouros, and Hans-Jurgen Puhle (Baltimore; London: The Johns Hopkins University Press, 1995), 303.

51 Data from ICTWSS Database, © Jelle Visser, (University of Amsterdam, 2009) available at: <http://www.uva-aias.net/208>.

Italian and Greek unions have tried to embrace a more “encompassing” type of behavior. Unions have tried to negotiate non-wage issues, which do not necessarily cater the immediate interests of their membership, but serve the interests of broader constituencies of society. Such non-wage issues include: equal opportunities policies and maternity leaves, training schemes and healthcare provision for unemployed, regulation for those working under flexible/precarious employment, and price stabilization through wage restraint.⁵²

Table 2. Collective bargaining Coverage (%)

	2000	2006
DE	63	63
GR	70	70
IT	82	82
UK	36.3	35.3

Source: European Commission, *Industrial Relations in Europe 2008*, (Luxembourg: European Commission, 2008), 75-78. Available at: <http://ec.europa.eu/social/main.jsp?catId=329&langId=en&furtherPubs=yes> (accessed 25 January 2010).

4.4. Concluding Remarks

This section considered changes in the industrial relations system in Italy and Greece comparing key institutional variables with those of Germany and the UK. The 1990s witnessed a burgeoning activity in the realm of social pacts in Italy. In Greece the biennial collective bargaining system is construed as the functional equivalent of concertation. These changes are reflected in the Italian and Greek coordination scores which match the German ones, as well as the increased centralisation scores, which move towards the German ones. Industrial relations in the 2000s are

52 Costanza Rodriguez-d'Acari, Alison Johnston, and Andreas Kornelakis, "The Role of Social Partners in Bargaining over Non-Wage Issues across Austria, Greece and Italy," University of Edinburgh Working Papers on the Reconciliation of Work and Welfare in Europe, no. 14/09 (2009): 17-23.

characterised by reduced government intervention and lower levels of industrial conflict, especially when compared to the 1980s. The review of the evidence provides support to the argument that the direction of institutional change in the industrial relations realm is towards greater coordination.

However, one has to enter a caveat at this point. The general argument from the above analysis is that there is *move* towards more coordination at the macro-level of the industrial relations sphere. By no means does this imply that the institutional sphere has fully become CME-like. Instead, it is prudent to note that there many residuals of a more hybrid character. In Greece, the state retains its interventionist role, there appear centrifugal tendencies in "pattern setting" sectors such as banking and the role of the arbitration and mediation service is challenged.⁵³ In Italy the political competition among trade unions has surfaced recently and federations find difficulties in speaking with a single voice.⁵⁴ Lastly, strong shop-floor rights (such as co-determination) are still missing in both countries which are so crucial for the development of CME complementarities.

5. The Finance and Corporate Governance System

In the stylized picture of LMEs firms follow short-term/shareholder-value corporate governance and rely heavily on stock market funding or "impatient capital". This is reflected on dispersed ownerships and few cross-shareholdings, while minority shareholder protection is high. In the stylized picture of CMEs, firms follow long term/stakeholder-oriented corporate governance and rely heavily on bank-based funding or "patient capital". This arrangement is reflected on concentrated ownerships and increased cross-shareholdings, while minority shareholder

53 Christos Ioannou, "Odysseus or Sisyphus' Revisited: Failed Attempts to Conclude Social-Liberal Pacts in Greece," in *After the Euro and Enlargement: Social Pacts in the E.U.*, ed. Philippe Pochet, Maarten Keune, and David Natali (Brussels: ETUI/OSE, 2010).

54 Marco Simoni, "Labour and Welfare Reforms: The Short Life of Labour Unity in Contemporary Italy," in *Italy Today: The Sick Man of Europe*, ed. Andrea Mammone and Giuseppe Veltri (London: Routledge, 2010).

protection is low. This section tracks developments in three observable institutional variables - financial system liberalization, equity market importance, and minority shareholder protection - seeking to gauge the direction of change within Italy and Greece during the last two decades.

5.1. Liberalization of the Finance System

The traditional source of funding for firms across Italy and Greece has been credit from the state-owned banks, as equity markets were traditionally underdeveloped. In the course of 1980s and 1990s, the Italian and Greek financial sectors have been strongly influenced by developments in European economic integration. The European Commission set out to establish a Single European Financial Area removing obstacles for the further integration of national financial markets. As a result of the liberalizing initiatives of the Commission, the heavy regulations of the financial sector were removed. At the same time state-owned banks were largely privatised during the 1990s.

In Greece liberalization of the financial market was launched later than other OECD countries, but progressed rapidly in the second half of the 1980s. The liberalizing initiative had five elements: abolishment of capital movement restrictions; freeing of interest rates; ending credit controls; allowing the merging of banking with insurance activities; and the creation of a vast market in government securities.⁵⁵ In the next decade, the privatization of state-owned banks accelerated and was largely completed by the early 2000s. In Italy, privatization went hand in hand with liberalization from the late 1980s. The implementation of the Commissions' Second Banking Directive allowed the banking system to move towards the universal bank model⁵⁶, in which deposits, loans and insurance are provided by all banks. By the

55 George Soumelis, "Greece: Reforming Financial Markets," *OECD Observer*, no. 193 (1995): 40-41.

56 Mahmood Pradhan, "Privatization and the Development of Financial Markets in Italy," *Finance and Development* 32, no. 4 (1995): 11.

early 2000s the state has largely withdrawn from regulation and ownership of both countries' banking sectors.

As a consequence of the 'opening up' of the sectors and the removal of barriers to entry, new players appeared in the Italian and Greek financial sectors. In Greece one observes an aggressive expansion strategy from foreign banks entering the market in the early 1990s.⁵⁷ Similarly, from 1992 onwards the entry flows of foreign banks in Italy increased dramatically compared to the previous decades.⁵⁸ As the next sub-section documents, the liberalizing impetus in the financial sector was followed by an expansion of equity-markets importance in the national economy.

5.2. Stock Markets Importance in the Economy

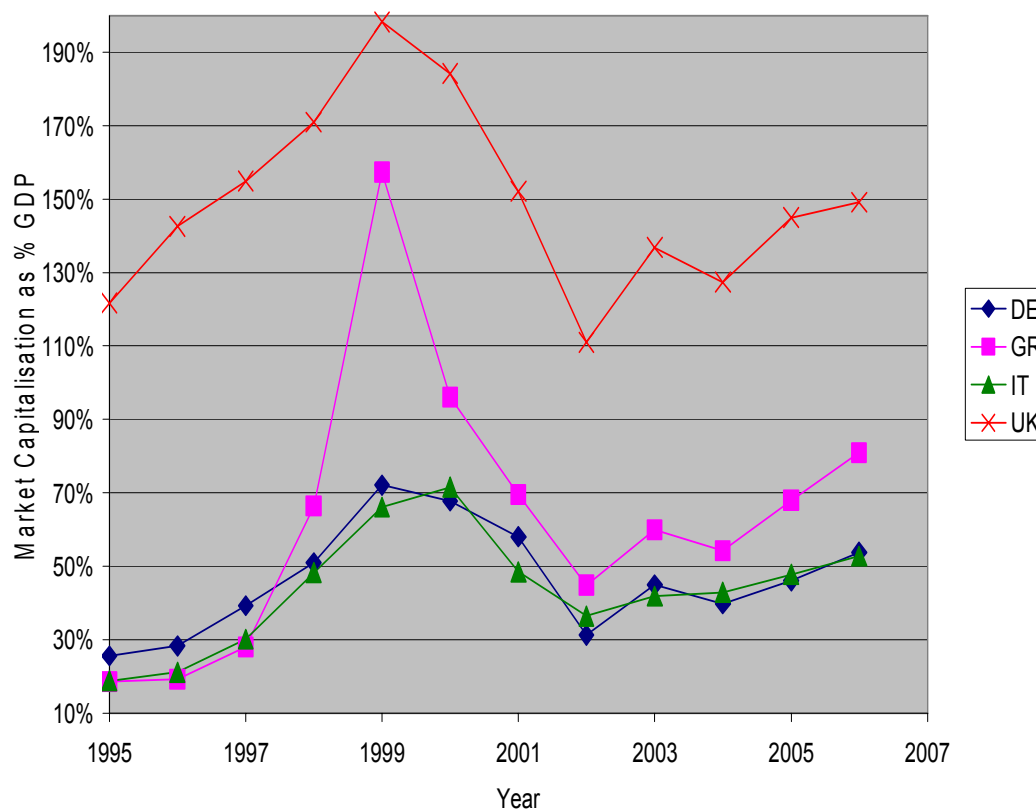
Stock markets experienced an unprecedented expansion during the 1990s and their importance to the national economy has undoubtedly increased in both Italy and Greece. The available data on stock market capitalisation document this change (Figure 6).

Admittedly, market capitalisation figures are influenced by the stock markets bubble in the late 1990s (hence the huge spike in 1999 where Greece approached British levels). However, even in this diagram one may observe that after the deflation of the bubble, the levels of market capitalisation settled at a higher plateau than the one from which they started. In 1995 market capitalization stood at around 20 per cent of GDP across both countries. By 2006 it has surpassed 50 per cent in Italy and was well over 80 per cent of GDP in Greece.

57 Pagoulatos, Greece's New Political Economy: State, Finance, and Growth from Postwar to E.M.U.

58 Silvia Magri, Alessandra Mori, and Paola Rossi, "The Entry and the Activity Level of Foreign Banks in Italy: An Analysis of the Determinants," *Journal of Banking and Finance* 29, no. 5 (2005): 1298.

Figure 6. Stock Market's Importance in the economy 1995-2006



Source: World Federation of Exchanges, available at: <http://www.world-exchanges.org/statistics/annual> (accessed 25 January 2010).

Table 3. Number of Listed Firms in Stock Market 1990-2007

	1990	1998	2007	%Δ 1990-2007	%Δ 1998-2007
DE	N/A	662	866	N/A	30.82%
GR	140	229	283	102.14%	23.58%
IT	220	243	307	39.55%	26.34%
UK	2.559	2.423	3.307	29.23%	36.48%

Source: World Federation of Exchanges, available at: <http://www.world-exchanges.org/statistics/annual> (accessed 25 January 2010).

A complementary statistic is the number of listed firms, showing a very high increase (Table 3). The two exhibits warrant the conclusion that firms' reliance on equity-based funding has increased in importance across both South European countries (especially in Greece). Moreover, they show that equity markets' importance increased also for the CME paradigm Germany, which also moved towards LME levels.

5.3. Minority Shareholder Protection

A major turning point in Italian corporate governance has been the passage of the Draghi Law in 1998. The changes introduced involved *inter alia* an increase in the regulatory protection afforded to minority shareholders, a change in the auditing system and also a change in takeover bidding rules.⁵⁹ The mechanism that led to this institutional change dwells on a coalitional web between a "transparency coalition" (investors and workers), a reformist-minded bureaucratic elite and a left-party government.⁶⁰ To our interest is that this monumental legal change moved Italy from the lowest score on the index of minority shareholder protection to the same score as the British LME (Table 4).

Table 4. Minority Shareholder Protection Index (anti-director rights) 1993-2002

	1993	1994	1995	1996	1997
DE	2	2	2	2	2
GR	2	2	3	3	3
IT	1	1	1	1	1
UK	5	5	5	5	5
	1998	1999	2000	2001	2002
DE	3	3	3	3	3
GR	3	3	3	3	3
IT	4	5	5	5	5
UK	5	5	5	5	5

59 Pepper Culpepper, "Eppure, Non Si Muove: Legal Change, Institutional Stability and Italian Corporate Governance," *West European Politics* 30, no. 4 (2007): 790.

60 Richard Deeg, "Remaking Italian Capitalism? The Politics of Corporate Governance Reform," *West European Politics* 28, no. 3 (2005): 521-48.

Source: Pagano & Volpin, *Political Economy of Corporate Governance*, 2005, Data Appendix, available at:
http://www.csef.it/pagano/pv_aer_data_appendix.pdf

The above indicator documents the tendency towards liberalization of the corporate governance system across countries. While this change has been monumental in Italy, even in Greece there is an increase towards British/LME levels. The change in the level of minority shareholder protection in Greece around 1994 and 1995 coincides with changes in the regulatory framework. They followed from the transposition of the Commission's Second Banking Directive and sought to harmonize surveillance of securities markets, thereby promoting market transparency and investors protection.⁶¹ Interestingly, minority shareholder protection also increased in Germany documenting a liberalizing tendency even within the CME paradigm case. This is in line with other studies' findings on German corporate governance system, marking the country's rapid move towards the LME direction.⁶²

5.4. Concluding Remarks

The discussion so far has provided evidence indicating that financial and corporate governance systems in Italy and Greece are taking on LME characteristics. On the one hand, the change towards a liberal market model of corporate governance is more pronounced in Italy, where legal changes have increased the protection of minority shareholders. On the other hand, the shift towards equity-based funding is more pronounced in Greece, with increased reliance of firms on "impatient capital". Finally, the liberalizing initiatives of the EU had a common impact on both countries' financial markets, which were also privatised.

Despite the above evidence, the conclusion on increased liberalization needs to be qualified. The general argument from

61 Soumelis, "Greece: Reforming Financial Markets," 41.

62 Christel Lane, "Changes in Corporate Governance of German Corporations: Convergence to the Anglo-American Model?," *Competition & Change* 7, no. 2-3 (2003).

the above analysis is there is a *move* towards the Liberal Market Model in the institutional sphere of finance/corporate governance. This does not mean that the institutional sphere has fully become LME-like. Instead, it is prudent to note here as well, that there are many residuals of more hybrid character. In Greece corporate ownership remains concentrated and corporate governance family-based.⁶³ In Italy, while change in formal (legal) institutions was indeed geared towards the liberal market model, actual practice remained attached to concentrated ownership.⁶⁴

6. Conclusion: Hybridization and the Political Economy

The VoC strand in the broader Comparative Political Economy literature generated interesting insights, challenged proponents of an imminent convergence to a single model of capitalism, and provided counterarguments to a simplistic understanding of globalization. As evidenced above, the VoC framework also implied a "dual convergence" thesis. This article sought to assess the plausibility of the thesis against two "hard" cases: Italy and Greece. If the dual convergence thesis was plausible, then we would expect to see the critical institutional spheres moving uniformly to one direction (CME *or* LME).

The review of changes in the relevant institutional variables generated interesting findings. On the one hand, there are signs of greater coordination in the industrial relations systems of both countries. On the other hand, the systems of finance/corporate governance has acquired increasingly liberal market characteristics. Thereby, the above analysis casts doubt on the dual convergence thesis, as neither case moves uniformly towards the LME or CME direction. Admittedly, both countries' institutional realms there are many idiosyncratic residuals from a more "mixed" type of capitalism, but these are compatible with the conclusion of increased hybridization.

63 Theocharis Papadopoulos, "Corporate Governance in Greece and Its Political Determinants," in 4th Hellenic Observatory PhD Symposium (London: London School of Economics, 2009).

64 Culpepper, "Eppure, Non Si Muove: Legal Change, Institutional Stability and Italian Corporate Governance."

The analysis substantiated a core insight: institutional spheres within the same country may be changing in opposite directions. A more general implication is that delineating the overall direction of change in a country's political economy is an arduous task. This is because one cannot really quantify the extent of change within institutional realms (i.e. *how much* CME or LME?). Therefore, the only conclusion one may prudently draw is that, for the period examined, the hybrid character of Italy and Greece was exacerbated.

The observed divergence in those realms is less likely to confer on the countries any comparative advantage of the CME or the LME types. The divergence aggravates the "non-complementarities" observed in "hybrid" or "mixed" market economies and is unlikely to increase their efficiency. Moreover, these developments may even destroy previous capacities. For example, the state ownership of the financial system was used in the past along a "developmental state" pattern to steer economic activity. But the privatization and liberalization of the system will deprive states of this option in the future.

The extent to which these findings challenge the very idea of complementarities *a la* VoC is perhaps more debatable. It depends largely on what kind of measure one takes for "high economic performance". If the measure of economic performance is economic growth rates then Greece's performance has been consistently among the two highest in EU15 from the mid-1990s until the mid-2000s. This can possibly be attributed to a "catch-up effect". But it could also knock down the idea of complementarities, because high economic growth is not expected from an institutionally incoherent case, especially when its hybrid character intensifies. In the same period Italy's economic growth has been less impressive. But if the measure of economic performance is "world's export shares" then Italy has performed exceptionally well in the last two decades, specialising on luxury goods. On that measure Greece's performance is much less impressive. But Italy's excellent export performance poses an

intriguing empirical puzzle for VoC theory, given that Italy lacks CME-type and LME-type complementarities.

While only two institutional spheres were examined here, one could also contemplate implications from wider changes for the whole political economy. On the welfare regime, the residual character was traditionally complemented with a strong family cushion that provided *inter alia* childcare, unemployment insurance and elderly care. The process of de-familialization observed in Southern Europe, without symmetrical extension of the welfare state, is likely to be unsustainable in the future.⁶⁵ In the labour market realm, the strict employment protection legislation was complementary with a flexible segment of informal employment.⁶⁶ The prospect of the relaxation of employment protection strictness, without improvements in unemployment insurance, is likely to increase precariousness and insecurity in Southern European economies.

Finally, in terms of comparative advantage in the global economy, Greece and Italy seem to be trapped between a rock and a hard place. On the one hand, both Greece and Italy have relatively high labour costs and are therefore unable to be as price-competitive as, for example, CEE countries. Moreover, the option of currency devaluation to improve export competitiveness is no longer available within the EMU zone. On the other hand, Greece – and to a much lesser extent Italy – will find it difficult to compete on the basis of product-quality or innovation. That is because they lack an efficient skill formation system like the German one. Overall, the future looks rather dim for both countries, perhaps even more so in the context of a deepening global economic and financial crisis.

65 Karamessini, "Continuity and Change in the Southern European Social Model."

66 Amable, The Diversity of Modern Capitalism.

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