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Evidence from Greece and Portugal

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This Working Paper is a revised version of an article originally published in the journal *Comparative European Politics*.

Brussels, 2014
Publisher: ETUI aisbl, Brussels

Print: ETUI Printshop, Brussels

D/2014/10.574/22
ISBN: 1994-4446 (print version)
ISBN: 1994-4454 (electronic version)

The ETUI is financially supported by the European Union. The European Union is not responsible for any use made of the information contained in this publication.

Contents

Introduction[1]

The financial crisis that broke out in the US in 2007, subsequently spreading across the globe, triggered sovereign debt banking and balance-of-payments (Pisani-Ferry *et al.* 2013) crises in the Euro area. In the absence of any crisis management institutions for the Eurozone, the EU member states eventually organised and financed, jointly with the IMF, mechanisms to avert disorderly sovereign debt defaults in Eurozone member states. It is thus that Greece, Ireland, Portugal and Cyprus were the recipients of financial support ('bail-outs'). The condition for receiving this support was the adoption of a programme spelling out draconian fiscal and current-account-adjustment measures, with the primary emphasis on fiscal austerity and internal devaluation, promoted by, among others, structural reforms. Both fiscal and structural measures have affected, among other things, national social and labour market policies, even though, in formal constitutional terms, these policy areas fall outside the EU competence.

This paper thus asks whether the bail-out conditionality has changed the potential of the EU to intrude into the reform of national social and labour market policies and, if so, in what ways. We are interested in establishing, furthermore, just how the European-level response to the crisis has affected national social and labour market policies.

Insofar as EU pressure on national social and labour market policies resulting first from the conditions for joining the EMU and then from complying with the rules of the Stability and Growth Pact (SGP) has been present since the first stage of EMU (Leibfried and Pierson 1995; Ferrera 1996; Featherstone 2001), it could be argued that any current pressure from conditionality is similar in origin to what was already happening. Up until the bail-outs, however, EMU rules emphasized fiscal outcomes (for example, budget deficits) rather than the means of achieving them (cf. Blavoukos and Pagoulatos 2008), while enforcement of the SGP procedures had been patchy. As will be shown in this paper, the bail-out conditions prescribed, much more meticulously than in

1. I am grateful to Caroline de la Porte, Elke Heins, Nikos Koutsiaras and Maria Jepsen, as well as to the participants of the international seminar 'The sovereign debt crisis, the EU and welfare state reform' held at the Centre for Welfare State Research, University of Southern Denmark, Odense, on 2 May 2013, for their constructive feedback on earlier versions of this article; to Kathleen Llanwarne for editorial help; and to Kristian Krieger for his support. The usual disclaimer applies. — This Working Paper is a revised version of an article originally published in the journal *Comparative European Politics*.

the past, the policies to be implemented. If member states failed to comply with these conditions, financial support could be suspended, provoking a disorderly default on their public debt that could arguably force them to abandon the euro and might even, via a domino effect, lead to the dissolution of the Eurozone (Buiter 2011).

Moreover, the EU member states are currently required to reform their welfare states in a context of 'pervasive austerity', which differs in two important respects from the 'permanent austerity' (Pierson 2001) under which they have been modernising them since the 1990s. Firstly, pervasive austerity has been – from the adoption of the euro to the response to the crisis – the direct outcome of policy choices rather than of long-term societal and economic trends, such as the transition to post-industrial economy and society and population ageing. Secondly, the recession and the high and lasting unemployment to which it has led (IMF 2012; in t'Veld 2013; Wren-Lewis 2013) create extra pressures on welfare states, beyond those pressures of ageing societies and low productivity growth which underlay 'permanent austerity'. This is an important change in the economic and political context of reforms, the implications of which have to be investigated.

To explore these questions, this paper compares measures prescribed in Greece and Portugal following the adoption of their adjustment programmes; the focus is on the areas of pensions, labour market policies and collective wage bargaining. It will be argued that, in the context of the crisis and through the conditionality agreements, the capacity of the EU to intrude in national social and labour market policy reforms has increased to reach very high levels. Moreover, intrusiveness has varied across countries and policy areas, depending on the difficulty of implementing the conditionality reforms, the extent to which the adjustment has been seen to be stalling, and the degree to which a given policy area is of direct relevance to the adjustment in question. While steps have been taken, in the context of the reforms, that would in principle have allowed more extended coverage of welfare state policies and their more effective focus on those in need, the budget cuts, in combination with the increased needs for welfare support, have in fact led to a weaker safety net.

The rest of this article is structured as follows. The first section provides some background information on the conditionality agreements that were attached to the financial support packages in the Eurozone. Section 2 introduces the concept of intrusiveness used in the paper, explains the empirical approach to answering the above questions and justifies the case selection. Section 3 examines the intrusiveness of the Memoranda of Understanding on Specific Economic Policy Conditionality and variations in its nature and extent across countries, while Section 4 examines intrusiveness, its variation and effects across the areas of pensions and labour market policies in the two countries subject to close consideration here. The final section concludes.

1 Bail-out conditionality agreements: institutional background and economic philosophy

The conditionality agreements attached to the financial support packages were spelled out in Memoranda signed between the bailed-out member states and representatives of the lenders. In this section, we look in more detail at the context in which these agreements have emerged and at the economic philosophy underlying the adjustment programmes that they promoted.

The Greek government's request for financial assistance in April 2010 broke new ground in the EU as there had been no legal basis for provision of such support to a Euro-area member state. Faced with the possibility of a disorderly default by the Greek government which could lead to a breakup of the Eurozone, and following reluctant deliberations, a joint package of 110bn euros to rescue Greece was finally agreed by the Eurogroup and the IMF in May 2010.

Since the decision to bail out Greece did not end the turmoil in financial markets, there was fear of contagion of other Euro members. Further steps were thus taken to strengthen the EU's crisis management tools by the establishment of the European Financial Stability Mechanism (EFSM) (created under Article 143 of the Lisbon Treaty) and the European Financial Stability Fund (EFSF) (Buiter *et al.* 2011). The EFSF was replaced in 2013 by the European Stability Mechanism (ESM) (Pisani-Ferry *et al.* 2012). The second package to Greece and the package to Portugal (73bn euros) were drawn from this mechanism.

As with IMF international financial assistance programmes arranged in the past, the provision of financial support for Euro-area member states had to be accompanied by adjustment programmes, fulfilment of which was a condition of the granting and continuation of support. However, as the Eurogroup lacked the technical expertise for negotiating, compiling and revising such adjustment programmes and evaluating their implementation, it delegated these functions to the Troika which consisted of staff of the IMF, the European Commission services and the European Central Bank (ECB). The ECB participated in the Troika as a de facto lender to national governments, since, through its policies to support Eurozone banks, it had also come to own bonds of the bailed-out governments. It is also worth noting that the 'staff from the European Commission services' included officials from DG Ecfin exclusively, in spite of the fact that the adjustment programmes contained conditions related to the reform of social and labour market policies, for which staff from DG Employment, Social Affairs and Inclusion would also have possessed relevant expertise. This choice suggests that in the context of the adjustment programmes concerns over fiscal and current account adjustments have been more important than concerns about the role of social and labour market policies in enhancing social cohesion (cf. Degryse *et al.* 2013).

The member states requiring financial support had to sign two Memoranda in order to receive their funding: one with the IMF authorities, called Memorandum of Economic and Financial Policies (henceforth MEFP), and another with the EU authorities called Memorandum of Understanding on Specific Economic Policy Conditionality (MoU). The adjustment policy strategy that has been a condition for receipt of financial support and its operationalization has been the same in relation to both types of Memorandum.

The economic philosophy underlying the adjustment process could be summarized as fiscal austerity plus internal devaluation plus structural reforms. According to the programmes, the purpose of the last of these three components has been to ensure that both the fiscal consolidation and the current account adjustment would be sustainable (European Commission 2010c; European Commission 2011c; European Commission 2012b). Fiscal austerity would have the twofold function of attempting to reduce budget deficits, while at the same time, through its expected impact on domestic demand and consequently imports, also speeding up a rebalancing of the current account deficits. Competitiveness also had to improve, in order both to reverse current account deficits and to provide, ultimately, a source of demand stimulation through increased exports. The emphasis in the strategy for enhancing competitiveness has been placed on relative cost and price adjustments. Given the absence of a nominal exchange rate tool, wages and prices would, according to the adjustment programmes, have to adjust downwards to achieve an internal devaluation, which, according to the Troika, would improve competitiveness. The recession induced by fiscal austerity was supposed to engineer that internal devaluation effect on wages and prices, while structural reforms in labour and product markets were intended to accelerate it.

The rebalancing of current account deficits and the reversal of real exchange rate appreciations were planned to be asymmetric and solely the task of the member states experiencing the deficits, in spite of the fact that the real exchange rate is a relative concept and that it cannot be improved at the same time in all member states. Last but not least, the ECB was to continue operationalising price stability at an inflation rate of close to, or below, 2%. This operationalization favoured the export-oriented growth strategies of member states at the core of the Eurozone – the creditor countries, in other words – while making the adjustment at the periphery, in the debtor countries, even harder (cf. Blanchard *et al.* 2010).

All in all, the conditionality agreements were an integral part of the financial support packages for those member states whose governments had lost access to the financial markets; they prescribed economic adjustment programmes that were very similar from one member state to another and that would impose, inevitably, painful adjustment paths.

2 Concepts and case selection

This section defines the concept of intrusiveness and explains the empirical strategy that was adopted in order to examine the questions posed in the paper. The different dimensions of intrusiveness are spelled out and the similarities and differences between Greece and Portugal are illustrated in order to justify selection of these two countries as case studies.

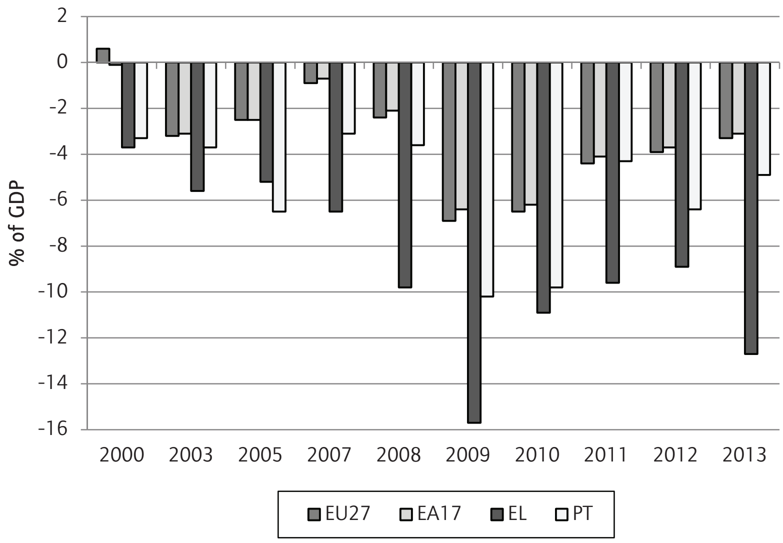
Conceptualising intrusiveness

To examine whether and, if so how and how far, the EU has, through the MoUs, been intruding in national social and labour market policies, we use the concept of EU integration devised by de la Porte and Heins (forthcoming) in relation to which the MoUs appear to be in a league of their own, to the point that integration becomes intrusiveness. These authors define three dimensions of EU integration/intrusiveness: (interference in setting national) policy objectives; surveillance of national policy; and enforcement of a policy strategy. They conceptualise interference in devising policy objectives as 'how precisely and to which magnitude policy change is suggested'. The dimension of surveillance of national policies refers to the extent to which the EU is endowed with power to monitor whether member states are implementing the agreed policies and moving towards the set targets. Last but not least, the notion of enforcement captures the means that EU actors (in this case the Troika) can use to correct a member state in case of non-compliance with or deviation from the MoU policy prescriptions. By comparing intrusiveness across policy areas within and across countries, we attempt to establish the priorities that guide the adjustment strategy embodied in the MoUs.

Empirical strategy and case selection

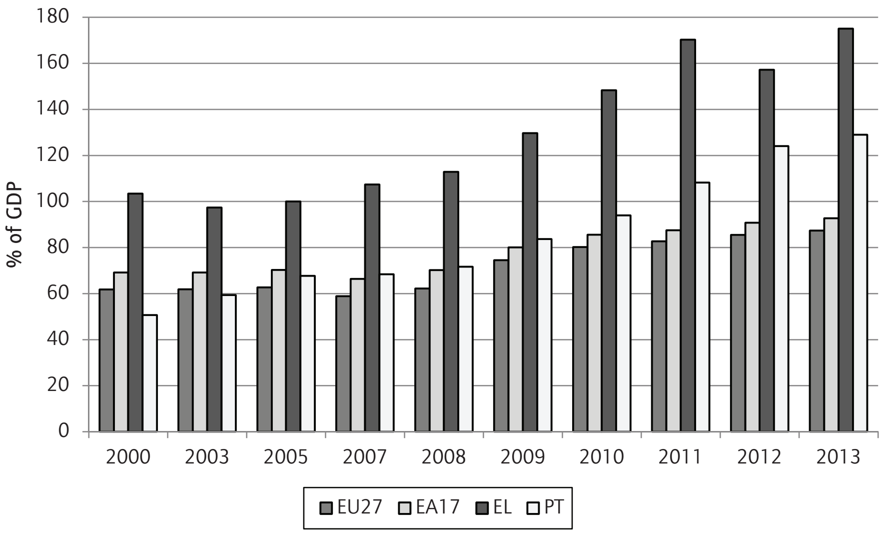
To gauge whether or not the capacity of the EU to intrude in national social and labour market policy reforms has changed, we study the MoUs and their evolution from their initial adoption and through their regularly scheduled revisions. We are interested not only in whether EU integration under MoUs is different from the other reinforced instruments of EU economic governance (see de la Porte and Heins forthcoming) but also in whether EU involvement varies across countries and policy areas. Moreover, we look into how the EU has been influencing the social and labour market policies of member states via the MoUs.

Figure 1 **General government budget deficit as share of GDP, EU27, EA17, Greece, Portugal, 2000–2013**



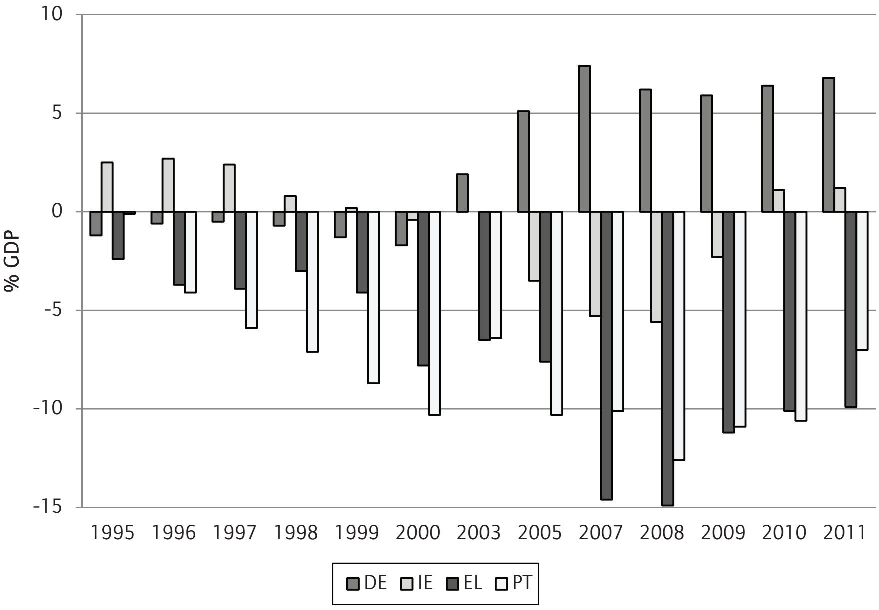
Source: Eurostat Government Finance Statistics Database.

Figure 2 **Gross public debt as a share of GDP, EU27, EA17, Greece, Portugal, 2000–2013**



Source: Eurostat Government Finance Statistics Database.

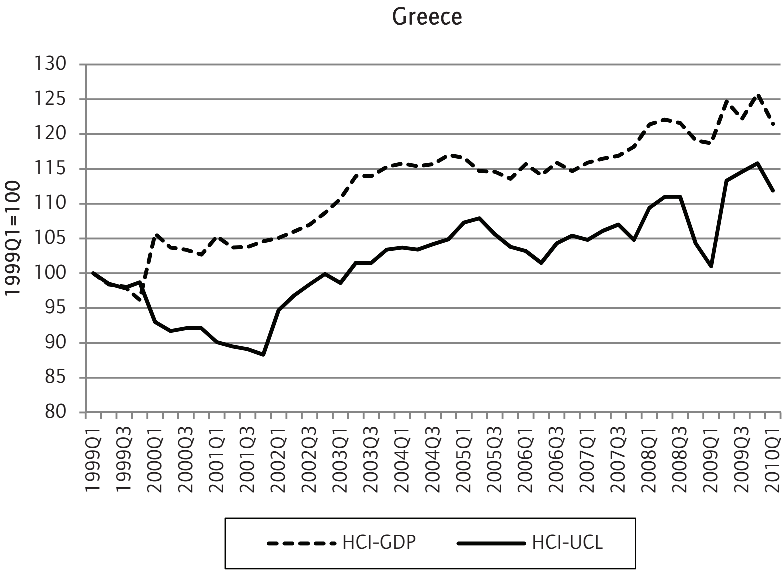
Figure 3 **Current account balance as a share of GDP, Germany, Ireland, Greece, Portugal, 1995-2011**

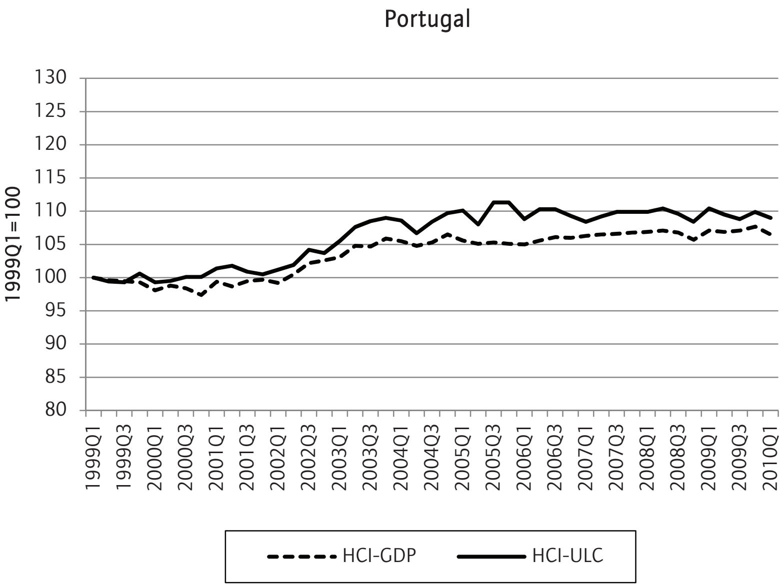


Source: Eurostat.

The cases of Greece and Portugal present similarities and differences that allow us to explore these questions. While the nature of the problems that the economic adjustment programmes sought to correct was similar in Greece and Portugal, their magnitude was greater in the case of Greece. Both countries saw their public finances deteriorating substantially in the aftermath of the global financial crisis of 2008, although Greece's fiscal imbalances were already severe, as its public debt/GDP ratio remained very close to or above 100 per cent for the whole period between the launch of the euro and outbreak of the crisis (see Figures 1 and 2), in spite of high output growth rates. In 2009, a similarly large proportion of each of the two countries' public debts – 75 per cent for Portugal and 79 per cent for Greece – was held abroad (Cabral 2010). Their financial sector was in both cases quite robust, especially compared to Ireland's, at the beginning of the global financial crisis, although, as the public debt crisis unfolded, their banking systems too were drawn into it.

Figure 4 **Harmonized competitiveness indicators, GDP deflator, unit labour costs, Greece and Portugal, 1999Q1–2010Q1**





Source: ECB Exchange Rates statistics.

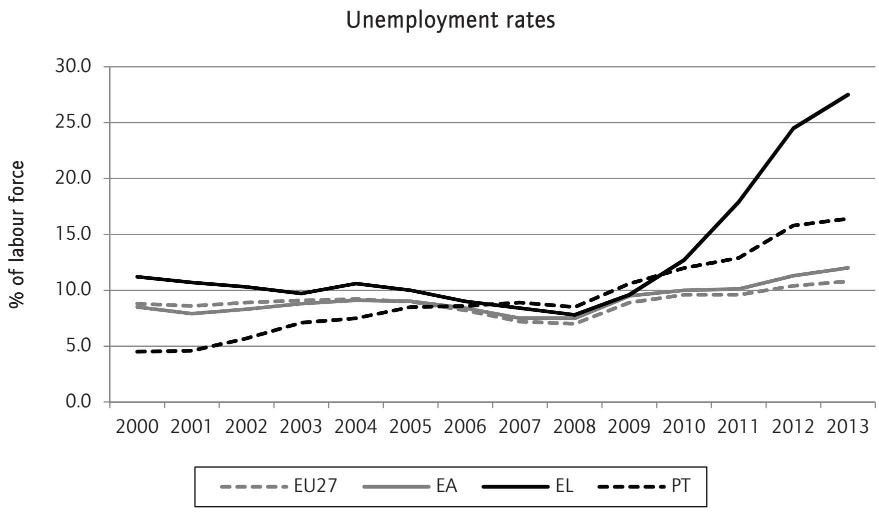
Both countries had high current account deficits in 2008 – 14.9 per cent of GDP for Greece and 12.6 per cent of GDP for Portugal – which had been growing steadily since 2000 (see Figure 3). Both had suffered real effective exchange rate appreciations during the first decade of the euro, though the extent of these appreciations varied depending on the indicator of relative prices used to measure the real exchange rate. Figure 4 shows the evolution of two such measures of real effective exchange rates for Greece and Portugal from 1999 until early 2010 when the sovereign debt crisis broke out, illustrating competitiveness vis-à-vis the other Euro-area members, using as relative price indicator the GDP deflator and unit labour costs for the whole economy. An indicator greater than 100 shows real exchange rate appreciation. In Greece, the appreciation was more pronounced when measured by the GDP deflator than when measured by unit labour costs. This means that the change in relative prices due to strong demand and nominal output growth in the Greek economy was a stronger driver of real exchange rate appreciation than increases in relative unit labour costs. Greece had experienced several years of high nominal output and public spending growth which had fuelled labour cost increases in excess of productivity growth. In Portugal, on the other hand, we see an opposite picture, on that is consistent with the fact that labour productivity had slowed down significantly since 2000, pushing unit labour costs upwards (OECD 2010).

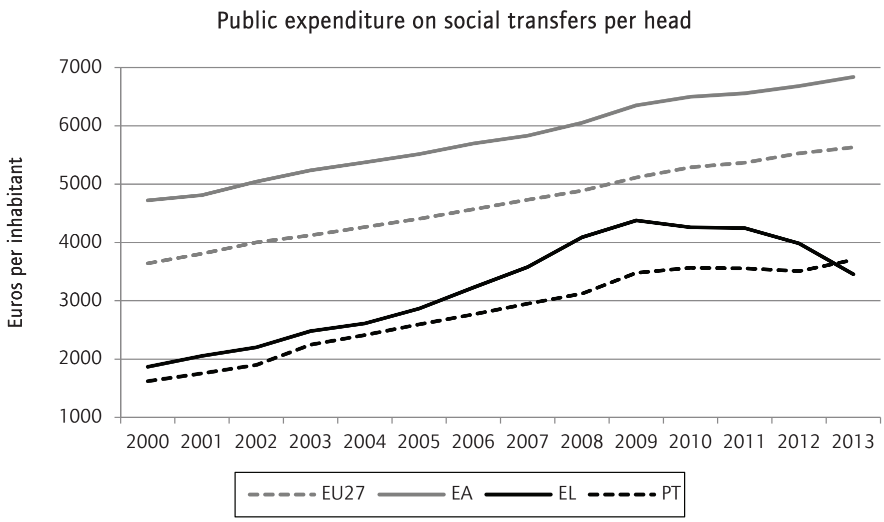
Greece and Portugal displayed similarities in their welfare states too, most notably their weakness which has been associated with high inequality, high poverty (see Table 1), a strong division between insiders and outsiders, limited redistribution, and inefficient welfare spending. In both countries policymakers had used the EU to promote modernisation reforms in areas such as pensions, active labour market policies and income support in the 1990s and the 2000s, although Portugal had arguably gone further in this respect, having undertaken in 2007, for example, a reform of its pension system that addressed its sustainability problems, and having also established a Minimum Income scheme. In spite of such efforts, neither of the two welfare states had yet caught up with the EU average public spending on social transfers per head when the crisis hit (Zartaloudis 2014), and the divergence became even more pronounced from 2009 onwards, especially when considering the far-above-average increases in unemployment in the two countries (see Figures 5a and 5b).

Table 1 **Gini coefficient and risk of poverty, 2010 and 2012**

	Income disparities Gini coefficient (0-100)		Risk of poverty (60% of median equivalized) (% of population)		Risk of poverty anchored at 2008 (60% of median equivalized) (% of population)	
	2010	2012	2010	2012	2010	2012
EU27	30.5	30.6	16.4	16.9	16.4	18.2
EU15	30.5	30.7	16.3	16.8	17.0	19.0
EA17	30.2	30.4	16.2	17.0	16.2	18.7
EL	32.9	34.3	20.1	23.1	18.0	35.8
PT	33.7	34.5	17.9	17.9	16.1	19.4

Figure 5a and 5b **Evolution of unemployment rates and public expenditure on social transfers per head, EU27, Euro area, Greece and Portugal 2000-2013**





Source: Eurostat Government Finance Statistics Database.

The success of the adjustment programmes of the two countries has varied distinctively, the two Greek programmes having been by far the least successful in restoring the country's capacity for access to the financial markets, and in moving forward along the lines of forecasts of crucial macroeconomic variables upon which the terms of the programme were spelled out (Pisani-Ferry, Sapir *et al.* 2013; Sapir *et al.* 2014). The Portuguese programme seems, by contrast, to have helped to keep Portugal 'on the right track' for returning to the markets in the summer of 2014 as originally planned (European Commission 2013b; European Commission 2014a), albeit with a very fragile economy beset with problems, such as higher than anticipated public debt and unemployment rates, all of which will take a long time and sustained efforts to repair (Sapir, Wolff *et al.* 2014).

Various reasons have been provided for the successes and failures of the adjustment programmes (see for example, Theodoropoulou and Watt forthcoming for Greece). Some of the explanations were common to both countries, most notably the adverse external environment created by pervasive austerity (Krugman 2013), and some were at variance insofar as they related to different problem loads (greater in Greece), administrative capacities to implement reforms (weaker in Greece), and so forth (Pisani-Ferry, Sapir *et al.* 2013). Moreover, the first Greek programme was implemented at a time when the EU approach to crisis management had not yet crystallised, thus leading to contradictions which made 'Grexit' a probable event (ibid.).

Interestingly for our comparative study, the government parties of the two countries displayed differing attitudes towards the programmes. In Portugal, parties of the centre-right and centre-left generally agreed that austerity and adjustment were necessary. In Greece, on the other hand, up until 2010 when the bail-out was sought, significant factions within the main parties on the centre-right and centre-left had been questioning whether austerity was required for adjustment, while the leftist, main opposition party (SYRIZA) after the 2012 general elections campaigned on the promise of cancelling the bail-out agreement.

An illustration of the different political attitudes towards implementing the conditionality programmes was the appointment in 2011 of two non-elected technocrats, Lucas Papademos in Greece and Vitor Gaspar in Portugal, as, respectively, prime minister and minister for finance. Both men had earlier served in the European Central Bank, Papademos as a vice-president between 2002 and 2010 and Gaspar as the first head of research between 1998 and 2004. In 2007, Gaspar had become head of the Bureau of European Policy Advisers (BEPA), a think-tank within the European Commission, working closely with Commission President Manuel Barroso. Accordingly, both men enjoyed high credibility within policymaking cycles in the EU and intellectually were close to the views of the ECB regarding adjustments within the Eurozone.

Yet Papademos had been a solution imposed on Greece by the EU in response to the domestic political crisis that broke out in late 2011 and which eventually led to the resignation of the then prime minister George Papandreou under the twin pressures of popular discontent in Greece and displeasure of the EU lenders (Spiegel 2014). The domestic developments in Greece posed the threat of a disorderly default which, insofar as it could have jeopardised the integrity and stability of the Eurozone, triggered an intervention from 'behind the scenes' by EU leading figures (cf. de la Porte and Natali 2014). On the other hand, Gaspar was appointed by the newly elected – and for that reason, still in possession of political capital – centre-right government in Portugal in 2011 to the position of finance minister, which essentially placed him at the head of the Portuguese side in the negotiations with the Troika.

Although it is possible, given the ties between European Commission President Barroso and the centre-right party that led the Portuguese government, that the appointment of Gaspar was recommended in order to maximise the credibility of the government vis-à-vis the lenders, the Troika and the markets, this choice was by no means similar in nature to that of Papademos. Gaspar arrived at a moment when there was sufficient political consensus that austerity would be necessary and, in fact, left at a moment when popular discontent about the programme reached new heights in the summer of 2013. His departure even contributed to a mini-crisis in the government that cast doubt on its capacity to follow through with the reforms.

Thus, while the two countries presented similar economic problems, the extent of these problems varied, as did the willingness and capacity of national policy makers to implement the adjustment programmes. This variation will allow us to explore whether there were any corresponding differences in EU intrusiveness from one case to the other and, if so, along which dimensions. Moreover, the similarities in welfare states allow us to see how or whether, and to what extent, the twin objectives of fiscal savings and modernisation achieved practical balance in the context of the adjustment programmes and of pervasive austerity.

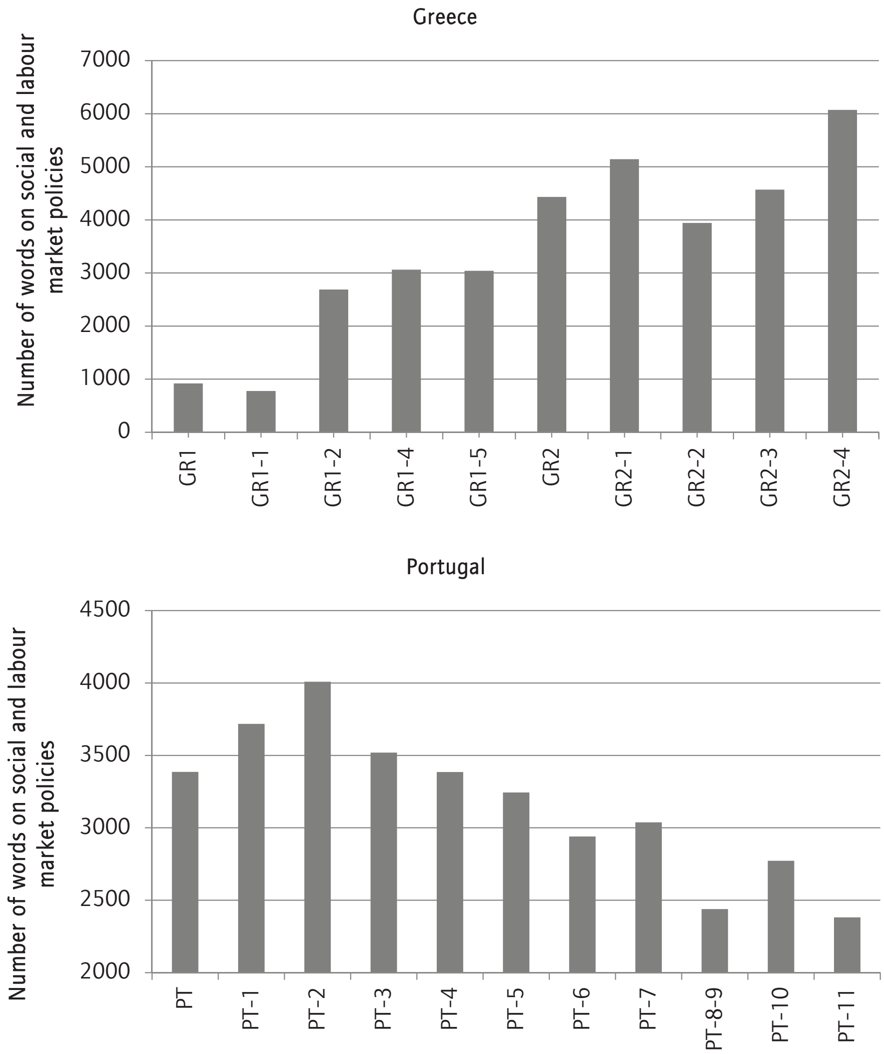
3 Intrusiveness in practice: a horizontal view of the Greek and the Portuguese Memoranda of Understanding

This section addresses the question of how high EU intrusiveness has been in the social and labour market policy fields in Greece and Portugal and whether there has been any variation in its extent across the two countries and over time. All three dimensions of intrusiveness (see above beginning of section III) are examined in turn. It is shown that the level of intrusiveness has been very high and that it increased across all dimensions when macroeconomic targets were missed, even for reasons beyond the control of national policy-makers, and when the implementation of the programmes stalled.

The level of interference associated with the MoUs has been very high. Measures and reforms had to be agreed with an unprecedented degree of specificity. Both fiscal and structural measures touched upon social and labour market policy areas. Structural reforms were aimed at ensuring that fiscal and current account adjustments would be sustainable because those structures had been altered (for example, export base, fiscal management mechanisms) which, according to the Troika, underlay the budget and current account deficits in the first place. However, insofar as the EU policy response to the crisis has not facilitated the sustainable adjustment of macroeconomic imbalances due to its effects on the demand side of the economies (DeGrauwe 2011; Pisani-Ferry, Sapir *et al.* 2013; Wren-Lewis 2013), the more the targets were missed, the more the interference increased to administer ever larger doses of structural reform on the supply side.

Interference has varied over time and across the two countries; taking as a proxy thereof the number of words devoted to measures related to social and labour market policies in the rolling versions of the MoUs, we are in a position to make some interesting observations (see Figure 5), akin to findings reported by Sapir *et al.* (2014). First, the number of words on social and labour market policy measures in Greece rose steeply between the first and the second Greek programme, with only a slight subsequent decline in the most recent revisions of the second programme. Secondly, the first Portuguese MoU started out with a much higher number of words on welfare state measures than did the first Greek programme. As Portugal had a relatively lighter problem load (on which see also the discussion of policy areas below), this may simply suggest that the 'technology' of bail-out conditionality evolved as its implementation advanced. In other words, the Troika probably learned from its experience of applying the MoU in Greece and, therefore, in Portugal adopted a more dynamic approach from the outset. Something similar is visible in the gradually streamlined structure of the MoUs.

Figure 6 **EU interference in social and labour market policy measures through the MoUs, Greece and Portugal**



Source: Author's calculations based on the MoU texts; no reliable data available for the 3rd review of the first Greek programme (GR1-3).

The MoUs have been characterized by very strong surveillance, with their policy content being controlled (negotiated and agreed) ex ante and ex post. Every version of the MoU has been accompanied by a detailed timetable of actions that had to be taken by various government departments. Under the conditionality programme, there is provision for the Troika to visit the country every three months to monitor whether or not the agreed measures have been implemented according to the schedule laid down in the MoU, and to assess the impact of measures taken against the fiscal targets. In the event of inaction, delay or undershooting of targets, new and/or complementary remedial measures are supposed to be agreed with the national government as a condition for a recommendation by the Troika to the Eurogroup that financial support of the member state should continue.

Our study of the MoUs points to the fact that surveillance became tighter and lengthier whenever the implementation of the programme either stalled or failed to deliver the desired results (see Table 2). This has been the case more frequently in Greece than in Portugal. On the one hand, after the launch of the second Greek programme, the European Commission services started reporting in between the regular quarterly reviews of the MoU on the compliance with 'milestones' in the programme. These assessments were used to authorise the disbursement of 'sub-tranches' of the tranche of financial support that the Eurogroup had already approved. Surveillance was thus stepped up in excess of the already tight controls established in the MoUs. On the other hand, the ex-ante evaluation of the programme to be followed became more meticulous and protracted in both Greece and Portugal whenever the results of adjustment were such as to suggest that the programme might become subject to a financing gap.

The MoUs and their explicit references to social and labour market policies have entailed an unprecedentedly strong enforcement dimension insofar as progress achieved in these policy areas feeds into the EU decision-making process concerning financial support for member states. A further indication of the MoUs' very strong enforcement clout is the fact that, in spite of alternating parties and party coalitions with contrasting policy stances having taken office in both Greece and Portugal, compliance with the MoU conditions was not affected. In fact, in early 2012, following the requirement of the lenders and immediately before the adoption of the second Greek programme, both the PASOK (centre-left) and New Democracy (centre-right) parties were compelled to sign letters to the lenders in which they undertook to stick to the agreements signed.

Last but not least, the more apparent any implementation difficulties became, the more the enforcement dimension was geared up. During the second Greek programme, the phrase 'prior to disbursement' started appearing with increasing frequency before particular measures, invariably those bearing directly upon the public budget and/or competitiveness (for example, pensions, labour costs, healthcare system, employment protection legislation), thereby stressing the urgency of their implementation. No such mentions of specific measures were to be found in any of the Portuguese MoUs.

Table 2 **Adoption and implementation of MoUs in Greece and Portugal**

Greece	Date of review publication	Important events
GR1	May 2010	Adoption of first MoU
GR1-1	August 2010	Programme implementation on track
GR1-2	November 2010	Programme implementation on track
GR1-3	February 2011	
GR1-4	July 2011	Sharp deterioration in growth recession relative to programme forecasts since spring 2011; first decision about Greek PSI; Greek authorities' commitment to reform 'stalled' in late spring
GR1-5	December 2011	Papandreou resigns; Papademos government takes office; recession deepens; Lagarde states programme 'in a difficult phase
GR2	March 2012	Adoption of second MoU-PSI-Restructuring of privately held Greek debt to take place; shift in emphasis in MoU towards structural reforms to achieve internal devaluation as a priority
GR2-1	December 2012	Two closely spaced elections in May and June 2012 which failed to give majority to any party and saw massive electoral losses for the two major parties; following long deliberations and months of government immobilisation, a coalition centre-right/centre-left government is formed; negotiations with Troika resumed in August to break down in October over disagreements on proposed measures
GR2-1, milestone 1	January 2013	
GR2-1, milestone 2	February 2013	
GR2-1, milestone 3	March 2013	
GR2-2	May 2013	
GR2-2, milestone 1	June 2013	
GR2-3	July 2013	
GR2-4	April 2014	Negotiations with Troika suspended at the end of 2013-delay in approving voted Greek 2014 budget
Portugal		
PT	June 2011	Adoption of MoU
PT1	September 2011	
PT2	December 2011	
PT3	April 2012	
PT4	July 2012	
PT5	October 2012	2013 budget approved in the Parliament; largest tax increases ever
PT6	December 2012	Large protests about labour law changes
PT7	June 2013	Constitutional court rejects several key measures leading government to miss expenditure cutting targets; anti-austerity protests mount-Minister of Finance/'personification of austerity' and leader of smaller coalition party resign in July
PT8-9	November 2013	Eighth review postponed following government initiative; demonstrations continue
PT10	February 2014	
PT11	April 2014	

4 Intrusiveness in pension and labour market policy reforms in Greece and Portugal

We turn now to the measures actually taken in the context of conditionality in the two countries in a number of key policy areas, such as pensions and labour market policies. This allows us to reflect upon the three dimensions of EU intrusiveness enacted through the MoUs and particularly on interference. This section confirms the findings of the previous one and uncovers an additional factor associated with stronger intrusiveness: intrusiveness, it is shown, has been higher in policy areas with more direct consequences for public budgets and competitiveness adjustment, such as pensions and wage-setting systems.

Certain caveats apply in seeking to gauge EU influence on national social and labour market policies by means of an analysis of the content of the MoUs. First of all, there is the question of identifying the extent to which the Troika members and the national government respectively influenced the negotiated measures included in the MoUs. In strict terms, accurately identifying the influences of each actor from the texts alone is difficult. However, from the information available it is possible to deduce some points concerning the role of the different actors.

There are indications that national governments would be allowed to choose among functional equivalents of measures that would achieve similar adjustment in terms of macroeconomic variables but which would have differing implications in terms of distribution of the adjustment costs. The media have regularly reported on negotiations and disagreements between the Troika and government officials in the member states before reaching agreement on the measures to be taken (see for example, Hope 2012; Hope 2013a; Hope 2013b; Wise 2013a; Wise 2013b). However, such 'choice' does not alter the pressures for or overall magnitude of adjustment, but rather the distribution of specific measures across policy areas and different sections of the population.

Given that the Troika also included the IMF, the question arises of whether it was the EU members of the Troika or the IMF – or possibly both – that pushed for a given measure. Although the adjustment policy strategy has been the same in both types of Memorandum that member states have had to sign, the level of detail and prescription has been systematically different. The requirements of the MEFPs, in line with a relatively recent revision of the IMF's statutes in accordance with the principle of 'parsimonious conditionality', have been in general limited to areas of direct relevance for adjustment (Pisani-Ferry, Sapir *et al.* 2013). The MoUs, by contrast, have gone into much greater detail about the measures required to implement the guidelines of the policy strategy agreed between a government and the Troika. One very simple indicator illustrating the difference between MoUs and MEFPs is that the former have always been significantly longer (cf. Sapir, Wolff *et al.* 2014).

All in all, it is fairly safe to assume that the EU pressure on member states has been at least as strong as, if not stronger than that exerted by the IMF.

A second aspect concerns the specific direction of reforms. Comparison between the two types of Memorandum suggests that in general the Troika members concurred on the areas in which measures would need to be taken. There are indications, however, that the MoUs promoted an even harder line than the MEFPs in favour of fiscal austerity and of a strengthening of market adjustment mechanisms – especially in the labour markets, rather than of a strengthening of socio-economic institutions that could support non-market coordination – for reversing losses in competitiveness (cf. Hall and Soskice 2001). Olivier Blanchard, chief economist of the IMF, has highlighted for example on more than one occasion in his research, including with the IMF, the importance of the quality of labour relations – itself an outcome of 'trust' among social partners – for achieving a good balance between protection and flexibility in labour markets, and this argument has also informed IMF advice to Greece and Portugal (Blanchard and Philippon 2004; Blanchard 2005; Blanchard *et al.* 2014). The research publications of the DG Ecfin and the ECB, on the other hand, have consistently highlighted the importance of improving market flexibility in the context of EMU (Degryse *et al.* 2013).

Last but not least, there has been more than one instance of public revelation of disagreement between the IMF (mostly staff from its research department) and both the European Commission-DG Ecfin and the ECB on macroeconomic policy issues; prominent examples are the debate on the negative fiscal multipliers in 2012 (European Commission 2012a; IMF 2012), or the suggestion by the IMF chief economist that the ECB should consider raising its inflation target to 4 per cent (Blanchard *et al.* 2010), a proposal that has been ignored by Frankfurt.

Pensions

Old-age pension systems have had a prominent place among the policy areas for which the adjustment programmes prescribed measures. This is no surprise, given that the future payment of old-age pension benefits is a provision implicitly guaranteed by the state. Pensions were thus identified by the European Commission as one of the highest risk factors for the long-term sustainability of public finances of several member states (European Commission 2006).

Pension systems in Greece and Portugal have shared many features, including a mandatory public contributory, pay-as-you-go pillar alongside other non-mandatory pillars. Under the mandatory pillar, pensions have been provided in both countries by social insurance funds. In Greece, the system has been highly fragmented across sectors and professions with a large number of social insurance funds, a situation that has not only translated into relatively high administrative costs but has also led to substantial differences and inequality in coverage and provisions (Petmesidou 2010). In Portugal, the main provider has been the Social Security System, although until recently there were smaller funds covering specific groups of employees (for example, public servants, banking sector employees) (Ribeiro Mendes 2010). While both countries also had special public targeted and minimum pension schemes set up for redistributive purposes and funded by state transfers (OECD 2005), the risk of poverty or social exclusion has nevertheless been consistently high among the elderly (65+) in both Greece (28 per cent) and Portugal (27 per cent) compared to 21 per cent of elderly at risk of poverty in the EU15 (Eurostat 2014).

Prior to the crisis, long-term projections on sustainability of the pensions systems in both Greece and Portugal did look alarming. It was projected that by 2060 Greece would be spending about 24.1 per cent of its GDP on pensions (European Commission 2009, 128), compared to 20.8 per cent in Portugal (European Commission 2006, 155) and just 12.4 per cent on average across the EU as a whole (ibid.). Portugal had, however, unlike Greece, taken more effective action prior to the crisis to tackle this unsustainability, while seeking to maintain adequacy, solidarity and fairness among and within generations (Ribeiro Mendes 2010). By the time Greece adopted the MoU, there was, in this respect, substantial scope and need for rationalisation in the system.

Old-age pensions were affected by measures included in the MoUs in both Greece and Portugal, although to differing extents and at different points in the programmes. In both countries, the value of pension benefits was reduced on several occasions as part of the fiscal policy measures aimed at meeting budget balance targets. The cuts were progressive and often took the form of freezes, suspension of indexation, and the elimination of the 13th and 14th annual instalments (European Commission 2010a; European Commission 2011b). The last of these measures was cancelled in 2013 by the constitutional court in Portugal as anti-constitutional. In the wake of the MoUs, the Portuguese authorities also introduced more means-testing and better targeting of some pension benefits (Ribeiro Mendes 2012).

In Greece, a comprehensive reform of the system was required as from the early MoU versions of the first programme with the aim of controlling the increase in pension spending. Interference was very high. The original MoU laid down several specifications for the reform package that the Greek parliament subsequently adopted; these touched upon central features of the system for both primary and auxiliary pensions, such as reducing the fragmentation of the pension funds, remedying the lack of transparency in rules and the large differentials in benefits and conditions of entitlement, amending the calculation of benefits and eligibility rules, including the retirement age, which was raised and equalised for men and women, and tightening of the rules governing early retirement (European Commission 2010c). There was provision also for the automatic introduction of a mechanism for adjusting the retirement age to ensure sustainability, while the calculation of benefits was changed from benefit-defined to contribution-defined. Among the requirements of the MoU was the establishment of a means-tested minimum guaranteed income for elderly people (above the statutory retirement age), designed to protect the most vulnerable groups in a manner consistent with fiscal sustainability (European Commission 2010a).

The reforms stipulated did indeed serve to introduce some long overdue elements of modernization into the Greek system, although the Greek government in 2010 did allow certain occupational categories to keep their pension funds outside the new system (Matsaganis 2013). In spite of these reforms and cuts, the financial pressures on the pension system did not ease, notably because of waves of early retirement among employees aged 55 and over who were made redundant (Petmesidou 2013) and due to the massive increase in unemployment.

In terms of surveillance, the Greek MoUs explicitly mentioned that the pension reforms would be designed 'in close consultation with European Commission, IMF and ECB staff', while their 'estimated impact on long-term sustainability would have to be validated by the EU Economic Policy Committee' (European Commission 2010a, 63; European Commission 2012b, p.133). This choice of the Economic Policy Committee (subordinate to the Economic and Financial Affairs Council) as validating authority suggests that the aim of the proposed reforms was their effects on public budgets rather than social protection considerations such as equity or income replacement in old age. Moreover, pensions was one of the policy areas for which enforcement was tightened in Greece after adoption of the second programme, with some of the required measures being preceded by the phrase 'prior to the disbursement of the next tranche'.

In Portugal, by contrast, a demand for 'comprehensive reform' of the pension system was introduced only in the 7th revision of the MoU, published in June 2013 (European Commission 2013a), almost two years after adoption of the original MoU. The reform was presented as part of the fiscal consolidation strategy, with no mention of any deterioration in the sustainability of the pension system itself, and the emphasis in the MoU was on the progressive distribution of the costs of reforming the system. Considered against the stated objectives of the 2007 framework law for social security, which included adequacy in addition to fairness (Ribeiro Mendes 2010, p.7), the proposed reforms are a manifestation of very high level of interference because the changes in question are likely to undermine this principle of adequacy as it applies to the pension system.

Overall, the emphasis of the pension-related measures has quite evidently been on sustainably reducing their cost for the government budget both in the long run through reforms but also with immediate effect through ad hoc cuts which were decided in the face of worse than expected performance in meeting fiscal targets. Reducing inequity among beneficiaries affiliated to different funds was also promoted by the MoUs and, in the case of Greece, where fragmentation was greater, was to some extent achieved, albeit at less generous levels of benefit than previously. In neither of the two countries could the changes introduced be characterised as a 'paradigm shift' (cf. Hall 1993).

Labour market policies

Labour market policies have also been an important area in the MoUs for two reasons. First, insofar as this policy area includes unemployment benefits, it has had implications for public budgets; secondly, labour market policies can shape the flexibility of wages in response to fluctuations in output and employment (Blanchard 2005). To the extent that the reform programmes sought to promote higher international competitiveness for the countries involved, the Troika saw labour market policy reforms as crucial for determining how fast and how far wages would adjust during a period when structures in Greece and Portugal would be switching to conform to a more export-led growth model. Thus, in this section we examine unemployment benefits, active labour market policies and employment protection legislation.

Unemployment benefits

The unemployment benefit – that is, including both insurance and assistance components – systems in Greece and Portugal have not been among the most effective in supporting the unemployed. A common characteristic has been the rather low coverage of the unemployed (Matsaganis 2013; OECD 2014) due to stringent eligibility conditions. A notable difference between the two systems has related to the significance of the unemployment *assistance* benefits (that is, those granted to unemployed people not qualifying for unemployment *insurance*) which have been more generous in Portugal and, up until recently, rather insignificant in Greece. For this reason, the Portuguese system has, in comparison with the Greek one, been considered more likely to create unemployment and inactivity traps (Stovicek and Turrini 2012).

The first Greek adjustment programme, in its quest for 'rationalisation' of the country's social benefits' systems, led, through several channels, to a decrease in the generosity of the unemployment insurance benefits and a consequent reduction in their fiscal costs. The targeting of beneficiaries was tightened through means-testing and the abolition of certain special benefits targeting specific geographical areas and sectors (for example, tourism) (European Commission 2010a). Furthermore, a limit was placed on the maximum total duration, within an overall four-year period, for which an unemployed worker was entitled to claim a contributory unemployment benefit. The level of this benefit, what is more, was reduced from 454 to 360 euros per month due to changes in the minimum wage to which it is linked (Matsaganis 2013, p.20).

Concurrently, the MoU sought to expand the coverage of the Greek system by the targeted extension of unemployment insurance to the self-employed from 2012 onwards (Matsaganis op.cit.). The first programme also contained provision for the introduction of two new assistance benefit schemes: first, a Minimum Income Guarantee was to be applied in two pilot areas of the country, with a total available expenditure capped at 35 million euros, but at the time of writing (June 2014) this pilot scheme has yet to be implemented due to technical difficulties; secondly, an income-tested benefit equal to 200 euros per month was to be established, extending support for up to another 12 months to long-term unemployed persons who had exhausted their entitlement to unemployment benefit (12 months), provided they did not qualify for other training schemes. Total expenditure under this second benefit heading was capped at 20 million euros (European Commission 2011a), a ceiling that must inevitably place severe limits on its coverage.

In the area of unemployment benefits, interference of the MoU is assessed as very high. In addition to providing specific guidelines for cuts and reforms, there was a clear impulse towards enhancing the poverty alleviation function of the system at the expense of previously protected labour force categories, typically those with well-established previous employment records. It is noticeable, however, that enforcement in relation to this aspect has been less stringent, for the reform of one of the two schemes planned as a move in the above direction has suffered delay, seemingly without any tightening of surveillance and enforcement on the part of the Troika.

In principle, the attempts to extend coverage would have represented a positive development, had the whole initiative not been so constrained by fiscal considerations. As it is, while the coverage rate (benefit recipients/unemployed) for contributory unemployment benefits fell between 2010 and 2013, under the heading of non-contributory unemployment benefits for the long-term unemployed, coverage did increase between 2010 and 2012 but was expected to fall in 2014 due to the increase in long-term unemployment and the aforementioned cash limit (Matsaganis 2013). For the same reasons, the generosity of the system was reduced even for Greek labour market 'insiders', thereby weakening the safety net at a time when job losses have also been hitting prime-age, previously securely employed, males.

In Portugal, the reform of the unemployment benefits under the MoU aimed to reduce long-term unemployment and to strengthen the social safety net (European Commission 2011d). Reforms were introduced in 2011 in an attempt to limit any unemployment and inactivity trap effects by reducing both the duration and the level of the benefits. An attempt was made, similar to the measure implemented in Greece, to extend coverage of the system by lowering the length of the contributory career required for eligibility from 15 to 12 months and by including certain categories of self-employed people. Here too, the level of interference has been high but the result has fallen short of a third-order policy change (Hall 1993); and yet, in 2013, six out of ten unemployed persons in Portugal had no access to unemployment benefits (OECD 2014).

Active labour market policies (ALMPs)

Up until 2010, spending on active labour market policies as a share of GDP in Greece was 0.2 per cent, less than half of the EU28 and EU15 average, having registered an increase of 0.08 percentage points since the beginning of the crisis in 2008. The largest shares of this expenditure were devoted to employment and business start-up incentives. In Portugal, by contrast, in 2010 public spending on ALMPs was 0.6 per cent of GDP, on a level with the EU average, while the available data (from Eurostat) estimates a marked decrease of about 0.010 percentage points in 2011. Most of the expenditure in 2011 was used for training programmes.

In this policy area, the aims of the MoU measures in Greece and Portugal would appear to be very similar, namely, to improve the matching of workers and vacancies and to promote the employability of the unemployed with a particular focus on the long-term unemployed and the disadvantaged, while ensuring optimal effectiveness of the resources committed. The Portuguese MoU prescribed an evaluation of the effectiveness of existing policies in tackling long-term unemployment, improving the employability of youth and disadvantaged categories, and easing labour market mismatch, as well as an action plan for further improvements (European Commission 2011c). In Greece the first adjustment programme stipulated that the policies aimed at supporting the unemployed should be designed to, among other things, facilitate the mobility of workers across sectors and occupations, promote the employability of disadvantaged groups, and improve the quality of training services. To these ends, the government was to adopt an Action Plan by the first quarter of 2013. The MoU specified the means through which these goals should be pursued and called on the government to provide an overview of the programmes already in place, together with plans for their rationalisation and an indication of the sources of funding.

This proposal was expanded and made more specific in the second review of the second MoU. By that time (spring 2013), unemployment rates had soared to alarming levels in Greece and new emphasis was placed on measures that could help prevent long-term unemployment and the inevitable accompanying erosion of skills. At that point, the MoU suggested an expansion of the short-term public-works programmes for the long-term unemployed and young persons not-in-employment-or-training as 'a measure of emergency and temporary nature', alongside the provision of a youth voucher scheme to private sector employers to promote the training and re-skilling of young unemployed people (European Commission 2013d). It must be open to doubt whether – given the massive increases in unemployment, especially in Greece, and the tight budget constraints – this targeting provided sufficient support for those who lost their jobs. The level of interference represented by the Greek programmes has been high, especially given the highly specific nature and focus of several of the measures and goals stipulated.

In the case of Portugal, where the previous record of ALMPs was apparently better, the MoU prescriptions tended rather to emphasise evaluation, monitoring and some correction of the inefficiencies. Some emphasis was again laid on the notion of targeting available resources to those most in need. In Portugal, accordingly, intrusiveness was not exceptionally high by MoU standards and in contrast to the Greek case.

Employment protection legislation

Up until the global financial crisis and in spite of some far-reaching reforms undertaken from the 1980s onwards (Venn 2009), Greece and Portugal had been among the OECD countries with the most protective Employment Protection Legislation (EPL) (OECD 2004). In fact, given these countries' weak and fragmented welfare states, their EPL has been, in both cases, one of the most important pillars of social protection (Emmenegger 2011).

Reforms in Greek EPL were requested already in the first MoU. In the course of the two programmes, three types of measure were stipulated. First, measures were to be taken with the aim of reducing the costs of, and other restrictions associated with, the dismissal of workers on regular contracts; these related to matters such as severance payments, length of notice of dismissal and of probationary periods for new recruits, or definition of the threshold for collective dismissals; provision was to be made at the same time for harmonisation of these measures across blue- and white-collar workers. Secondly, reforms were to be devised to facilitate greater use of temporary and fixed-term contracts (including at sub-minima wages for young people), temporary work agencies and part-time work (European Commission 2010c) (European Commission 2010b). Thirdly, the MoU promoted measures to increase flexibility in working time arrangements (European Commission 2014c). Greater flexibility in labour utilisation was thus promoted not only for regular contracts and working time arrangements but also for flexible and atypical forms of employment, potentially further increasing their attractiveness to employers. However, greater flexibility did not suffice to moderate the rise – that proved explosive beyond any forecasts – in unemployment in Greece. In fact, the second MoU suggested further reforms in the same direction of reducing dismissal costs, in spite of the high unemployment rate and deepening recession. Meanwhile, the notion of security was sacrificed on the altar of the need to reduce expenditure on unemployment benefits.

According to the Portuguese MoU, EPL reforms were to be aimed at reducing labour market segmentation, fostering job creation and easing labour market adjustment (European Commission 2011d). The focus of the measures adopted has been on severance payments and on individual dismissals. Severance payments were redesigned so as to reduce their cost and to align them across different types of contract, in particular fixed-term and open-ended ones, while at the same time narrowing the gap between strictness of EPL in Portugal and the EU average. The new legislation also brought into being two compensation funds (European Commission 2013c) which essentially served to shift the financing of severance payments to the newly recruited by imposing a sort of insurance payment. The definition of fair dismissal was relaxed in the summer of 2012 with the elimination of a number of obligations formerly incumbent upon employers. However, most of the newly adopted measures were ruled ‘unconstitutional’ and overturned by the Constitutional Court in 2013 (European Commission 2013c).

The MoUs of both countries have been highly intrusive in the field of EPL, not only because of the specificity of the measures required but also due to the important role played by EPL for purposes of social protection in the two countries (Emmenegger 2011). Still there has been no ‘paradigm shift’, as in both countries EPL remains relatively protective (cf. OECD 2013). Nor is it clear why the EU average would in this respect be the most appropriate benchmark for the Portuguese economy, in the interests of improved competitiveness, insofar as Germany, arguably the most competitive member state in the Eurozone, was in 2008 ranked by the OECD only slightly below Portugal and well above the middle of the restrictiveness of EPL distribution (Venn 2009).

The pattern of intrusiveness and the reforms implemented in EPL and policies to support the unemployed (income support and activation) suggest a de facto evolution from the principle of flexicurity to the notion of ‘flexilience’, that is, ‘flexibility for resilience’ (cf. Canton *et al.* 2014). As mentioned earlier, the effectiveness of unemployment benefit reforms that were supposedly designed to achieve modernisation was restricted by public budget constraints, while the pressure for enhancing active labour market policies has been strictly limited to measures designed to assist the most disadvantaged sectors of the population. As such, massive fiscal adjustment, taking place in a context of pervasive austerity in the Eurozone, would appear to have given precedence to shock-resilience over and above a concern for security.

Collective bargaining and minimum wages

Insofar as one of the main objectives of the adjustment programmes was to restore competitiveness and rebalance national current accounts, reforms in wage-setting procedures, most notably collective wage bargaining and minimum wages, have been an important pillar of the MoUs in both countries. Both Greece and Portugal have been traditionally characterised by fragmented industrial relations systems that have not supported a growth model reliant on exports and competitiveness (Regan 2013).

The MoUs in both countries sought to change collective wage bargaining structures in favour of a decentralised system, on the principle that wage agreements should reflect the productivity developments and ultimately the competitiveness needs of individual firms. To that end, measures were foreseen and adopted in both countries to restrict previous practices of extending coverage of collective agreements to non-signatories. In Greece, the practice of automatic extension was eliminated as was that of prolonging the validity of a collective agreement after its expiry date in the event that no new agreement had yet been reached. The similar administrative practice that had prevailed in Portugal was henceforth limited to a small number of cases – and, under certain conditions of limited representativeness, actually abolished – while any potential extension was required to take account of the potential implications for the competitiveness of the firms in the sector. The MoUs also pushed for reforms that would allow works councils at firm level to negotiate wages, regardless of trade union affiliations (Greece), or of conditions such as geographical and functional mobility and working time (Portugal). In Greece, the conditions for recourse to arbitration were also changed by requiring the consent of both employers and workers, instead of – as previously – workers alone.

Moreover, the scope of the national collective wage agreement was fundamentally reduced by making the determination of minimum wages statutory rather than collectively agreed. The minimum wage for adult workers was in this way reduced from 750 to 580 euros, while for those aged under 25 it was set at 511 euros. The Portuguese MoUs included a commitment by the Government that, for the duration of the adjustment programme, it would not change minimum wages unless labour market and economic conditions so permitted and always subject to an agreement with the Troika (European Commission 2011c).

Intrusiveness in this area has been unprecedented, which is not surprising given the importance of wage developments for the internal devaluation that was being pursued in both member states. In that context, interference reached very high levels in both countries; its evolution has been particularly interesting with regard to the role of social partners who have been mentioned regularly in the MoUs as parties to be consulted about reforms.

This would seem to be a case of mere window-dressing. For example, in Greece, the MoU of the second programme, unlike the MEFP, stipulated as a matter of urgency that the government would, in consultation with the Troika, legislate measures that would deliver the necessary adjustment in labour costs, following the 'failure' of the social partners and the government to come up in a timely manner with appropriately helpful measures in this respect (European Commission 2012b). This happened following major reforms in collective wage bargaining, a drop in private-sector wages of 20% characterized as 'unprecedented in any developed countries' (European Commission 2012), and the absence of any of the expected sizeable positive effects of such 'cuts' on the country's economic performance. In other words, the failure of the adopted strategies to deliver the intended outcomes for reasons that clearly cannot be blamed on a lack of implementation are seen to lead to more interference in the form of blatant bypassing of the social partners.

In Portugal similarly, the social partners were to be consulted in devising an action plan that would effectively decentralise wage-setting by work councils at the firm level. This stipulation was eventually dropped and replaced by a report that would allow the government 'to assess the options for ensuring more effective decentralization of wage bargaining and promoting wage flexibility' (European Commission 2014b).

In Greece, moreover, enforcement became particularly high with the phrase 'prior to disbursement' preceding measures as early as the 5th review of the first programme (European Commission 2011b) and increasingly so in the early MoU versions of the second programme, when the difficulties of implementation had mushroomed (European Commission 2012b; European Commission 2012c). Overall, intrusiveness in the reforms related to wage-setting was higher in Greece than in Portugal; in the former country the changes that took place may indeed be said to constitute a paradigm shift (cf. Hall 1993).

Conclusions

Our analysis more than suggests that, through the use of MoUs in the bailed-out member states, the potential of the EU to intrude in national social and labour market policy reforms has, in the context of the crisis, increased to reach unprecedentedly high levels Due to their institutional set-up, MoUs have represented a very significant new thrust in the direction of surveillance and enforcement. The degree of their interference has indeed been particularly high in the cases of Greece and Portugal, as evidenced by the wealth of detail supplied in the specifications for action in the areas of social and labour market policy.

However, the extent of this overall intrusiveness has varied. The more difficult – politically and/or technically – the MoU reforms have been to implement, the greater has been the level of intrusiveness; the more the adjustment with regard to fiscal or competitiveness variables has failed to take place according to plan, and the more direct the relevance of a given policy area for the adjustment in question, the more insistent the intrusiveness has become. In a nutshell, it can be argued that, faced with the difficulties of implementing the conditionality agreements – difficulties which have arguably not always been due to lack of political will in persevering with their one-size-fits-all adjustment strategy (Pisani-Ferry, Sapir *et al.* 2013) – the response of the EU has been to step up its intrusiveness, rather than to envisage any reconsideration of the strategy itself (cf. Ladi and Graziano 2014).

The aforementioned factors associated with variations in intrusiveness are by no means exogenous. Instead they are likely to be linked to domestic politics and institutions, which we have treated here as given. Further research should seek to illuminate how domestic factors have shaped the negotiated measures and the EU intrusiveness.

The effects of the reforms induced by the MoUs have often taken, in principle, steps towards the modernisation of the pension system (in Greece) and of labour market policies (in Greece and Portugal), 'modernisation' here being taken to mean a process of extending protection to sections of the population not hitherto covered by the system, as well as a more rational use of resources. Examples include extension of the social safety net to cover categories or areas not previously reached (e.g. in pensions and income support for the unemployed in Greece), or attempts to alleviate inequity within systems (e.g. pensions in Greece). At the same time, the need to cut public expenditure on these policies in order to meet challenging adjustment targets, in combination with increased demand for social and labour market policies due to deep recession and mounting unemployment rates, have borne down on and detracted from the efficacy of such attempts. The adequacy of benefits has suffered, for the labour market policy reforms promoted seem to have privileged flexibility and 'resilience' over security, while further weakening the industrial relations systems was promoted. The analysis of these policy areas does not claim to provide a complete picture of the direction in which social and labour market policies in the two countries are moving, insofar as important aspects such as healthcare and the public sector have not been covered here. Tight budget constraints inevitably involve cuts; however, it is an open question whether, how, and how soon, any of these savings will be reinvested in other areas.

This increased potential for EU intrusiveness through the MoUs does not necessarily mean that the same possibility for imposing such a strategy exists for all Eurozone or EU member states through the tools of reinforced economic governance. While MoUs are clearly more intrusive, it remains to be seen how the Country-Specific Recommendations will be implemented in practice and what will happen if they are not implemented (cf. Degryse, Jepsen *et al.* 2013). Even so, the strategy described here, as pursued through the MoUs, provides a flavour of the priorities promoted by the economic actors in the EU, namely the DG Ecfin and the ECB. As mentioned earlier, flexibility for resilience ('flexilience') seems, at the present time, to be overruling flexibility and security in the context of EMU.

Might the Eurozone members have been better off without the bail-outs and the conditionality programmes that came attached to them and that were implemented through the MoUs? The bail-outs were crucial in preventing disorderly defaults which could have quite plausibly led to the dissolution of the Eurozone in the form that we knew it until 2010. The economic consequences of such a default and exit for the bailed-out member states would have been grave and immediate and would have most likely involved even deeper cuts in public social spending and heavier losses in real wages. Instead, the financial support packages bought time for the EU to contemplate the options for addressing the shortcomings in the institutional architecture of the EMU. Yet the bail-outs have certainly not resolved the crises.

The evidence suggests (Sapir, Wolff *et al.* 2014) that the adjustment programmes implemented through the MoUs have not even managed to ensure the sustainable adjustment of macroeconomic imbalances in the countries where they have been implemented. As such, Greece and Portugal will have to deal with the consequences of this strategy, including significantly higher than predicted public debt/GDP ratio and unemployment rates for many years, while it appears that their productive capacity has also been damaged through hysteresis effects (Ball 2014). The conditions of pervasive austerity that have been spreading through Europe will make any resolution of these problems both fraught and protracted.

In other words, it would seem very difficult to claim that the heightened EU intrusiveness in national social and labour market policies and the weakened social safety net are ‘necessary evils’ that are ‘justified’ insofar as they have led to desirable macroeconomic outcomes. In the longer run, and contrary to intentions, the outcome of this approach may jeopardise the sustainability of the EMU itself, while its social costs will have been immense.

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