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## **Greek Economic Interests and The Single European Act: The Market Takes Over? \***

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### *ABSTRACT*

This article attempts to provide a political-economic explanation in a rationalist framework, as employed by the approach of Liberal Intergovernmentalism, of the Greek government's 'U-Turn' in the case of the SEA. The government of the Panhellenic Socialist Party (PASOK) from following a rhetoric and economic policy that contradicted to the philosophy of market liberalization inherent in the SEA supported fully and – almost unconditionally – the Single Market Program (SMP). It is the contention of this paper that it was a purely rational decision that can be explained by the economic interests of the PASOK government rather than an ideological shift or a European 'socializing effect'.

**KEYWORDS:** Single European Act, Greece, EU, European Integration, Liberal Intergovernmentalism

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## **1.0 Introduction: The Single European Act and Greece**

The Single European Act (SEA) stands as the crowning achievement of the early integration period, as the treaty that broke the 'dark spell' of eurosclerosis and paved the way for ever closer union culminating today in the EMU and in the signing of the Constitution of the European Union<sup>1</sup>. Politically and institutionally, the SEA was the catalyst that enabled the expansion of competences of EU institutions and provided a way out of the Luxemburg Compromise of 1966. Economically, the SEA lay the foundations for the Single Market and – debatably – for EMU. The Single Market Program (SMP) was the blueprint for the removal of non-tariff barriers (NTBs) and other regulatory impediments to the free flow of goods, services, capital and labor throughout the EU. Broadly speaking, the SMP has been so far successfully implemented overall, but particularly in trade and capital movement liberalization, while there is still room for improvement in the fields of services and labor (Commission 2005). The growth and trade effects of the SMP are considered to be positive and welfare enhancing for all EU member-states, but particularly for smaller countries (Allen et.al. 1998)<sup>2</sup>.

For Greece, a small EU member-state, the SEA holds major importance since it introduced the concept of redistribution not only in the policy-making of the EU but also in the actual goals of the integration project through the term of 'economic and social cohesion' with the subsequent introduction of the Structural Funds<sup>3</sup>. Only in 2004, EU structural transfers to Greece corresponded roughly to 3.9% of Greek GDP or 5.5 billion Euros (OECD 2004), a staggering amount by any standard. In the decade 1995-2005, EU transfers have amounted to an annual average of 3% of GDP. It becomes quite evident that this outcome of the SEA alone renders it a watershed in the history of Greece in EU integration<sup>4</sup>. The SEA holds significant political importance as well since it marks the decisive pro-Europe shift of the government of the Panhellenic Socialist Movement party (PASOK) from an anti-integrationist approach to the EC to a – problematic at times, yet definitive – embrace of European integration as part and parcel of national foreign policy strategy (the bibliography on this subject in Greek is quite extensive, but for related research in English see Botsiou 2002:25ff, Ioakimidis 1995:435-438, Tsoukalis 2002, Verney 1996, Spourdalakis 2002, Spourdalakis 1988). This 'change of heart' is even more impressive when one delves deeper and examines the changes in the positions and negotiating stance of the PASOK government in the various stages of debates and proposals – beginning in late 1983 – that led to the signing of the SEA in 1986: initially Greece was against *any* proposal for further integration (including the completion of the Internal Market and the expansion of QMV; the core of the SEA), always siding with

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<sup>1</sup> Throughout the text I shall be using the term European Union (EU) to refer to the organization in the post-Maastricht treaty era, and the term European Community (EC) for the pre-Maastricht era as well as when referring to issues pertaining to the First Pillar of the EU.

<sup>2</sup> Estimations of the benefits of the SMP are various and run from very optimistic like those made by the Commission (1996), Henrekson et.al.(1997) or Baldwin (1989) to more moderate ones like Italianer (1994), to others that find no impact at all between Commission rhetoric and economic reality like Ziltener (2004). An overall perspective of the potential gains from the SMP is offered by Baldwin and Wyplosz (2004).

<sup>3</sup> The issue of the degree of redistribution inherent in EU cohesion policies is still widely debated. For an overview of the arguments see Tsoukalis (1997), Chapter 9.

<sup>4</sup> On the significance of the EU transfers for Greece see Plaskovitis (1994); Ioannou (2001) has made an excellent study on the effects of the EU's Regional Policy on Greece.

countries traditionally suspicious of any deepening of Europe (UK and Denmark). When the White Paper for the completion of the Single Market was published, Greece was cautious but on the whole positive regarding its ends and the suggested means to reach them. Later, in the SEA negotiations for the institutional (QMV expansion) and the functional (harmonization vs. mutual recognition of standards) aspects of the SEA, Greece was even more positive towards the SEA package, and – more surprisingly – towards the Commission proposals. Greece ended up supporting nearly everything the Delors Commission put on the table of the IGCs for the SEA.

Conventional wisdom holds, or implies, that the primary reason behind this shift was the carrot of ‘funds’ that was dangled in front of the Greek government. One can draw a tentative conclusion from the Greek literature and expert opinion<sup>5</sup> on the subject, that the pro-European U-turn of PASOK, though indicative of most European Social-democratic parties’ shift on European integration in the 1980s (Bailey 2005), was to a greater extent ‘sweetened’ by the promise of EU cohesion transfers. Even though such term is not to be found anywhere in the academic literature on the subject, various interpretations of PASOK’s change of heart on Europe all concede to, or imply something like, this to a greater or lesser extent (Kazakos 2001 and therein references). Put simply, this line of reasoning suggests that the catalyst in PASOK’s U-Turn

The purpose of this paper is to attempt to use theoretical suggestions drawn by the theory of political economy for government preference formation to interpret PASOK’s policy shift by accepting the SMP and its institutional implication of QMV expansion. For this purpose it widely draws on the framework established by Moravcsik’s seminal theory of Liberal Intergovernmentalism (Moravcsik 1993, Moravcsik 1998). It is my contention that PASOK’s policy shift was owed *primarily* to political economic considerations and *secondarily* to side-payments made by the Commission (and other member-states) in the form of cohesion transfers. In this way, I attempt to interpret PASOK’s policy shift in a manner consistent with predictions generated by the literature of political economy, as employed by the theory of Liberal Intergovernmentalism, rather than deal with the Greek government of that period as an ‘awkward partner’, or with Greece overall as a *sui generis* – or maverick – case of a member state. However, a second conclusion is that even though the PASOK government opted for the SMP, it never espoused its deeper philosophy of market liberalization in the form of structural reforms required to reap the actual benefits of the Single Market. And this is a situation that has more or less remained to this day.

In the next section (2.0) there will be a very brief outline of the theory of LI with particular emphasis on its component of explaining governmental preferences and its version of the SEA. I then turn to examining the Greek economy from 1981, the year PASOK came to power, to 1985 when the IGC for the SEA began and attempt to explain the governmental preferences for the IGC. Next, I attempt to trace the course of these preferences in the stage of negotiation for the final text of the treaty and the Greek choice

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<sup>5</sup> Interviews with Greek Commission officials and Members of the European Parliament in September 2004 and February-March 2005 in Athens and Brussels.

for delegation of competences to institutions. Finally, I draw conclusions regarding the nature and qualitative value of the findings.

## **2.0 Liberal Intergovernmentalism: A School with No Disciples**

According to Schimmelfennig, LI – as developed in Moravcsik’s seminal paper 1993 on preferences and power in the European Community (Moravcsik 1993) and his *magnum opus*<sup>6</sup> on social purpose and state choice in the EU (Moravcsik 1998) – “is a theoretical ‘school’ with no ‘disciples’ and a single ‘teacher’: Andrew Moravcsik” (Schimmelfennig 2004: 75). Yet, for a theoretical ‘school’ with no disciples “nearly all American and European students of the EU have identified themselves as being *against* one or other aspect of liberal intergovernmentalism” (Pollack 2001: 226). To paraphrase Oscar Wilde, having so many academic opponents might indicate that LI is ‘loved to be hated’. Irrespective of the numerous critical responses LI has drawn<sup>7</sup>, it nevertheless provides a uniquely consistent and testable set of hypotheses on the choice of member-state governments vis-à-vis the course of European integration. These hypotheses are based on specific assumptions put forth by the theory of LI<sup>8</sup>. As Moravcsik puts it, the general argument of LI is that

“EU integration can be best understood as a series of rational choices made by national leaders. These choices responded to constraints and opportunities stemming from the economic interests of powerful domestic constituents, the relative power of each state in the international system, and the role of institutions in bolstering the credibility of interstate commitments (Moravcsik 1998:18)”.

The theory of LI aims to bring the study of European integration back to the mainstream of the study of interstate cooperation to manage policy externalities stemming from the international policy environment, as it has been developed mainly in the field of international political economy<sup>9</sup>, rather than viewing the integration process as a *sui generis* phenomenon of international regimes of cooperation. To accomplish that, Moravcsik disaggregates the process of integration to three stages and employs mid-range theories to explain governmental preferences and choices in each one. Table 2.1 below provides a – simplified – overview of the stages of interstate negotiation examined by LI, the independent variables to the research, and the mid-range theories employed to explain government preferences and choices. Regarding state behavior two basic assumptions form the core of LI theory: states are rational<sup>10</sup>, they are unitary in their external behavior, and the primary concern of governments is to remain in office.

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<sup>6</sup> The term is borrowed by Schimmelfennig (2004).

<sup>7</sup> See Pollack (2001) and Schimmelfennig (2004) for a review of the theory and the responses it attracted. For a historiographical review of LI, with particular reference to its approach on De Gaulle’s policy see Hoffman (2000), Milward (2000), Gillingham (2000)

<sup>8</sup> Besides, even critics of the theory of LI admit to its methodological robustness (see Wallace, Caporaso, Scharpf and Moravcsik 1999).

<sup>9</sup> For a review of the aims and propositions of the research project of international political economy see Frieden and Martin (2002).

<sup>10</sup> The term ‘rational’ is employed by LI in the broadest sense, i.e. that “governments make decisions “as if” they were efficiently pursuing a weighted, stable set of underlying preferences given a constrained choice of means (Moravcsik 1998: 23)”.

<b>Table 2.1 An overview of LI</b>		
<b>Stage of Negotiation</b>	<b>Independent Variables to the Research</b>	<b>Mid-Range Theory</b>
National Preference Formation	What is the source of underlying national preferences?	Political Economic Interests (Endogenous Policy Theory)
Interstate Bargaining	Given national preferences, what explains the efficiency and distributional outcomes of interstate bargaining?	Intergovernmental Bargaining Theory
Institutional Choice	Given substantive agreement, what explains the transfer of sovereignty to international institutions?	Credible Commitments (Incomplete Contracts and Institutional Choice)

Source: Moravcsik (1998)

Very broadly, the main hypotheses LI puts forth in each stage of the negotiation are the following:

- *Preference Formation*: According to LI, government preferences vary in their intensities across issues and negotiations. On issues where producers manage to overcome collective action problems<sup>11</sup> and form distinct positions on transnational policy externalities, governments – due to maintaining favorable electoral coalitions – turn these positions to preferences. However, in line with the predictions made by interest group theory (Becker 1984, Peltzman 1989), if rent extraction by these groups exceeds overall welfare to the point of creating opposing social coalitions – and therefore promotion of producer interests becomes politically costly and dangerous – then governments will tend to ignore, or even make policy against, the demands of producers. In other words, governments are constrained in accommodating producer interests by regulatory and macroeconomic constraints. Conversely, where societal interests are diffuse and collective action problems persist, governments will have a certain freedom of movement. Such freedom enables governments to pursue a two-level game of using interstate agreements to promote their own regulatory or macroeconomic goals. Governments in such a case may also be driven by ideology, geopolitical interests or promotion of the general good as they perceive it.
- *Interstate Bargaining*: Interstate bargaining reflects issue-specific government power of states which in turn reflects the nature and intensity of state preferences (Moravcsik 1998: 60). States are uncoerced and free to veto at any time while bargaining and therefore negotiations are Pareto-improving as compared to the unilateral or coalitional alternatives. Informational costs and asymmetries among states are low and the distribution of benefits reflects relative bargaining power (Moravcsik 1998: 61)<sup>12</sup>. If these conditions hold, then the bargaining outcome reflects three factors: (1) the value of unilateral policy alternatives relative to the status quo which underlies credible threats to veto; (2) the value of alternative

<sup>11</sup> The term was established by the path-breaking work of Olson (1971).

<sup>12</sup> In other words, agreements may always be Pareto-efficient for all involved but each member-state holds a different position on the Pareto frontier itself.

coalitions, which underlies credible threats to exclude; and (3) the opportunities for issue linkage or side-payments, which underlie “package deals” (Moravcsik 1998: 63). The first factor reflects the higher bargaining ground that governments with viable unilateral policy alternatives hold. As Moravcsik puts it, “a unilateral threat to veto or exit from an agreement is [thus] the most fundamental source of bargaining power (Moravcsik 1998: *ibid.*)”. The second factor reflects the stronger bargaining position of two or more governments willing and able to form viable alternative coalitions vis-à-vis the others. A case in point in this paper is the constant threats by France and Germany – openly and Benelux countries *sotto voce* – to exclude the UK and other discontents including Greece from Single Market agreements (Moravcsik 1998: 347-375). The third factor reflects the creation of issue linkages in bargaining outcomes. “Linkages occur [...] when governments have varying preference intensities across different issues, with marginal gains in some issue-areas more important to some than to others (Moravcsik 1998: 65). The major constraint on issue linkages lies in their domestic distributional implications (Moravcsik 1998: *ibid.*). In other words, issue linkages in negotiation outcomes are more likely when the adjustment costs they incur to the respective agreeing governments are moderate to low.

- *Institutional Choice*: From the credible commitments approach utilized by LI pooling and delegation of powers to supranational institutions are ““two-level” strategies designed to precommit governments to a stream of future decisions by removing them from the unilateral control of individual governments (Moravcsik 1998: 73)”. By pooling and delegation governments lock-in their commitments externally by raising the costs of non-compliance or non-decision and internally by committing future governments to these agreements. Thus, governments solve any problems of incomplete contracting caused by the need to specify all provisions of and contingencies that may arise from the agreement<sup>13</sup> by delegating implementation oversight to a supranational ‘honest broker-overseer’.

### **3.0 Greece in the early 1980s: An economy in dire straits**

#### **3.1 An overview of the economy 1950-1980: the economic background to PASOK’s rise to power**

The Greek economy from the post-WWII era to the 1980s had been characterized by heavy statist interference and guidance. The state had always taken the initiative and set out the major – short, medium and long-term – goals of the economy. Initially, in the 1950s, this was a necessity given the near annihilation of the economic infrastructure and institutions caused by WWII and the ensuing Civil War. This statist mentality however persisted in the decades to come, and arguably maintains its presence albeit to a lesser extent today. There are many interpretations offered for the presence of the heavy hand of the state in the Greek economy from the early 1950s to the early 1980s (see Kazakos 2001 for a full account of the role of the state in the Greek economy and a review of the relevant literature). Broadly speaking, and despite their occasionally differing ideological positions, these interpretations converge on the following points:

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<sup>13</sup> On incomplete contracts see, among many, Segal (1999).

- Greek political, economic and social institutions are permeated by vertical clientelistic nexii that define all forms of economic, political – and occasionally social – relations.
- Every functional and organizational aspect of the state and its bureaucracy is geared up towards serving and reproducing the clientelistic nexii (Mouzelis 1986). The ‘pervasive activism’ of the Greek state in a climate of economic clientelism and selective industrialization plans (Kazakos 2001) only led to underdevelopment and an inadequate and overall state-dependent private sector. State intervention crowded out private enterprises and developed a “rather non-transparent and bewildering regulation system (Kazakos 1994: 13)”.
- Greece lacked a developed civil society by European standards. The democratic-authoritarian regime – and the military junta 1967-1974 – that ruled Greece from the 1950s to the reinstatement of democratic rule in 1974 (*Metapolitefsi*) never allowed – let alone encouraged – any development of a civil society and the social, political and economic emancipation it entails (for a full exposition of the (under)development of civil society in Greece see Mouzelis and Pagoulatos 2002).

The Greek economy in those three decades is therefore organized under a heavy statist umbrella that protects, through the clientelistic nexii, all businesses and firms and prevents agglomeration and consolidation in the market by conducting a peculiar kind of social protection of all businesses for the sake of the employees or the politically-connected employers. The state was the economic planner and implementer<sup>14</sup>.

Irrespective of clientelistic networks and the political and economic vicious circles they created, Greece ‘took off’ development and growth-wise in the 1950s and 1960s. Throughout the 1960s and up to 1972, growth of GDP in Greece averaged 7% p.a. (Kazakos 2001), ranking her 4<sup>th</sup> to 5<sup>th</sup> in European countries. Industrialization in the form of development of the intermediate sector and capital intensive goods began to gain ground pushing the traditional sector down to 30% of the national product by 1964. It must be noted, though, the gains from such production shift are questionable in Greece as most heavy industries were foreign-owned, government-sponsored and protected with all the costs such rents created and the resources they diverted<sup>15</sup>. Furthermore, the multiplying factor of these industries in the Greek economy remained small (Vaitsos 1986). During that period, however, income inequality seems to have increased in Greece and the gains from growth were not distributed as evenly as in other European countries, although there was a decrease of poverty. That leads to a tentative conclusion of a socially uneven and unequal economic growth. Be that as it may, Greece was

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<sup>14</sup> One must bear in mind that in the period from the early 1950s to the late 1970s (and on some instances in the early 1980s) *dirigiste* policies were not only prevalent throughout Europe but also part of the economic orthodoxy of the period. However, they were based on a corporatist (social) consensus in accordance with what the literature suggests about mixed economies, and certainly without clientelistic networks at least to the degree experienced by Greece. It is beyond the scope of this paper to elaborate further on the issue of comparing Greek versus European *dirigisme* in the period of ‘Keynesian’ economic orthodoxy in Europe, but a useful comparative perspective is offered by Tsakalotos (1991): Ch. 3

<sup>15</sup> See the section in the plan for Greek economic growth and development prepared by Professor Varvaressos in 1952 cautioning for the contemporary governmental aspirations for heavy industry in Greece. Apart from the original text, the section is quoted in Kazakos (2001): 155-157.

experiencing a ‘Golden Age’ of growth and development similar to – and greater in absolute gains than – the other European countries.

From 1974 to 1981 the negative global economic developments coupled with negative macroeconomic performance had brought Greece on its first post-WWII true economic crisis. Increasing defense expenditure after 1974, increasing labor costs – partly as a result of satisfying long-standing and just demands from social groups and partly a result of election circles in 1974 and 1977 – and the introduction of what would become the Greek welfare state increased public expenditure at a time when there was also a constantly growing deficit in the balance of payments owed to a drop in exports and a drop in the current account inflows from invisibles (namely shipping, tourism and remittances)<sup>16</sup>. These developments, combined with a continuing policy of private-sector protection (continuously crowded-out by the state) and a policy of nationalization of firms and businesses by the first post-dictatorship democratic government of Konstantinos Karamanlis, expansive fiscal policies against the backdrop of the global negative macroeconomic after-effects of the major oil crisis in 1979, made 1981 the worst year for the Greek economy since 1960. Stagflation was rampant as GDP growth was negative (-1.6%) while inflation had reached an unprecedented level of 24.5%. It was also the year PASOK came to power.

### **3.2 PASOK’s economic policy 1981-1985**

PASOK came to power in 1981 on an agenda of radical social and economic reform aiming at social justice and equitable development. Using theories of economic dependence developed in the 1970s and recognizing the macroeconomic problems plaguing Greece at that time and the long-term structural deficiencies of the Greek economy, PASOK’s economic philosophy – as it can be summed up the statements and works of its leader and *par excellence* ideological guide, Andreas Papandreu – once in power<sup>17</sup> can be summarized in the following points (Drakos 1986):

- Decentralized democratic planning
- Socialization of the means of production
- Self-management of the socialized firms, i.e. the workers along with representatives of the state or local authorities would run the socialized firms<sup>18</sup>.

This economic philosophy was supposed to promote redistribution and social justice, remove political and economic patronage and economic state dependence, thus expanding democracy to the social and economic realm. The aforementioned three points of PASOK’s economic philosophy constitute a set of ‘supply-side’ measures aiming at altering not only the ends of the economy, in line with the aims of ‘mainstream’

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<sup>16</sup> Spraos (1994) makes a very interesting case for a Greek version of the ‘Dutch malaise’ in the 1970s he attributes to the current account inflows from these three ‘big invisibles’ as he calls them. According to his view, inflows of the three ‘bigs’ revaluated the Greek drachma to a degree that constantly hurt Greek exports.

<sup>17</sup> PASOK had undergone major changes in its ideology, aspirations and policy programs since its establishment as a political party in 1974. It is beyond the scope of this paper to discuss these changes but for the interested reader Spourdalakis (1988), Lyrintzis (1987) and Featherstone (1987) offer a good account of the evolution of PASOK as a political movement.

<sup>18</sup> For a fuller analysis of PASOK’s economic philosophy see Tsakalotos (1998), Kazakos (2001), Drakos (1986). On PASOK’s process of democratic planning see Katseli (1986) and the comment by Desai (1986).

European social democracy, but also the means employed, thus making PASOK (at least in its first period of government) a ‘left-wing’ social-democratic party (Tsakalotos 1998).

These supply-side measures “hardly took off” and socialist reforms of the means of the economy never materialized (Tsakalotos 1998). There are mainly two approaches in the Greek literature as to why: the first one, following what can be termed a public choice approach, focuses on the role of pressure groups and vested interests that constituted PASOK’s main electoral base who extracted ever-increasing rents the government was only too willing to provide so as to maintain power and strengthen its electoral base (Kazakos 2001). In other words, the clientellistic networks of old were replaced by a nexus of new networks established around the PASOK party (Drakos 1986). The second approach, loosely termed as a sociological approach, emphasizes on the lack of social capital and social trust the Greek society always exhibited (Lyberaki and Tsakalotos 2002). They point to an absence of building social trust and capital in PASOK’s strategy as the main reason behind its abandonment of social-democratic supply-side reforms.

This inability<sup>19</sup> of the early PASOK government (1981-1985) to change the means of the economy<sup>20</sup> coupled with an expansive fiscal policy (resulting to ever increasing levels of public debt) mainly due to its broad social agenda that continued and expanded the post-dictatorship introduction of social welfare (Kazakos 2001, Tsakalotos 1998, Thomadakis and Seremetis 1992), a resulting decrease in public investments in order to compensate for increased public expenditure and decreasing public revenue from tax evasion, as well as a deteriorating current account deficit because of rising imports from Greek EC integration and subsequent crowding out of uncompetitive Greek firms, led to an ‘explosive’ economy in 1985 (see some main economic aggregates on Table 3.1). It was against this economic background the Greek government entered negotiations for the SEA.

### **3.3 PASOK and the EC: A very brief account**

Relations with the EC were at best problematic for the first PASOK government from 1981-1985 (Featherstone 1988, Kazakos 1992, Botsiou 2002, Verney 1989, Ioakimidis 1994, Ioakimidis 1988). In the years prior to its rise to power, PASOK – using arguments from the theory of dependence and center-periphery relations – viewed Greek membership in the EEC as another form of dependence. PASOK, as we saw above, aimed at transforming the Greek society and viewed EC membership as an obstacle to this effort. Andreas Papandreou had explicitly proclaimed his party’s willingness to withdraw from the EC once it came to power. Instead, PASOK tried to offer alternatives to EC membership, like the concept of “a non-capitalist Mediterranean community” (quoted in Kazakos 1992: 261). Kazakos (1992) observes, however, that ever since PASOK increased its share of the electorate in 1977 and became the major opposition party its anti-EC rhetoric was toned down from the original position of withdrawal to promising a referendum once in power to let the people decide on EC membership.

<sup>19</sup> Or unwillingness if one is inclined to view PASOK as a purely ‘populist’ party.

<sup>20</sup> Even though, as Tsakalotos (1998) convincingly argues, in the period 1981-1985 PASOK enjoyed some freedom, in terms of external regulatory constraints (namely the EC), in pursuing these supply-side reforms.

When PASOK came to power in 1981, none of its anti-EC proclamations materialized. It maintained the stance of an ‘awkward partner’ – adopting a *demandeur* attitude towards EC institutions to utilize the term of Kazakos (1992) – but it never seriously debated, nor of course did it advocate, EC withdrawal. In 1982, PASOK submitted its – now famous – Memorandum on the conditions of Greek membership in the EC (Journal of European Communities 1982) wherein the socialist government attempted to restructure its relations with the EC on a ‘fairer’ level. More specifically Greece demanded: a) exemptions of a rather long-term nature from common market arrangements, particularly those concerning competition (limitations of state aid etc.) and free circulation of commodities; and b) increased transfers from Community funds to finance improvements in the fragile and inadequate infrastructure of the economy (Kazakos 1992: 265). Ever since then, Greece maintained a “demandeur” attitude, especially when it came down to economic and financial matters, while declaring itself opposite to any attempt to strengthen EC institutions. However, and to jump ahead of the discussion, Greece not only assented to the SEA but in the IGCs (Milan 1985 and Luxembourg 1986) it was one of the main supporters of nearly all Commission proposals. In the next section, I will attempt to trace the origins and evolution of this ‘change of heart’.

#### **4.0 The Single European Act, the Single Market and Greece: PASOK’s ‘road to Damascus’?**

##### **4.1 Explaining National Preference Formation**

The SMP, the core of the SEA, constituted a break with the past of Euroclerosis. From a very simplistic reading, after numerous plans and proposals – where many different visions of Europe were suggested, debated and dismissed (Moravcsik 1998: 314-378, Ioakimidis 1986) – its primary objective was the implementation of the SMP as outlined in the White Paper (Commission 1985). The SMP entailed full liberalization of trade across the EC which would be facilitated by the introduction, until 1992, of the ‘four freedoms’ of movement. To complete the internal market – “an area without internal frontiers” (Article 18 of the SEA) – and the required deregulation on a European scale on time, decision-making rules would have to be changed to attain institutional efficiency. For that purpose, the expansion of QMV was required (an account of the proposals and the final areas where QMV was expanded is provided in Ioakimidis 1988).

Given PASOK’s economic policies and overall ideology vis-à-vis the role of the state in the function of the market and economic development, one could assume that the SMP ran counter to just about everything PASOK was advocating as the proper economic policies for Greece. However, if one approaches the process of government preference formation with regard to the SEA from a political-economic perspective, in accordance with the approach of LI, and examines preference intensity across issues, one may reach a plausible explanation of this seeming ‘paradox’ (see Kazakos 1992 for a similar interpretation of the Greek SEA policy shift).

As it was outlined in the previous section, and can be also seen at Table 3.1, the macroeconomic situation in 1984-85 became quite dismal for the Greek government. Not only had the ‘supply-side’ structural reforms not materialized, but also public expenditures had increased (nearly by 70% from their level in 1981) and the current account situation had deteriorated implying continuing loss of competitiveness (Kassid and Kaltsos 1992). This comes to no surprise as the industry of the traditional sector that had come to occupy 40% of Greek industrial production in the post-dictatorship era – by displacing the capital-intensive sector due to decreased public investments therein – was enjoying a level of state protection at nearly 70% (Kassid and Kaltsos 1992)<sup>21</sup>.

The levels of protection in the form of ‘at the border’ measures had to decrease since Greek joined the EC in 1981. That led to an internal displacement of Greek products by EC imports, deteriorating the market share of Greek producers (Yannitsis 1994). According to Yannitsis (1994), the decade of the 1980s was transitory for a small, overly protected industry of a small economy that joined the EC. During this period, as trade theory approaches suggest, the industry would adapt, restructure and become competitive in areas of comparative advantage. However, the technology gap between the Greek and European industries, along with a continued regulatory protection of the Greek industry prevented such consolidation, concentration, and agglomeration effects from actually taking place in the Greek industrial production (Kazakos 2001). Be that as it may, with regard to potential Greek producer gains from the SMP Kassid and Kaltsos (1992) suggest there were firms that stood to have immediate gains from the completion of the Internal Market. These firms comprised of roughly 5% of the Greek industry and concentrated in the intermediate and capital goods sector. In the same study, it was estimated that the entire intermediate goods and capital goods sector stood to gain from the SMP, provided that restructuring, consolidation and agglomeration took place. The heavily protected and regulated banking sector also stood to gain from the SMP in a period of 7 years until its completion in 1992 (Kassid and Kaltsos 1992). However, due to public choice and ideological constraints no government in the post-dictatorship era (1974-1985) followed a policy of liberalization<sup>22</sup>.

To sum up, Greek producers overall stood to lose from the SMP in the short-run of its implementation mainly because of its required adjustments. There were firms (or sectors) that stood to gain mainly in the intermediate goods sector and in the – underdeveloped – capital investment sector, but they were certainly a small minority. In the latter case, it was mainly entrepreneurs waiting for liberalization so as to take initiative (as the record in the 1990s showed). These exceptions aside, Greek producers that had hitherto enjoyed a large degree of protectionism would stand to lose a great deal from liberalization. The experience of (partial) tariff and quota removal due to the Greek accession obligations that led to their market displacement<sup>23</sup> would only fuel any producer skepticism or

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<sup>21</sup> This protection came in the form of ‘at the border’ measures (tariffs and quotas), subsidies and regulatory protection. Certain branches of the traditional sectors (like the Greek shoe-making industry) enjoyed a level of protection at nearly 100%! See Kassid and Kaltsos (1992) for a full analysis.

<sup>22</sup> It can be argued with a certain degree of confidence that no government in Europe during that period followed such policies either, with the exception perhaps of the UK (Keohane 1984).

<sup>23</sup> One could add that this deterioration of conditions was not perceived by Greek producers as a ‘warning sign’ because the preservation of a policy of state intervention and protection by the first PASOK

opposition against liberalization. State intervention and increasing labor cost only led to an even greater loss of competitiveness even prior to the introduction of the SMP. At the same time, however, the government was increasingly constrained in covering the increasing cost of protecting the Greek producers, in other words the cost of rent-extraction heavily outweighed net social welfare.

In conclusion, in the period around which the issue of market liberalization in the EC that later took form and substance in the SMP began to be debated and negotiated, the Greek government was faced by serious macroeconomic restraints in continuing its protectionist policy, while its policy of structural reform was abandoned. At the same time, various social groups that formed its electoral base continued their rent-seeking activity (Kazakos 1991: ch. 5) regardless of the economic crisis of 1985. The crisis was so severe that according to D. Halikias, chairman of the Central Bank of Greece 1984-1992, in the period between October 1985 and February 1986 foreign exchange reserves had fallen below the safety zone, from 1 bn. USD in the early 1980s to 350 m. USD in February 1986 (cited in Kazakos 2001: 374). The government had to take some restraining measures, which were featured in the 'austerity program' of 1985-1987. However, these measures would have to be implemented in lieu of producer pressures for protection, mainly from the traditional sector, and rent-extraction by other social groups (e.g. syndicates). Furthermore, these measures entailed devaluation of the Greek currency. If any long-term benefits were to be reaped from devaluation in terms of competitiveness, the drachma would have to be secure from speculation. Therefore, the government required some steps that would show to the international market the credibility of its economic commitments.

Furthermore, in the logic of two-level government policy, the PASOK government needed an external restraint that would be 'face-saving' vis-à-vis the societal pressure groups, enable it to maintain power, and would provide it with the required status to secure an international loan. One option would be to call for International Monetary Fund (IMF) intervention. However, the definite structural 'shock therapy' that would be a prerequisite by the IMF would lead to certain political upheaval and loss from power. In addition, a move towards the IMF would indicate unconditional surrender to the 'purest' form of liberalism the IMF is known of, an anathema for a social-democratic government like PASOK. A second alternative, purely unrealistic, might have been the full socialization of Greece, i.e. by fully withdrawing from the EC and following a policy of 'pure' socialism. However, this was never – at least in the mainstream – agenda of PASOK, nor was it politically or economically feasible. The SMP was the only politically and economically feasible alternative for the government of PASOK. It provided an external restraint the government could use as an excuse for not accommodating rent-seeking by internal interest groups and would give the government the necessary status to obtain a loan from the international market on more favorable terms. As a matter of fact, the latter took the form of a 1,75 bn USD loan to Greece by the European Community in 1985. The EC acted as a 'mediator' between Greece and the

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government – that never moved towards structural reforms, even as it envisaged them – only fueled their individual complacency and discouraged any overall moves towards consolidation and agglomeration whenever possible in Greek industry.

international markets so as to secure a loan on more favorable terms than the Greek government acting unilaterally.

Another, more subtle, economic gain from the SMP concerned the Greek producers themselves. It can be assumed that after the failure of implementation of the ‘supply-side’ reforms the PASOK government had in its agenda, it was faced with a policy ‘dead-end’ as competitiveness was deteriorating. The SMP may have provided a ‘way out’. Its relatively long-term implementation, and – as Gillingham (2003) claims – the regulatory provisions it entailed that gave it a decidedly ‘not too liberalist’ outlook<sup>24</sup>, could have been viewed by PASOK as a valid way to adjust less painfully to the conditions of growing international trade interdependence and capital movement. In other words, the SMP was the ‘lesser of all evils’. It gave the PASOK government the required autonomy to pursue a more stringent economic policy, satisfied certain producer interests and – with its promise of cohesion<sup>25</sup> would give the government (unspecified) funds to compensate for the decreased level of public expenditure. These funds would enable the government to move towards increasing competitiveness and restructuring Greek production so as to adapt to the conditions of the Single Market. At the same time, however, there is no indication that the government actually *ascribed* to the ‘new economic orthodoxy’ that was beginning to gain momentum in Europe. There is no such indication from any government statements, leading to a tentative conclusion that Greek assent to the SMP and was purely from a short-term instinct for political survival. There was no long-term contingency program or strategy on how to use the, yet unspecified but forthcoming, EC funds<sup>26</sup>, let alone any private sector encouragement. A possible political explanation might be that since the period between 1985 and 1990 was characterized by very intense political confrontation between PASOK and New Democracy (ND), the main opposition party, the government might have been unwilling to commit itself, even symbolically, to anything that might approach the ND agenda<sup>27</sup>. The 1987 abandonment of the austerity program – in pursuit of a ‘populist’ policy as Kazakos (2001) phrases it – might be an indication of the government’s short-terminism regarding the SMP and the required structural changes.

#### **4.2 Intertate Bargaining and Institutional Choice**

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<sup>24</sup> According to Gillingham (2003), the SMP was liberalizing trade within the EC, but at the same time it established a pan-European regulatory ‘state’ as supervisory authority was granted to the Commission. Therefore, one cannot convincingly argue that the market philosophy prevailed in the SMP. This view may be valid, given the fact the economies of EC member-states were mixed with a visible state presence and the Delors Commission never hid its social-democratic perspective at least in the face of Delors.

<sup>25</sup> Since no actual amount had been discussed in the IGCs, or mentioned in the treaty text. However, the Greek government was aware that any forthcoming transfers would exceed those of the Integrated Mediterranean Programs (interview with Greek Commission official present at SEA negotiations, 28<sup>th</sup> March 2005).

<sup>26</sup> The implementation of the First Community Support Framework (CSF) and allocation of its funds indicate such lack of planning or economic policy shift.

<sup>27</sup> PASOK was already under opposition fire and mockery for its change towards the EU. This might explain some ‘independent’ positions the PASOK government adopted in the European Political Cooperation (the case of the South Korean 747 comes to mind), so as to compensate for its policy U-Turn on European integration in the SEA.

In the initial stages that proved the base of what would later turn out to be the negotiations for the IGC (the Genscher-Colombo plan, the Plan for a Treaty of the European Union the Stuttgart summit of 1983 “Solemn Declaration on European Union), the Greek government sided with the UK in refusing to accept any move towards further integration. This could be attributed to the ideological anti-integrationist predisposition of the PASOK government at the earlier stages. It must be emphasized here, that these stages were of a rather ideological direction regarding the future of the EC and did not contain any issue-specific proposals (beyond vague notions about the Internal Market) around which substantial interests could be formed. Or, if they did, they were part and parcel of what could be loosely termed as a ‘federalist’ view of Europe and unacceptable – primarily – by the UK and Denmark as well. Greece was also very negatively predisposed towards QMV expansion given its fears of the other member-states utilizing it ‘as a back door’ to move Turkey closer to the EC<sup>28</sup>.

When the White Paper, that contained a set of concrete measures, policies and goals, was published in 1985 the first reaction of the Greek government was cautious yet overall positive. The Greek position was tied to the problem of what it perceived as unequal distribution of the potential benefits of the SMP, something the Commission had recognized as well, implicitly in the Greek positions in the 1982 Memorandum and more openly during high-level discussions between members of the Greek government and Commission officials in 1983. Greece was aiming at compensatory transfers from the EU to cover the cost of convergence and restructuring within the Internal Market. Greece had Spain and Portugal as its natural allies in this cause. During the IGCs, this position does not seem to have been the subject of any tough negotiations (i.e. no threat to veto was made by Greece, Spain or Portugal, and there were no threats to exclude Greece from any alternative coalitions, i.e. a ‘multi-speed’ Europe). The Greek government, given its preferences, had no unilateral alternatives either. This is anyway beside the point, as the issue of EU transfers had already been agreed in principle by the ‘big’ member-states, namely France, Germany and the UK (Moravcsik 1998: *ibid.*) in view of the forthcoming accession of Spain and Portugal. Even if actual amounts were discussed Greece had no credible veto threat to employ in order to raise them, and the other two Mediterranean countries were still in no position to demand anything. However, under the assumption that the Greek government was rational, the Greek assent can be primarily attributed to its economic preferences. The SMP provided an economic short-term way out, while having promise in the long-run as well. The signing SEA would give credibility to the austerity program the government was implementing in 1985, provide autonomy against internal pressure groups and with its promise of cohesion the government could increase its public investment without severely compromising its social agenda.

On the stage of institutional choice, Greece agreed with the proposals at the table, namely expansion of QMV and strengthening the role of the European Parliament with the introduction of the cooperation procedure. QMV was essential for the implementation of the SMP, and Greek government recognized this necessity as well (Kazakos 1993). Greece could have probably sought an ‘alliance’ with the Commission in terms of

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<sup>28</sup> I am grateful to Dr. Mitsos for this insight. The reasons behind this Greek aversion for QMV expansion only reinforce the viewpoint of an extremely suspicious PASOK towards the EC in general.

strengthening the Commission's position<sup>29</sup> so as to be able to grant Greece the highest possible amount of funds. It seems that ideological factors did play a role here as well, as the Greek government found in Delors a true socialist.

### **5.0 Conclusion**

This paper has attempted to examine PASOK's European U-turn as exhibited by its signing of the SEA and assent of the SMP. This change can be well attributed to political-economic considerations rather than to an ideological shift or to the 'socialization' effect of European integration. It attempted to show that the government's decision was rationally consistent with the economic constraints it faced. After failure of its structural reforms, the SEA was the best available alternative to the increasingly untenable current macroeconomic conditions and rising internal pressures for rent-extraction exerted on the government by various societal groups. In other words, and in line with the proposals put forth by the theory of LI, the Greek government opted for European integration when perceived as reinforcing its internal position. This finding is consistent with other findings by LI for other European countries of the time, namely Germany, France and the UK. Greek preference formation can be primarily explained by political-economic criteria, as opposed to an ideological explanation (the government was learning the European 'game' of negotiations, or it espoused market liberalization), or one concerning high-politics (namely the strengthening of the EPC which was envisaged in the SEA negotiations)<sup>30</sup>. This is strengthened further by the Greek 'break' from its austerity program in 1987 when faced with difficult elections, i.e. when faced with a political business cycle. The issue of EU transfers only strengthened the Greek resolve to join the SMP, but they were not the main reason as the analysis has demonstrated.

During the stage of interstate bargaining, Greece was too constrained to do anything but agree to the SMP. However, it is unclear in the Greek case how far did the Commission's supranational entrepreneurship play a role in facilitating the Greek assent. There are indications that it did, as the Commission's agenda was ideologically similar to the Greek government's, there was also the promise of transfer of Community funds as early as 1983 (even while the IMPs were at the stage of implementation). Furthermore, in the Greek case the Commission may have acted as an information agent as well, providing the Greek government with insight it lacked. This might break from the conventional LI view of interstate bargaining.

In the case of institutional choice, Greece was positive for QMV expansion and the institutional strengthening of the EP. In the former case again it is yet unclear, how much of the Greek assent can be attributed to efficiency for the implementation of the SMP as the LI theory suggests, or to a ('natural') alliance of a small state with the Commission due to ideological reasons (a sense of agreement with a 'social-democratic Delors, or a sense of Commission 'protecting' the interests of small member-states versus the bigger ones).

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<sup>29</sup> Albeit with the caveats that Moravcsik points out (Moravcsik 1998: 375-378). This is also examined by a greater research project, Maragakis (forthcoming).

<sup>30</sup> For a full elaboration of these alternate views and the primacy of economic interests over them see Maragakis (forthcoming).

This political-economic approach also indicates the difficulty of structural reforms in Greece even in the face of an external restraint like European integration. Following PASOK's electoral defeat in 1990 the government of New Democracy attempted to implement structural reforms, albeit with a 'liberal' agenda. These reforms failed as well<sup>31</sup>. When PASOK came to power in 1993, and particularly after 1996 when it had proclaimed its adherence to the 'new economic orthodoxy', setting EMU as the first and foremost national objective, it still failed to implement any structural changes required for a smooth adjustment to the EMU era (Andreou and Koutsiaras 2004).

Nevertheless, even though the SEA never brought a real new spirit of market liberalization or reforms in Greece, it remains without dispute that it had brought the discussion of Europe at a permanent place in Greek politics.

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<sup>31</sup> Tsakalotos and Liberaki (2002) make a very interesting case for common reasons behind the failure of reforms by the first PASOK government (1981-1985) and the New Democracy government (1990-1993) for a lack of social trust and social capital.

<b>Table 3.1 Economic Aggregates (1981-1989)</b>												
	1960-73	1974-1980	1980-1989	1981	1982	1983	1984	1985	1986	1987	1988	1989
Real growth (GDP)	7,7	3,5	1,8	0,1	0,4	0,4	2,8	3,1	1,6	-0,5	4,5	3,8
Catch-up <i>vis-à-vis</i> the EC (EU12)	46,9	57,4	56,1	57,9	57,4	56,5	56,6	56,9	56,2	54,3	54,4	54,5
Productivity growth	na	1,8	1,1	-2,7	1,3	-0,7	2,5	2,4	1,4	-0,4	3,1	3,4
Employment growth	-0,5	0,7	1,0	5,2	-0,8	1,1	0,4	1,0	0,4	-0,1	1,6	0,4
Investment/GDP	24,6	25,3	21,1	27,4	24,6	25,0	22,8	23,5	22,7	21,1	21,4	22,5
Unemployment	4,6	1,9	7,1	4,0	5,8	7,9	8,1	7,8	7,4	7,4	7,7	7,5
Current account (% of GDP)	-2,9	-3,3	-4,3	-5,4	-4,1	-4,4	-5,2	-8,1	-3,5	-2,2	-1,5	-3,8
General government deficit (% of GDP)	na	-2,2	-9,7	-8,3	-6,5	-7,1	-8,4	-11,5	-10,3	-9,5	-11,5	-14,4
Gross government debt (% of GDP)	na	23,5	45,7	27,1	29,8	34,0	40,9	47,8	48,4	53,3	63,5	66,6
Consumer Price Inflation	3,3	17,5	18,9	24,5	21,0	20,2	18,5	19,3	23,0	16,4	13,5	13,7

Source: Tsakalotos (1998)

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