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Master Thesis

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The Democracy of European Fiscal Consolidation: Reform Governments in Greece, Ireland and Italy

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I have written the Master's thesis independently.

All works and major viewpoints of the other authors, data from other sources of literature and elsewhere used for writing this paper have been referenced.

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Abstract

Are technocratic governments the reformers of last resort? And why are they appointed? Facing the ongoing European debt crisis, some countries choose to put technocrats into reform government offices, while others are able to reform their markets and fiscal structure within regularly elected governments. What differentiates these technocratic from non-technocratic governments in terms of origins and reform efforts? And are technocratic government compositions more able to implement complex market and fiscal reforms in a short period of time when facing difficult institutional settings? In order to answer these questions, this research follows an institutional approach along rational choice theory and the concept of varieties of capitalism. A comparative study of the political economy of Greece, Ireland and Italy examines the different underpinnings that build-up to these reform governments and shows how reform efforts and forms of reform governments, understood as being either partisan or non-partisan composed, vary between different varieties of capitalism. The findings provides evidence that the varieties of capitalism configuration, and the embedded features of economic and political institutions, influence the incentives for counties to appoint technocratic governments when facing an economic crisis, thus advancing an existing model that describes the likelihood of

Keywords: technocracy, technocracy likelihood model, democracy, euro crisis, public debt, EU fiscal policy, varieties of capitalism, Ireland, Italy, Greece

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List of Abbreviations and Acronyms

ADEDY	Civil Servants Confederation
CGIL	Italian General Confederation of Labour
CISL	Italian Confederation of Workers Trade Unions
CME	Coordinated Market Economy (see VOC)
CONFINDUSTRIA	General Confederation of Italian Industry
DV	Dependent Variable
EMU	European Monetary Union
GDP	Gross Domestic Product
GSEE	General Confederation of Greek Workers
HDI	Human Development Index
HPDD	Historical Public Debt Database
IBEC	Irish Business and Employers Confederation
ICTU	Irish Congress of Trade Unions
IMF	International Monetary Fund
intV	Intervening Variable
IV	Independent Variable
LME	Liberal Market Economy (see VOC)
MME	Mixed Market Economy (see VOC)
OCA	Optimum Currency Area
OECD	Organisation for Economic Cooperation and Development
OPBC	Opportunistic Political Business Cycles (see PBC)
PBA	Primary Balance Adjustment

PBC	Political Business Cycle
SEV	Hellenic Federation of Enterprises
SGP	Stability and Growth Pact
UIL	Italian Labour Union
VOC	Varieties of Capitalism

Chapter 1: Introduction

During the European debt crisis some countries appointed non-party-affiliated experts, so called technocrats, to government offices as seen in Greece (Papademos) and Italy (Monti). Both cabinets faced the task to implement hard fiscal and market reforms. This can be viewed as a move endangering the concept of democracy (Hopkin, 2012b), as "Technocratic styles of policy making pose a threat to democracy, because decisions are not subjected to the public scrutiny and dynamics of bargaining that are at the heart of democratic politics" (Bangura, 2004, p. 1). Although it seems plausible at a first glance to appoint outside experts in order to implement different reforms, the bigger picture questions this need for technocratic governments as we can see countries like Ireland where the regularly elected governments imposed market reforms (European Commission, 2014b). This leads to two main puzzles: First, why is it in general hard for governments to impose tight fiscal policy in order to reduce their public debt? Second, focusing on the ongoing European debt crisis and looking at the instalment of technocratic governments in some European countries, why do some countries choose to put external people into reform government offices, while others are able to reform their markets and fiscal structure within regular governments?

This thesis lies therefore at the intersection of two literature strands, which approach the issue of government responses to economic crises from very different directions. Whereas one strand - by far the most popular one - covers the economic factors that constitute the European debt crisis, the other strand deals with technocratic governments as observed in Greece or Italy. This paper tries to combine both strands to form a coherent interest group theory which advances the existing model of technocratic likelihood, and explains why technocratic governments only occur in certain countries when facing pressures for fiscal adjustment.

This research paper is structured as follows: chapter two reviews the existing literature on the concepts that constitute the nuts and bolts of this analysis - namely research on the origins and features of the European debt crisis by looking at the European paradigm of economic policy making and institutional explanations of the crisis, as well as covering the scholarly discussion about technocratic governments - and gives background information that will be used to develop a methodology in order to answer the just stated research puzzles.

The outlined methodological approach in chapter three focuses therefore on the effect of institutional political economy on governmental efforts to reform their fiscal policy under external pressures in connection to their composition (partisan or non-partisan). By combining the varieties of capitalism framework (VOC) with the reviewed technocracy likelihood model, an additional variable that represents the VOC setup of a country, thus advancing the economic crisis parameter of the model, is presented to be included. Chapter 4 covers the empirical assessment and justification for the inclusion of that variable by conducting a comparative case study of three countries which were hit severely by the crisis and experienced large pressure for reform (Greece, Ireland and Italy). The findings indeed highlight the importance of including the mentioned setup when analysing the occurrence of technocratic governments. The findings go in line with one of the main VOC assumptions that backlashes are more likely in countries where policy reforms attempt to change the existing VOC setup. The final chapter is dedicated to a conclusion that points out the need for explanations how economic crises are transformed into incentives for countries to appoint technocratic cabinets and how the proposed advancements can be further developed in future research.

Chapter 2: Literature Review and Theoretical Background

The discussion of technocratic policy making during the European debt crisis hasn't received much scholarly attention yet, and even the question what makes a government technocratic was only addressed very recently. McDonnell and Valbruzzi (2014) define the ideal type of technocratic governments as a situation where major governmental decisions are not made by elected party officials, policy is not decided within parties and the highest officials are not recruited through the party. They identify 24 technocrat-led governments in the post World War II era (out of over 600 government compositions) in the 27 EU member states, thus showing that technocratic governments are rare events. However, their research does not go much beyond a comprehensive definition of technocratic governments, and the occurrence of such governments in the EU during the recent decade is understudied. Existing scholarly works (including works in progress) have either a different geographical focus (Kaplan, 2014), focus on single countries (Culpepper, 2014) or leave the institutional setup of the domestic economy aside by focusing on the party system itself (Pastorella, 2014a, 2014c). This study will close this gap by adopting a comparative approach which focuses on the political economy of the examined countries.

Whereas the connection between technocratic governments and their economic institutional underpinning is an understudied field, the role of interest groups and domestic institutional setups within a country's economy itself that define the extent to which governments can set policy goals and priorities, is well studied (Alesina & Drazen, 1991; Drazen & Grilli, 1993; Persson, 1998; Persson & Tabellini, 2002; Rodrik, 1996). How the appointment of technocratic governments is influenced by these factors is the core of this study.

Beyond assumptions about incumbent governments and their attempts to being re-elected and common pool considerations, the institutional set-up of a country's economy influences the easiness of implementing fiscal adjustments. The typology used in this thesis follows the concept of "Varieties of Capitalism" proposed by Hall and Soskice (2001). In a nutshell it says that there can be two perfect versions of a market economy that lead to a high level of well-being, but have a very different internal structure. Mixed market economies expand this originally dichotomous model and opens it up for the inclusion of Mediterranean countries. One of the findings is that liberal market economies have an easier task in adopting restrictive fiscal policies than coordinated market economies, and therefore also mixed market economies as they can be seen as a subgroup of coordinate market economies (Molina & Rhodes, 2007; Soskice, 2008).

2.1 An overview of the European debt crisis

2.1.1 Paradigms of European economic policy

Before outlining the elements that constitute the current European debt crisis, it is beneficial to take a step back and ask why it is hard for governments to enact fiscal reforms in general, even without the presence of a severe economic or debt crisis, thus leading to situations of debt to GDP (Gross Domestic Product) levels that are too high to be dealt with without severe consequences, as fiscal imprudence severely hampers the long-run economic health of an economy (Evans, Kotlikoff, & Phillips, 2013; Herndon, Ash, & Pollin, 2013). Already a quick look on the economic policies that European countries followed after the Second World War (or since they become independent capitalist countries) shows that they followed the paradigm of Keynesian economics, with the notable exception of Estonia[1]. Keynesian economics, in a nutshell, represents the idea that the business cycle of the economy, the wave form oscillations of up- and downturns of the national economy in terms of GDP representing the outcome of the aggregate demand and supply (Burns & Mitchell, 1946), has to be addressed by the government in an proactive and countercyclical manner, meaning that the government should invest in the economy in times of busts in order to raise national aggregate demand, and save surpluses in times of economic booms (Keynes, 1923), and it should therefore be possible to see overall balanced budgets in the long run, but official figures show that this concept was never entirely followed by European decision makers as national debt to GDP ratios rose constantly during the last decades, usually following the premise of running smaller deficits in boom times and larger deficits in times of recession. Figure 1 illustrates this development on the next page.

[1] One could also mention Liechtenstein as an exception to this general European trend, but due to its size and economic structure, namely the large share of the banking sector, it is hardly comparable to the rest of the European countries

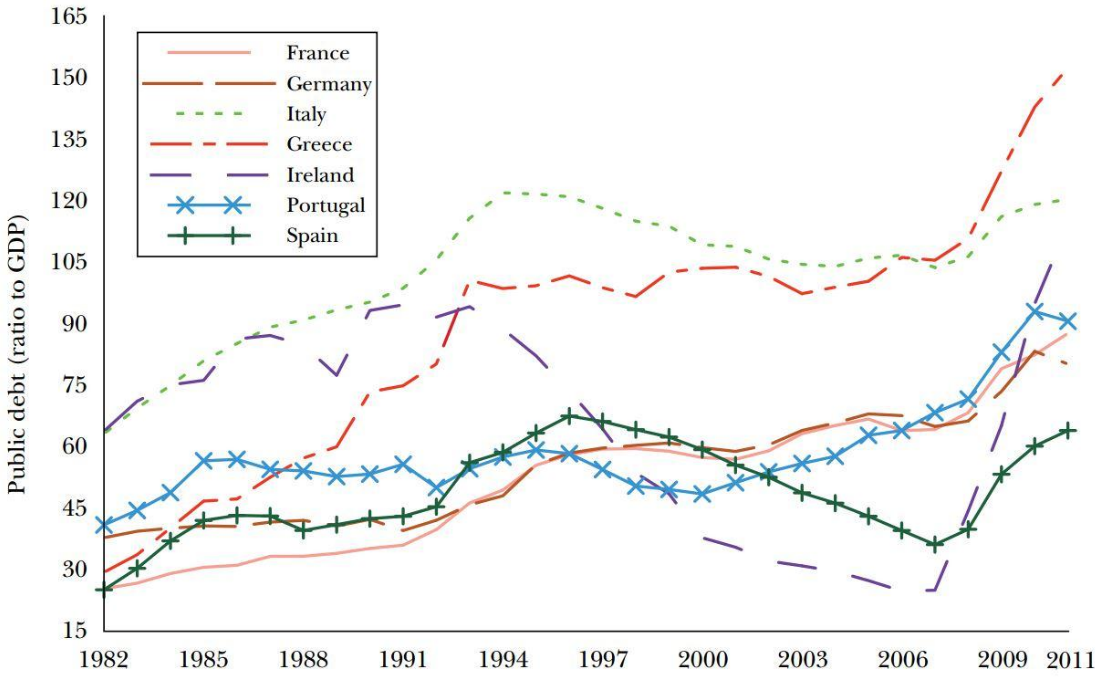

Figure 1: Historical development of public debt in % of GDP.

Source: Lane (2012), based on IMF Public Debt Database

2.1.2 The long-run accumulation of public debt

As already stated, taking on public debt is not necessarily a bad thing, and there are arguments why it can be even a positive thing to do. Besides the mentioned smoothening of the business cycle of the national economy, it is only logical that certain government expenditures, for instance for large infrastructure projects, cannot be financed from the regular annual budget. The problem with unsustainable debt only starts when it accumulates in the long run, thus growing permanently faster than a country's GDP. Kirchgässner (2014) points out different approaches that explain why public debt levels tend to increase in the long run.

First, individual wellbeing, as perceived by the citizens and influenced by a government's economic policy, gives incentives for office holders to increase their re-election chances by using economic policy. Most of the literature that investigates this connection is centred on the question if incumbent governments benefit from deficit spending, starting with the idea of opportunistic political business cycles (OPBC), a model that connects the opportunistic behaviour of politicians and their economic policy, as developed by Nordhaus (1975) and advanced by Persson and Tabellini (1990) and Rogoff (1990). If this assumption was true, we would be able to identify a pattern of public spending during pre-election times, but as studies by Alesina, Cohen, and Roubini (1992) as well as Faust and Irons (1999) show, no such pattern can be identified. In contrast, they show that the political business cycle (PBC) is not *mainly* determined by the actions of opportunistic politicians who use loose fiscal policy to increase their chances for re-election, but by ideological differences between parties and their policy preferences (partisanship), and show strong partisan effects. On the flip side, not much scholarly work has been done regarding the question if voters punish governments that tighten their fiscal policy (instead of being rewarded for deficit spending), but the few authors who analyse the electoral feasibility of PBAs dispute that governments which reduce deficits are voted out of office (Alesina, Carloni, & Lecce, 2010, 2011; Alesina, Perotti, Tavares, Obstfeld, & Eichengreen, 1998; Brender & Drazen, 2008; Buti, Turrini, Noord, & Biroli, 2009) and Alesina et. al. note that they "found no evidence that even large reductions of budget deficits are associated always (or most of the times) with electoral losses" (Alesina et al., 2011, p. 15).

The second strand focuses on the role of conflicts between interest groups and those responsible for budgetary decisions. The more unequal the distribution of the expected costs of adjustment is, the longer it will take for reform measures to happen. As polarization is connected to the distance between parties in terms of ideology (Sartori, 1976), majoritarian countries are expected to be less polarized than consensus-based countries and thus experience adjustments earlier. This is in line with the assumption that a majoritarian electoral design favours two-party systems. Concluding, the incentive to wait for the others to concede is larger in proportional representation systems. Alesina and Drazen (1991) point out that stabilizations happen later in countries with lower political cohesion and a higher number of parties in a cabinet. Empirical assessments, for instance by Alesina et al. (1998), confirm that countries with less political cohesion and proportional election systems run higher budget deficits.

A third approach identifies a common pool problem, similar to the tragedy of the commons (Hardin, 1968), where the different interest groups focus only on their share of the budget, but don't take the overall budget into account, thus leading to a long run accumulation of debt (Kirchgässner, 2014).

2.1.3 The European debt crisis: a more complex story.

Given the fact that almost all countries in the EU accumulated high debt level during the last decades, but only some of them are facing a severe debt crisis, it becomes clear that the story of the European debt crisis must be more complex than just being an outcome of the earlier described factors that make borrowing easier for governments than saving. This subchapter shall thus give a brief overview about the multiple factors that contributed to the current crisis. First of all, the root of the crisis lies at the foundation and setup of the European Monetary Union (EMU) itself, as it provided benefits, especially in terms of low interest rates, to all members despite their given economic asymmetries. By looking at the Optimum Currency Area (OCA) theory (Baldwin & Wyplosz, 2009) and its criteria (labour mobility, production diversification, openness, financial transfers, homogeneity of preferences and solidarity), it is obvious that the EMU does not form an OCA, as it only fully fulfils the criteria of openness and product diversification. Drawing from the OCA theory, it is also clear that an economic shock would hit the EMU members asymmetrically. Assuming that these flaws of the currency union were unknown by the creators of the EMU would be of course wrong, and the convergence of economic policies among EMU members was one of the central goals. The Stability and Growth Pact (SGP) was intended to provide stability to the fiscal development of the Eurozone by preventing countries from taking on too much debt as a consequence of the strong currency[2]. The general set-up of the pact at the time the Eurozone was created aimed at ensuring that the members of the currency union would be bound to follow strict rules of running public debt, thus limiting the risk the Eurozone would suffer as a whole if one country ran excessive public debt. The logic behind this is that if one country runs large debt, this will threat the stability of the financial markets, thus leading to higher interest rates for the other countries as well, no matter if their debt is low or high. One of the key rules was that no country would be

[2] The at this point presented argument why the SGP could not have prevent the European debt crisis in all countries was already presented by the author in another paper, "No EMU without EFU? Advantages and risks of a European fiscal policy", prepared for the course "Economic integration in Europe" with Dr. Andrew Rozeik during the spring term 2014.

allowed to accumulate too high debts, the ceiling was set at 60 per cent of the GDP. Other regulations, such as rules regarding the annual budget deficits, which had also been part of the convergence criteria, have been stressed again. These regulations were extended in the last years, notably by the "Euro-plus-pact" and the Fiscal Compact. This provided some conditionality to countries that intended to adopt the common currency, and although countries reformed their fiscal structures when joining the EMU, most targets set by the SGP were not reached. Nevertheless, countries were still accepted to join the EMU although they did not meet the requirements (Lane, 2012).

With regard to the recent years it can be argued that this set-up was not efficient. First, the rules stated in the Stability and Growth Pact were never enforced, which was visible when France and Germany violated these rules but prevented any sanctions. Second, even if the rules were actually enforceable, Fuest and Peichl (2012) argue that the ongoing debt crisis could not have been prevented: (1) Financial sanctions would have worsened the situation of the countries which are already suffering from high debts, and (2) these rules did not cover the reality of the situation in countries like Ireland or Spain. These countries had only comparably low public debts running for years when they were hit by recession, either by the burst of a real estate bubble or a banking crisis. Fuest and Peichl (2012) come to the conclusion that even good national fiscal policy cannot prevent a country from running high debt in such conditions.

Another, not less important, feature that contributed to the current crisis are institutional factors that create different levels of competitiveness, unveiling the problems that the Southern European countries faced when put together under one currency umbrella together with Northern countries. Hall (2014) points out that the Northern countries were in a good position to take advantage of the new situation as they could easily continue to follow their export strategies and were even benefiting from the elimination of the exchange rate risk. Further they benefited from lower competition on the international markets as the Southern European countries were no longer able to offer their goods cheaper by devaluating their national currencies. Together with strong government efforts to limit the increase of wage rates, the Northern countries were able to increase their competitiveness largely and started to build up large balance-of-payment surpluses. However, the story was different for Southern European countries. Although their accession to the Eurozone also eliminated their exchange rate risks, the overall effect on the countries' strategies was negative as their demand led strategy could not work any longer without the tool of devaluation (which is especially difficult if a country's goods are of a lower quality than those of its competitors). Nevertheless, the country decided to follow its old approach against all odds (this time domestically) as the increased trust in national bonds (due to the integration into the Eurozone) lowered the interest rates for financing on the international markets on an all-time low, thus starting the downwards spiral of large financial flows from banks from Northern countries, although the accumulation of large debt was not entirely the fault of the government alone or a result of excessive deficit spending but was the starting point of a very slippery slope as Hall (2014) notes

> *"Thus, even when the governments of the south did not adopt an expansionary fiscal stance, cheap credit fuelled the expansion of domestic demand. The effects were predictable, if largely unpredicted. With expansion came inflation, which took prices and relative unit labour costs in the south to new heights. Unable to devalue in order to offset the effect of such developments, those countries saw their current-account balances deteriorate as their products became less competitive on world markets, just as competition from the emerging economies of Asia and Eastern Europe intensified. In principle, the ECB could have used its monetary instruments to reduce rates of inflation in southern Europe, but doing so would have risked contraction in the north, where real interest rates were already higher. Instead, the ECB kept its eye on German wage settlements, which set the pattern for agreements in many other parts of northern Europe. The rest, as they say, is history. When the American bubble burst, shaking confidence in global financial markets, investors in European bonds became alarmed by the levels of debt present in Europe and were more reluctant to fund southern European firms and governments, even in countries with public sector deficits and debt lower than those of apparently creditworthy neighbours. For five years, the European Union has been trying to find a way to restore confidence in the financial markets and to find a route out of the deep recession experienced on its periphery."*
>
> (Hall, 2014, p. 1228f.)

2.1.4 Institutions, varieties of capitalism, and the European debt crisis

As politicians do not carry out their policies in some vacuum with no connection to the structures they are imbedded in, including the institutional characteristics of a country in the analysis will be beneficial. These can be understood as mediating factors that alter and shape the actions of political actors when assuming that reform pressure is followed by reform actions by the government. One analytical framework to characterise the political economic institutional setup of a country is the VOC approach as developed by Hall and Soskice (2001). The idea of categorising capitalist economies goes back to the 1960s and the work of Shonfield (1965), and was developed further by various scholars (Katzenstein, 1978; Nordlinger (1981); Skocpol and Amenta (1986)). The VOC approach in particular draws on previous work by Esping-Andersen (1990) that focused on different models of social welfare regimes, defining and grouping them into three categories, namely conservative, liberal and democratic welfare regimes. He argues that these characteristics influence reform processes, and the fight between winners and losers of such reforms makes them considerably difficult.

Hall and Soskice (2001) advanced this approach by including a wider range of characteristics than previously used, resulting in the VOC approach which sees many actors such as governments, individuals or firms trying to influence decision making and promoting their self-interests. The centre of their analysis are firms which are considered to be the main actors to create welfare (by generating economic output). They face a range of coordination problems (such as inter-firm relations, employee relations, or training and education coordination to name a few), and the way they solve these problems constitutes the framework for their analysis: based on these coordination strategies they group western capitalist economies into two categories, namely liberal market economies (LME) and coordinated market economies as shown in table 1 (see next page).

When grouping countries into these two categories it is obvious that LMEs are prevalent in countries that developed from Anglo-Saxon traditions (such as the United States or the United Kingdom), whereas CMEs are strongly connected to Central European and Nordic countries. These two ideal types formulate alternative equilibria for market economies which both lead to equally high welfare. It is worth noticing at this point that neither of the two is considered to be superior to the other as both models have a comparative advantage in different areas of production and attract different kinds of skill acquisitions by employees. This follows the idea that CMEs focus on long term relationships between firms, employees and the governments whereas LMEs are connected with rapidly changing and innovative market relations. Therefore CMEs have a comparative advantage in complex industrial products that require incremental innovation (such as German cars) and employees tend to invest their assets in firm specific skills that require long term training, whereas LMEs have their advantage in the production of goods that require radical, quick and risky innovation (such as American software products) and employees usually invest into switchable skills that make them employable across the entire sector.

Table 1: Institutional differences between LMEs and CMEs.

	LMEs	CMEs
Corporate governance	(a) high stock market capitalisation	(a) credit/bank-based financing
	(b) short-term capital predominant	(b) focus on long-term capital
Industrial relations	(a) low union membership	(a) high union membership
	(b) limited employers' coordination	(b) high membership rates in employers' associations
	(c) decentralised wage bargaining & low coverage of wage agreements	(c) centralised wage bargaining & high coverage of wage agreements
	(d) social dialogue missing	(d) strong social dialogue
Inter-firm relations	(a) based on hierarchy and competition	(a) based on relations and networks
Employee relations	(a) shorter job tenure	(a) longer job tenure
Training and education	(a) focus on general skills	(a) specific skills, strong vocational training

Source: Hall and Soskice (2001)

Based on this framework of analysis, Hall and Soskice (2001) try to find an answer to the widely discussed question if globalization (as well as European integration) lead to a convergence of institutional and economic national characteristics. They conclude that such a convergence is not likely to happen as both types have a comparative advantage and can perfectly coexist with each other (they in fact need each other as no VOC can produce all goods necessary effectively and a convergence would reduce the overall output). Besides their main conclusion, another aspect of their work is of particular interest for this thesis research: as both VOCs lead to high levels of well-being, they assume that globalization processes that move a country away from its VOC setup increase the likelihood of political backlashes.

However, their approach is not without critique. Blyth (2003) criticises the model's heavy reliance on quantifiable data making it too static to reflect reality. This criticism is shared by Hancké, Rhodes, and Thatcher (2008) who see the path-dependence aspect of the VOC model as too static to allow for economic and institutional change. They also criticise that the model neglects the role of conflicts as a result of actors struggling over individual gains, thus making the model apolitical. This latter criticism has to be seen as baseless as Hall and Soskice (2001) take into account the political conflict when moving away from a country's equilibrium point. More useful for the purpose of this research is critique that is focused on the dichotomy of the VOC model (see for instance Hoffmann (2003)), not only because dividing market economies in two groups seems to be overly simplifying, but also because it is nearly impossible to put Southern European economies into either of the two legibly[3].

A useful advancement of the VOC was developed by Becker (2009) who tackled this problem by expanding the model in order to include countries that empirically do not fit well into the original two categories and divides market economies into four categories: liberal, statist, corporatist and meso-communitarian capitalism. He also opened the model for a subtype with large prevalence clientelist behaviour which is mainly present in Mediterranean countries (including Greece, but as we will see in the later analysis also liberal countries such as Ireland show clientelist preferences). He further opens up the rather static original VOC model and puts emphasis on the process of institutional change, thus making the overall model more fluid. This does not mean that countries can change their VOC setup easily or quickly as a struggle between different actors around actions, routines and consequences may as well prevent change. Further useful advancement can be found in the work of Soskice (2008) who expands the approach to include fiscal policy choices, finding that LMEs face an easier task

[3] They are usually characterised as CMEs, but already a look at their overall economic performance shows that their economies are far away from their equilibrium point, thus being less competitive (Molina & Rhodes, 2007)

when making policy decisions than CMEs, as LMEs are more flexible as they don't need to handle the influence of collective bargainers on government spending or cutting. The reason for this is that in CMEs policy making is usually done by a broad national consensus which includes many actors, thus leading to a problem of common pooling: One actor or a group of actors benefits from a certain policy choice, but the costs are shared between the entireness of actors. Further, and this will be of utmost importance when analysing the investigated countries in this research, CMEs (and also their Mediterranean subgroup) face the presence of powerful unions and representative interest groups when dealing with issues such as wage bargainings and industrial relations. As measures that lower wages are an important part of fiscal consolidation (Alesina, 2012), the consensus style of industrial and industry to government relations in CMEs make it difficult to reach such agreements, thus making it more difficult to implement fiscal consolidations measures.

2.1.5 Southern European economies and the Varieties of Capitalism approach

When trying to put the countries of Southern Europe into one of the two categories of the original VOC model, one faces severe difficulties as neither of the two groups suits an empirical assessment of these countries. Therefore these countries are often seen as outliers, exceptions within the VOC approach (Featherstone, 2008). By picking up on the ideas outlined in the previous subchapter and the inclusion of a third category, namely mixed market economies (MME), in the VOC model, the work of Molina and Rhodes (2007) creates a framework that suits countries like Greece or Italy (in fact all the Mediterranean countries) much better (see table 2 on page 22). The characterisation of Southern European countries as MMEs, as used in this thesis, draws heavily on the work by Blavoukos and Pagoulatos (2010), Hassel (2014) and Molina and Rhodes (2007). As Hassel (2014) states, MMEs can be seen as a subgroup of CMEs,

> *"[..]in the sense that the economic actors, trade unions and business organizations have similar organizational features to CMEs. They often hold monopolies, or quasi monopolies, over membership domains and have privileged access to state resources. However, political and economic actors*

do not have similar coordinating capacities as CMEs nor do they use these capacities for autonomous coordination. Rather, organized interests use their resources to lobby the state for protection or compensation."

(Hassel, 2014, p. 7)

In contrast to CME countries, there is no well-established system social partnerships to negotiate the terms of industrial relations and unions, and a range of interest groups tries to promote their own interests, while being often connected to political parties. Given the fragmented nature of interest representation (fragmented both along power as well as businesses), thus not creating a central point for coordination and negotiation, leading to different levels of social protection between employees in the private sector and those employed in the public sector (where the level of security is higher for public sector employees) and between the different kinds of private businesses (where usually the security level is higher for employees of large, formally public, firms).

Summing up, the Southern European economies should not be seen as outliers that don't not fit into the VOC model and left aside, a strategy surprisingly prevalent in academic discussion. Instead, the classification of countries like Greece or Italy as a MMEs, which can be seen as a subgroup from CMEs, benefits the analysis. Clientelism and the fragmentation of industrial coordination lead to a system where measures of protection, labour regulation and welfare exist dually. While some groups of actors enjoy high levels of protection and welfare (usually in the public sector as well as previously state owned firms), others do not enjoy these benefits and are most vulnerable when it comes to paying the costs associated with fiscal reform measures and austerity. In addition, widespread clientelism increases this unequal distribution of benefits as well as burden sharing (Featherstone, 2008, p. 10).

Table 2: Institutional differences between the three varieties of capitalism.

	CMEs	LMEs	MMEs
Dominant form of coordination of micro interactions	Autonomous coordination	Market, arms'-length interactions	Mixed (autonomous + market) with a higher impact of regulation and state mediation
Source of complementarities	Bottom-up induced	Market-induced coherence across policy areas	State regulatory changes aimed at correcting coordination failures may be dysfunctional
Re-enforcing mechanisms (mechanisms of stability)	High permeability of political system to domestic coalitions	High penetration of policymaking by exogenous economic forces	Gate-keeping role of the state: veto power of domestic actors
The horizons	Long-term	Short-term	State regulation may perpetuate long-term inefficient equilibirums
Investment in specific assets	High	Low	Medium-low
Organizational characteristics of interest associations	(a) Employers: strong and well organised in sectors	(a) Employers: fragmented	(a) Employers: fragmented
	(b) Unions: politically strong and well-articulated organisations	(b) Unions: strong firm-level, but fragmented politically weak	(b) Unions: politically strong but fragmented and weakly articulated
Role of the state	Enabling: protects collective goods	Minimum state: guarantees the effective functioning of the market	Pervasive state. Direct production and regulation + correction of coordination failures
Expected reform coalitions	Cross-class	Producer groups, multinational industrial, and financial groups	Class-conflict, fragmented cross-class coalitions (sectorial reform coalitions)

Source: Molina and Rhodes (2007)

2.2 Technocratic crisis governments

Whereas the mechanisms of the European debt crisis, as well as the preceding financial crisis, and the policies connected to them are widely discussed topics in academic analysis and debate, the high number of technocratic governments since 2007 (a comprehensive list of technocratic governments in Europe will be presented later in this text) received surprisingly little scholarly attention that goes beyond a superficial condemning as being a threat to democracy (Bangura, 2004; Hopkin, 2012b; Kramer, 2011). Further, most of the research regarding the democratic accountability of the policies in response to the European debt crisis and European economic governance in general focus on the supra-national level and the transfer of competences to European institutions that are not subjected to democratic control (Habermas, 2011a, 2011b; Scharpf, 2011, 2012, 2013). As technocratic governments are rare events in liberal democracies, their heaped occurrence since the peak of the crisis deserves a closer investigation, especially considering the often stated proposition that they are a foreign imposed threat to European democracies, a claim particularly popular outside of the formal academic discussion (BBC, 2011; Die Zeit, 2011; Hopkin, 2012b; McDonnell, 2013; Schmidt, 2011) . Without a closer look at these national governments, questions regarding their potential impact on democratic accountability and mechanisms of occurrence remain unanswered, the usage of the term *technocracy* vague, and arguments challenging its negative connotations unheard.

2.2.1 What makes a government technocratic?

Before asking questions such as “How many technocrats does it take to make a technocratic government?” (McDonnell & Valbruzzi, 2014, p. 654), it is beneficial to trace the term technocracy back to its origins in Plato’s central work *The Republic*, referring to the rule of the wisest people (in this case philosophers), as only they have a clear view on the true reality. This elite ruling can of course be seen as being contraire to our modern understanding of liberal democracies. By transferring this idea bluntly to the modern era, technocracy can be understood as the rule of people who are experts in their respective fields, may it be economics, science or others, contrasting the idea of rule by politicians, or in very simple terms, central bankers versus party people.

The work of McDonnell and Valbruzzi (2014) offers a useful introduction to the discussion of technocratic governments in the European Union by flipping the parameters that describe the opposite of a technocratic government, namely a party government (Katz, 1987), and define three necessary conditions for an ideal type technocratic government: "(1) All major governmental decisions are not made by elected party officials. (2) Policy is not decided within parties which then act cohesively to enact it. (3) The highest officials (ministers, prime ministers) are not recruited through party" (McDonnell & Valbruzzi, 2014, p. 656). They identify 24 technocrat-led governments in the post World War II era in the 27 EU member states, which vary by the degree of technocracy, from technocrat-led governments with majority of party representatives to cabinets where no office is held by a party nominated person, and they find that fully technocratic governments are extremely rare. However, their research does not go much beyond a comprehensive definition of technocratic governance and their definition of a technocratic governments is only one among several others (Hallerberg & Wehner, 2013; Neto & Lobo, 2009; Tucker et al., 2000), but their classification and framework is the sole exception that has a distinctive cross-country approach that does not focus on a single policy area. Their definition is criticised to some degree by Culpepper (2014) who does not view the 2011 cabinet of Papademos in Greece as technocratic (contraire to popular media claims as it consisted of ministers from the long established parties and was only headed by a technocratic prime minister, thus rejecting the idea of including technocratic-led governments in a technocracy framework. But why shouldn't partisan governments, that broadly support a technocratic prime minister, thus creating a government of unity, be viewed as a technocratic one? Pastorella (2014c) points out the importance of government's claims in terms of being independent experts, neutral vis-à-vis political parties and value-neutral when classifying technocratic governments, as well as the need for being recognized as a technocratic government by the media. Therefore her classification of technocratic governments in the post World War II era in the European Union accounts for a larger number than the one stated by McDonnell and Valbruzzi (2014), identifying

31 technocratic governments between 1945 and 2014 as shown in table 2[4]. For the purpose of this paper her classification has considerable advantages as it allows to create a dichotomous variable for the occurrence of technocratic governments and its emphasis on claims being technocratic, thus connecting the analysis better to the popular debate around technocratic governments which takes place mainly within popular media.

Table 3: Technocratic Governments in the EU Member States, 1945 – 2014.

	Country	Prime Minister	Start Year	End Year
1	Bulgaria	Popov	1990	1991
2	Bulgaria	Berov	1992	1994
3	Bulgaria	Indzhova	1994	1994
4	Bulgaria	Raykov	2013	2013
5	Czech Republic	Tosovsky	1998	1998
6	Czech Republic	Fischer	2009	2010
7	Czech Republic	Rusnok	2013	2014
8	Finland	Tuomioja	1953	1954
9	Finland	von Fieandt	1957	1958
10	Finland	Kuuskoski	1958	1958
11	Finland	Lehto	1963	1964
12	Finland	Aura I	1970	1970
13	Finland	Aura II	1971	1972
14	Finland	Liinamaa	1975	1975
15	Greece	Grivas	1989	1989
16	Greece	Zolotas I	1989	1990
17	Greece	Zolotas II	1990	1990
18	Greece	Papademos	2011	2012
19	Greece	Pikrammenos	2012	2012
20	Hungary	Bajnai	2009	2010
21	Italy	Ciampi	1993	1994
22	Italy	Dini	1995	1996
23	Italy	Monti	2011	2013
24	Latvia	Skele	1995	1997
25	Poland	Belka	2004	2005
26	Portugal	Nobre de Costa	1978	1978
27	Portugal	Monta Pinto	1978	1979
28	Portugal	Pintassilgo	1979	1979
29	Romania	Văcăroiu I	1992	1994
30	Romania	Văcăroiu II	1994	1996
31	Romania	Văcăroiu II	1996	1996

[4] The discrepancy between her stated 32 observations and the mentioned number of 31 in this paper is grounded in a flaw in her table of observations of technocratic governments (double count of one entry) (Pastorella, 2014c, pp. 2-4)

Source: Pastorella (2014c), corrections by author

Already a quick view on this list of technocratic governments shows that the vast majority of them held offices for a very short time period, often not exceeding a couple of months. This raises the questions if all 31 observations can indeed be seen as true technocratic governments that decide on major policy issues, as a large share of them can be seen as being *caretaker governments* that hold office only to deal with the everyday tasks of governments until the next elections, and preparing these elections is often a main task of these short-termed caretaker governments (McDonnell, 2013; McDonnell & Valbruzzi, 2014; Pastorella, 2014a; Vasilopoulou & Halikiopouou, 2013). When excluding this special type of government, it shows that only four cabinets qualify for the term non-caretaker technocratic government since the outbreak of the European financial and debt crisis as shown in table 4.

Table 4: Non-caretaker technocratic governments since 2007.

	Country	**Prime Minister**	**Period**
1	Hungary	Bajnai	2009 – 2010
2	Czech Republic	Fischer	2009 – 2010
3	Greece	Papademos	2011 – 2012
4	Monti	Monti	2011 - 2013

Source: McDonnell and Valbruzzi (2014)

Although the discussion around the reasons for the occurrence of technocratic governments will be the focus of a later chapter in this paper (Chapter 2.2.3), it is already worth pointing out the common policies adopted or implemented by these governments: fiscal adjustments via austerity measures (McDonnell & Valbruzzi, 2014, p. 663). As this thesis focuses on the role of technocratic governments during the European debt crisis, these cabinets are of particular interest.

2.2.2 Technocratic governments and democracy

Are technocratic governments endangering the concept of democracy in Europe (Dargent, 2014; Financial Times, 2011; Hopkin, 2012b; Radaelli, 1999; The Economist, 2011; The Telegraph, 2014), or can they be just understood as *democracy by other means* (Pastorella, 2014b) and are therefore not threatening democracies at all

(Schuldson, 2006; Williams, 2006)? As it is not the main objective of this thesis to come to a final conclusion on the relationship between technocracy and democracy, but to contribute to the discussion around their origins and explanations for their appointment, only some counterarguments that challenge the widely held and sometimes intuitive accusation towards technocratic governments of being undemocratic will be presented briefly in order to prevent the impression of taking a negative normative stance on these cabinets. Referring to Runciman (2012), Motha (2012) argues that allowing for technocratic governments can be actually seen as a strength of democracies as they can suspend themselves in times of exceptional circumstances[5], thus preventing a shift towards autocracy by using technocracy as a valve. The distinguishing feature here is that technocracies allow the previous system of rule to return, which is not the case for autocracies. Pastorella (2014b) identifies five strands of common criticisms towards technocratic governments, which are categorised as (1) the rule of law, (2) the break of the chain of delegation and less electoral accountability, (3) undermining political parties and party government, (4) lack of political competition and people's participation and (5) a neoliberal problem. She further presents arguments that challenge the criticism within each of these categories[6]: First, regarding the rule of law and the accusation that technocratic governments don't go in line with constitutional principles, it can be seen that in those countries that experienced technocratic cabinets constitutions often not only allow them, but sometimes explicitly call for such solutions in certain circumstances (for instance Greece where the constitution requires the appointment of the president of the supreme court to form a government in case that all attempts for government formation fail). Second, referring to the break of the chain of delegation and a reduction of democratic accountability (Neto & Strøm, 2006), it can be argued that parties in parliaments still have control over the government, independent of its partisan or non-partisan composition. Further, as again evidence from countries that had technocratic governments show, such cabinets often not only enjoy large support from parliamentarians, but that support is also often cross-partisan, as technocratic

[5] See Schmitt (1923)

[6] Pastorella's paper focuses on claims towards actual technocratic governments that occurred during the last decade and the mechanisms of their policy making, an approach sufficient for the purpose of this chapter. For a more theoretical discussion about a technocratic mind-set see for instance Ribbhagen (2011).

governments are often governments of national unity. Third, drawing on the criticism that technocratic governments undermine parties and party governments, a technocratic government can be understood as representing the actual will of the electorate as it is common that in scenarios where a technocratic cabinet is appointed, public trust and support for traditional parties is very low, and a technocratic government can be therefore seen not as the cause, but as a symptom of a weakened party democracy (Pastorella (2014b) referring to Hanley (2013)). Fourth, regarding the lack of political competition and the claim that there is no place for criticism of policies and propositions during technocratic governments, it can be argued that evidence shows that technocratic ministers had to justify their policies even more than partisan ministers, and their deliberation of policies can be even more honest as they don’t have to worry about an upcoming election. Fifth, drawing on the claim that technocratic governments have a imported neoliberal bias, it can be stated that, as the ideology of the appointed people is usually well known, they do not import a neoliberal agenda from outside after their appointment, but are selected and appointed because of their already existing ideological stance. Staying away from decision making that is based on ideology and focusing on efficiency and pace can therefore be seen as a certain ideology itself. A further common claim towards technocratic governments is that they are more responsive to external pressures, a view particularly held in connection to the ongoing European debt crisis and measures of austerity (Pasquino & Valbruzzi, 2012). However, it is not really clear why such cabinets should be more responsive to external pressures as the concept of a technocratic government itself makes them react less outside calls. As a conclusion it shall be pointed out that the widespread accusation of technocratic governments being generally undemocratic can be, at least, challenged and should not be taken for granted. Taking these arguments into account, as well as the fact that all democracies in the European Union that appointed technocratic cabinets temporarily returned to classic partisan government compositions after some time, a neutral stance on technocratic governments, a view represented in this paper, can be justified.

2.2.3 Explaining the occurrence of technocratic governments

As already identified, technocratic governments are rare events in European democracies, and their heaped occurrence since the outbreak of the European financial and debt crisis is puzzling, thus raising the question about underlying factors that make partisan governments shift towards technocratic ones. But what these factors are is only vaguely known at this point, and whereas research that looks at selected technocratic governments is widely published (Adinolfi (2013); Bickerton and Accetti (2013); Ciaglia and Mazzoni (2014); Culpepper (2014); Featherstone, Kazamias, and Papadimitriou (2001); Maragoni (2012); Marangoni and Verzichelli (2014); Tucker et al. (2000); Verzichelli (2012)), this is surprisingly not the case for systematic studies that try to identify what parameters increase the likelihood of technocratic governments across countries, and to the author's knowledge, Kaplan (2014) and Pastorella (2014c) are the only scholarly publications where the authors developed a likelihood model for technocratic governments. Both proposed models put emphasis on the impact of economic crises (the later in this paper proposed advancement to the model draws on this emphasis), but Kaplan's sole focus on Latin American countries makes it hardly usable for the analysis of technocratic governments in Europe. For this purpose Pastorella's model is of great use. Starting from two scenarios where a shift to a technocratic cabinet can happen, namely cabinet dissolutions that are not followed by elections immediately and deadlocks in the process of government formation, she identifies six variables, two institutional and four contingent ones, which have an impact on the likelihood of a technocratic government as seen in table 5.

Table 5: Technocracy likelihood model, variables and their impact.

Institutional	Impact	Contingent	Impact
Monarch	-3.216	Scandal	1.630
Constructive vote of no confidence	-0.754	Economic crisis	0.729
		Party system fragmentation	0.243
		Head of state powers	0.069

Source: Pastorella (2014c)

The calculated impact of these variables largely confirms some general thinking about the conditions that motivate countries to appoint a technocratic governments as seen in table 6 and 7.

Table 6: Likelihood model, institutional variables and their logic

Variable	**Logic**
Monarch	Monarchs are expected to be the least powerful heads of state and monarchs will not exert more than their formal powers of cabinet appointment (avoiding the impression of an attempt to bring back absolute monarchical rule)
Constructive vote of no confidence	Parliament must find a majority to agree on a new prime minister at the same time when voting on a confidence withdrawal for the government in office, thus making it harder to use it as a strategic instrument

Source: Pastorella (2014c)

Table 7: Likelihood model, contingent variables and their logic

Variable	**Logic**
Scandal	Public opinion shocks opens the political space for new actors, electorate is more prone to accept a technocratic government when political elites are involved in a scandal
Economic crisis	Technocrats in leading government positions reassure both markets and voters that necessary reforms will be carried out rapidly, and parties might be able to avoid being blamed for the costs connected to these reforms
Party system fragmentation	Legislative fragmentation correlates with younger political parties whose electorate's support is not purely based on long-established ideological identification and might accept a technocratic solution more than established parties
Head of state powers	Evidence that number of non-partisan ministers is higher in presidential and semi-presidential systems and the appointment of cabinets can be used to maximise the ability of the head of state to follow own policy goals

Source: Pastorella (2014c)

Given the presence of the largest economic crisis in the history of the Eurozone and the observation of a comparably high number of technocratic governments during that period, the economic crisis variable deserves some special attention, especially as the term *economic crisis* includes a vast diversity of crises, for instance banking, credit and debt crises. Pastorella's model is therefore limited to some extend as it does not allow for variation in regard to the presence of an economic crisis. As outlined in the previous chapter on the European debt crisis, countries belonging to different varieties of capitalism are expected to be not only hit in different ways by the crisis, but also to react differently in the sense that their different institutional setup modifies the impact on governments. How this economic crisis variable can be advanced by including a Varieties of Capitalism perspective will be described in the following chapter.

Chapter 3: Research Questions, Hypotheses and Research Design

3.1 Research puzzle, questions and hypotheses

Drawing on the reviewed literature, the question why only some governments appoint technocratic governments when facing severe pressure for fiscal consolidation remains unanswered. As shown in the previous chapter, allowing for only one dichotomous variable in the technocracy likelihood model that refers to the current European debt crisis is problematic as it hides the variety of ways in which countries have to deal with their debt levels, bailouts and fiscal adjustments. The main research question can be thus stated as:

RQ1: Why were technocratic governments appointed only in a small number of countries, although the majority of countries faced the same economic crisis and similar pressures for austerity measures?

Referring to the previously described technocracy likelihood model and keeping its limitations in connection to the economic crisis in mind, the main hypothesis proposes an answer to this question. By bringing in an institutional perspective that follows the outlined varieties of capitalism approach and making use of the model of three varieties of capitalism as introduced by Molina and Rhodes (2007), thus bridging both theoretical perspectives, I propose the inclusion of a new variable, namely the VOC category of a country. This follows the idea that backlashes, both among the public as well as within politics, are more likely in MMEs for two main reasons: Their institutional setup is the furthest away from the liberal reforms there are pressured to adopt (making adjustments more costly and generating positive effects only in the medium to long run) and they are lacking coordination mechanisms that could mediate adjustment processes.

H1: The appointment of a technocratic government is more likely in MME countries than in countries with other VOC setups.

This proposal is based on the finding that MMEs realise only considerably smaller deficit reductions when running a periods of fiscal consolidation (table 8). Further, as MMEs tend to consolidate their budgets by increasing their revenue (either by one time effects generated by the selling of public assets or increased taxes), but not by cutting their expenditures (figure 2), backlashes are expected to be larger when facing need for adopting measures of austerity, may they be externally imposed or not. We can therefore identify a cluster of MME countries that usually consolidates their finances differently from CME and LME countries. The backlashes thus increase the incentives for countries to appoint technocratic governments during such economic crises.

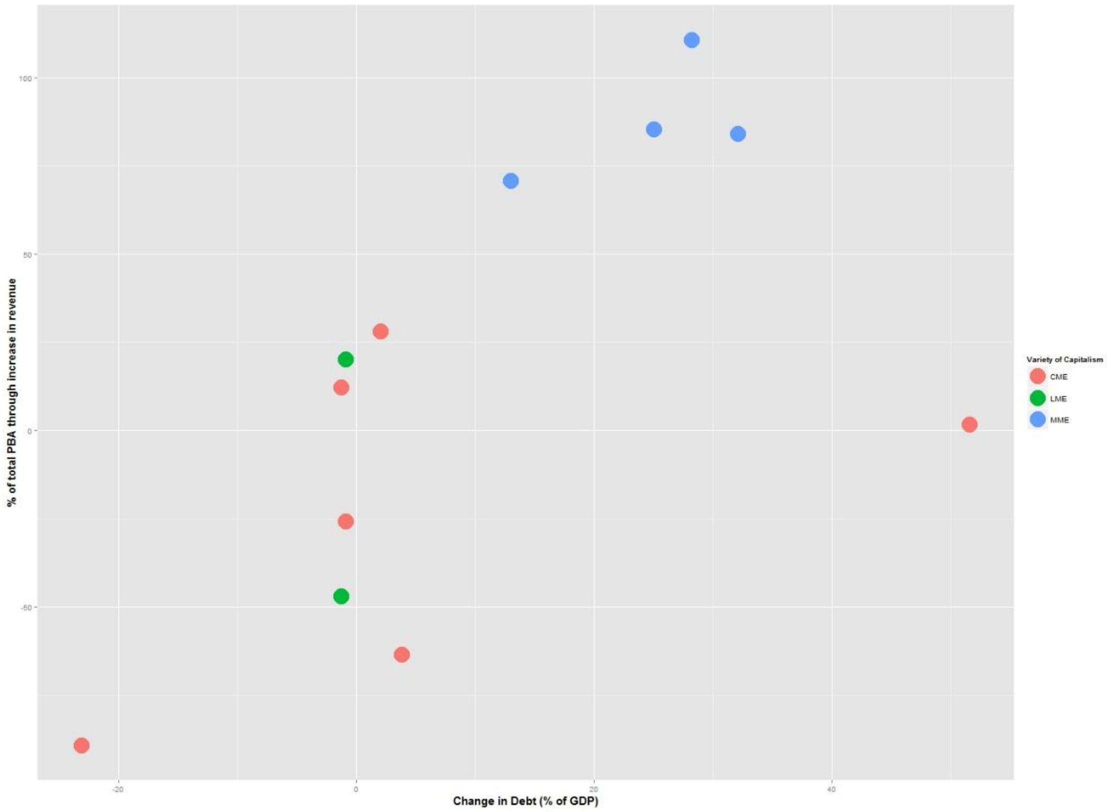

Figure 2: Relationship between primary balance adjustment composition and long term effect of PBA on debt during 12 largest fiscal adjustment periods in the EU

Source: Gros and Alcidi (2010), classification of VOC by author, MME countries include Greece, Ireland, Italy and France

Table 8: VOC classification of large debt decreases.

VOC	Average Duration (years)	Average Decrease (% GDP)	Average Decrease per Year (% GDP)
CME	11,25	30,17	2,77
LME	11,90	47,45	3,98
MME	11,20	23,00	2,16
Total / Average	11,45	33,54	2,97

Source: Abbas, Belhocine, El-Ganainy, and Horton (2011), calculations based on IMF HPPD

Bridging the two theoretical perspectives will be useful in several ways, and the following stated hypotheses are meant to make the connection between a countries VOC setup and the form of crisis government (technocratic or partisan) visible. First, compared with LME and CME countries, the positive effects of fiscal adjustments are expected to be smaller and happen only during a longer time horizon in MME countries. For governments this has the effect of reducing the need for avoiding being blamed for the implementation of adjustment measures (the incentive might even be contraire and governments try to collect the electoral rewards for bringing the economy back on track[7]).

H1.1: MME countries realise the benefits of adjustments later than other VOCs, thus raising the incentives for governments to avoid blame.

Second, taking into account the evidence from previous large fiscal adjustments, MME countries have no history of consolidating their budgets via cutting expenditures. Therefore austerity measures, as demanded by the troika or financial markets, go against the VOC features (in terms of established institutions) of MME countries.

[7] This refers to the idea of the economic vote of the electorate, see for instance Boix and Stokes (2007) and Lewis-Beck and Paldam (2000)

H1.2: Cutting expenditures is harder in MME countries as interest groups have more power to make use of veto points.

Third, looking at the unequally distributed share of employees being represented by powerful unions and socially protected, which can be viewed as a conflict between insiders versus outsiders, or the private versus public sector, makes cross-class conflicts more likely. This conflicts further lack the mediation of social pacts, thus making it harder for partisan governments to adopt adjustment measures as they are more vulnerable to veto points.

H1.3: The heterogenic spread of employees' protection and union representation in connection to the absence of social pacts make it harder for partisan governments in MME countries to adopt fiscal adjustments.

3.2 Dependent and independent variables

In order to analyse the connection between the presence of an economic crises, the institutional characteristics of a country, and their effect on the form of crisis government (technocratic or partisan), the mapping of the elements under investigation, which form the used variables, is straight forward. The need for fiscal reform forms the independent variable (IV) and can be operationalised as the concurrence of dangerously high debt levels or high interest rates for government bonds in connection to the presence of an economic crisis. As the shift towards a technocratic crisis government constitutes the main focus of this research it forms the dependent variable (DV). For the purpose of this research it is enough to just state that this variable has a ‘true’ value if it fits the definition of a technocratic government as described in chapter 2.2. As the IV has the same true value for the vast majority of countries in the Eurozone during the current crisis, namely the presence of such a need for fiscal reform, an intervening variable (intV) that explains the different outcomes has to be included. This intV is formulated by a countries dominant variety of capitalism and can be either LME, CME or MME.

In connection to the technocracy likelihood framework, it is justified for the purpose of this research, namely finding an answer why technocratic governments have only been appointed in some of the Eurozone countries as well as pointing out the advantages of advancing that model with a VOC variable, to focus that intV during the following case study. In that case the other variables that are included in the model (monarchy, constructive vote of no confidence, scandal, party system fragmentation, and head of state powers) have to be held constant, which has to be taken into account when selecting cases.

IV		intV		DV
Need for fiscal reform	➡	VOC setup	➡	Form of crisis government

Figure 3: Map of variables under investigation

3.3 Method, case selection and data

As it is visible in chapter 4 where the stated hypotheses are assessed empirically, a quantitative analysis that makes use of statistic techniques is not enough to understand the reality in countries under crisis as well as the influence of VOC setups on the reform process and government compositions. This is especially problematic as only a small number of countries qualify for an analysis of VOC impacts on fiscal reform processes. For this purpose, a comparative qualitative analysis of the reform process in Greece, Ireland and Italy will be carried out. At first, the VOC characteristics of each country are described in detail. Starting from there, the countries' economic problems (in connection to their VOC characteristics) that lead to dangerously high levels of debt to GDP ratios and interest rates for governmental bonds will be laid out. Subsequently, the reform processes that took place in these countries will be analysed, with a special focus on interest group pressure on the formulation of reform measures and their political implementation. This analysis will follow the structure of the previously stated hypotheses.

A small n research design is chosen for this comparison. This decision is based on the desire to figure out what causes governmental shifts towards technocratic governance and to uncover the various factors that influence these procedures. Beside that consideration, the focus on countries that suffer from the European deb crisis and thus had to seek for help from the international financial institutions as a result of very high debt to GDP ratios and bond interest rates, which made re-financing on the bond markets too costly or even impossible, and being limited to fiscal policy reforms as they are part of the common European currency, thus not having monetary policy in their own national hands anymore, already limits the available number of countries to quite a few. Within the concept of a small n research, I will choose a most similar system design (MSSD) to conduct my study. This makes sense: First, the focus on a specific geographical area already favours a MSSD design (Gschwend & Schimmelfennig, 2011). Second, the countries in focus all share a common set of indicators (like being open economies, Eurozone members, electoral democracies, similar levels of development (UNDP, 2013)). Third, the outcome of the countries is obviously different, as only a minority of countries face shifts towards technocracy. Therefore it is necessary to look for an explanation for that difference in outcome (reform measures carried out by technocratic governments or by a partisan government). Choosing Greece and Italy as countries representing the MME value for the proposed additional VOC variable comes naturally as all other countries in that VOC group do not qualify for the previously described need for holding the other variables of the technocracy likelihood model constant: Spain is a monarchy and Portugal as well as France are semi-presidential republics. Picking Ireland as the counterpart that faced similar reform pressures, but experienced a different crisis government composition and belongs to the LME category comes natural as well, as no other LME country is a member of the Eurozone.

Regarding original data, the analysis will make mainly use of reports from the European Commission, Eurostat, as well as press releases of Irish unions and employers' federations. When attempting to analyse the press release of Greek and Italian unions as well as other interest groups in those countries, the research faces the problem that documents and statements released by these Greek and Italian institutions are often not available in English. In that case this research makes use of secondary sources.

Chapter 4: Comparative Case Study

4.1 Introducing the cases, their VOC setups, and crisis impact

As mentioned in the literature review, countries like Greece or Italy do not fit into the original VOC model, but the proposed model of three varieties of capitalism satisfies their needs, and they can be put into the MME category of countries. The institutional setup of Greece goes well in line with the configuration of MME countries (Featherstone, 2008), as bargaining is centralised and well regulated by the state. Further, its production system (the sum of firms) is fragmented, as are social protection mechanisms (welfare, labour market, and employment regulations): The majority of employees in the public sector enjoys high levels of security, whereas employees of the private sector, especially those in small and medium enterprises, lack such security. Italy largely reflects the same structure as bargaining is centralised but also struggles to deliver collective goods (Molina & Rhodes, 2007), and the country also shows a severe gap in terms of social protection of public sector and private sector employees. This difference can also be seen between older employees that joined firms a decade ago, and young people who are mainly employed on the basis of short term fixed contracts (Bloomberg, 2011; Tealdi, 2011). Further, just as in Greece, a long history of industrial relations conflicts make it difficult to reach consensus across classes or between insiders (those within protected sectors) and outsiders, and in both countries the state uses its powers to intervene in the economy in order to compensate for the shortcomings of flawed bargaining processes and the lack of collective good provision (Molina & Rhodes, 2007).

Regarding union representation it can be stated that unions are politically strong and can make effective use of veto points in order to block reforms, but are highly fragmented and do not engage in a collective social partnership arrangement. Featherstone (2008), referring to the institutional setup of Greece, notes that

> *"the structure of conflict is strongly marked by the mode of representation within the major bodies. Both the union (GSEE and ADEDY) and employers' (SEV) federations have internal representation that is skewed towards certain groups, over-playing their interests. In the union confederations,*

disproportionate strength has been enjoyed by employees of the public sector, affecting the stance of the leadership on key economic and social issues. At the same time, the employers' federation has displayed the predominance of the few very large firms (some ex-state monopolies). This has favoured the distinctive interests of those who have benefited from the prevailing market regulations, barriers to entry, and stable product demand."

(Featherstone, 2008, p. 7)

Similar features are found within the Italian case regarding union representation. The three main trade unions are the CGIL (Italian General Confederation of Labour), CISL (Italian Confederation of Workers Trade Unions) and UIL (Italian Labour Union), representing a total of 12.5 million members, and they have to work with the fact that most companies they deal with are small enterprises, whereas large private firms only account for a few numbers. The average union density is around 30%. Namuth (2012) further describes that

"[..] strategies of the three federations are diverging strongly. Only CGIL possesses the required strength for mass mobilisations, and is usually able to count on additional support on demonstrations from the ranks of the moderate left Partito Democratico and the smaller left-wing parties. This strength has been applied successfully in recent years to protest against Berlusconi and to apply pressure against the cuts put forward by the Monti government."

(Namuth, 2012, p. 5)

In addition to this already rather inefficient bargaining and union system, the Greek government suffers from a very high share of black economy, thus a large share of taxes never make it to the government. In their analysis of the Greek shadow economy Berger, Pickhardt, Pitsoulis, Prinz, and Sardà (2013, p. 11) estimate that the black economy's size reached around 60% of GDP in 2008 (as compared to around 5% in Germany or 10% in Spain). They also show that such a high prevalence of a shadow economy crates negative effects on a countrie's fiscal policy (Berger et al., 2013, p. 13). Summing up, the absence of a collective bargaining system, the presence of fragmented union representation and a dual security system, as well as features of clientelism, make

Greece a prime example of a MME country. As stated earlier, MMEs tend to underperform, therefore one can already assume that the Greek economy was growing slower than LMEs or CMEs in the last decade by simple logic reasoning. After joining the Eurozone[8] Greece lost control over its monetary policy which is considered to be a crucial tool for export-led and tourism dependent Mediterranean countries. This characterised a drastic turn as it was no longer possible for these countries to devalue their currency in order to lower the price of their exports or make tourism more affordable to foreigners. Combined with the problems that derive from the MME setup of the Greek economy it is now clear that the heavy capital inflow since the adoption of the euro intensified the dilemma created by imbalances in terms of competitiveness of national economies, thus leading to very high debt levels[9]. The Italian story of the European debt crisis reads similar to the Greek one as it is also grounded in a loss of competitiveness and a relaxation of austere policies after the country successfully entered the Eurozone, a process reinforced after the election victory of Silvio Berlusconi in 2001 who promised to cut taxes, but left public spending untouched (Hopkin, 2012a) and in 2011 the countries debt to GDP level reached 120%. Hopkin further states that although Italy was in a more stable position than other countries in Southern Europe, debt levels as well as interest rates on government bonds (the price a country has to pay to finance their debt) reached unsustainable heights, leaving the country in a de-facto state of bankruptcy (Orsi, 2013).

While both Greece and Italy can be described as countries where corporatist structures are dense, Ireland is very much the opposite (Hall & Gingerich, 2009). Within the original VOC model, Ireland is usually characterised as a liberal market economy and it definitely shares many of the characteristics connected to LMEs such as the domination of market mechanisms for economic coordination. Its production structure also fits the LME category well, as the banking and IT sector, which are seeking for risky

[8] The entire debate around the Greek accession to the Eurozone shall not be part of this study here, although it is worth to note that this process did not happen smoothly and Greece tricked is way into the Eurozone. For a detailed analysis see Bitzenis and Makedos (2013)
[9] For a general description why the features of MME countries (Southern European countries) contributed to unsustainably high debt levels see chapter 2.1.3 in this thesis

innovations and relying on a fluid “hire-and-fire” mentality and a largely unregulated product market, are dominating the Irish economy.

Despite the expectation, the rate of employees which are members union members is surprisingly high at a rate of 32.3% (OECD, 2013). Nevertheless, in CME countries trade unions can maintain their strength in negotiations despite lower rates of membership due to their mobilization capacities when calling for strikes (Thelen & van Wijnbergen, 2003). Further, when looking on the composition of the Irish economy it becomes clear that a large share of the country’s biggest companies are American, which is a result of Ireland’s attempt to attract large foreign investments since the 1990s. Within these American companies, over 80% do not recognise unions (Roche, 2001). Further there is no mandatory membership in employers’ umbrella organisations and wage bargaining is not very centralized, but in fact, the social dialogue, the negotiations between employers and unions, is tripartite and consist of the government, the Irish Congress of Trade Unions (ICTU) and the Irish Business and Employers Confederation (IBEC). Uncommon for a liberal market economy, this represents a social partnership structure. Nevertheless, an important characteristic here is that the government takes part in these negotiations, thus making it more likely that negotiation outcomes are similar to the demands made by the governments (and therefore in line with reform measures). It is therefore likely that higher competitiveness through lower wages is considerably easier to achieve in Ireland compared to other countries in the Eurozone as interest group pressure is lower and moderated by the government (McGuinness, Kelly, & O'Connell, 2008). Social protection is an issue where Ireland resembles a typical LME again as employment protection is low and the labour market is characterised by high flexibility. By combining characteristics of LMEs with certain centralized coordination elements that are typical for CMEs (Antoniades, 2007), Ireland constitutes a case that is difficult to put into a VOC category. Nevertheless, for the sake of this analysis it is legit to put Ireland into the category of LME countries as the overall structure of the economy is characterized by a liberal and deregulated Anglo-Saxon model and elements of CME countries are implemented in a way that make collective interest representation, and therefore their success when trying to push for certain policies, less effective. Taking this combination into account one can assume that reform measures, as set by the government, are not only supported by a larger share of actors as they feel heard during the reform process, but are also easier to implement as interest groups don't have an easy way to block them. This way Ireland remains a liberal market economy country, but the legitimacy of reform measures benefits from that social partnership (Daly, 2005).

A look at Ireland's debt to GDP ratio over time shows that the country's deficits where considerably low which goes in line with the general finding of chapter 4.1 that LME countries on average accumulate lower levels of debt, and when doing so, only run deficits for a shorter period of time. In fact, Ireland managed to achieve a very high reduction of its debt to GDP level since the 1990s (from over 100% in the early 1990s to 25% of GDP in 2008 before it got hit by the crisis). This reduction of debt was mainly driven by an expansion of the economic output which followed a strategy that was focused on export and foreign direct investment (FDI). Growth rates were actually so high that the country was widely labelled the "celtic tiger" (Chari & Bernhagen, 2011; Crafts, 2008). Nevertheless, this boom ended in the 2000s and Ireland now was labelled a dead Celtic Tiger and scholarly attention focused on its end (Donovan & Murphy, 2013). But besides the end of the economic boom, Ireland got hit hard by the European economic crisis, in particular its banking sector with its large amounts of risky assets, mainly in the housing and property sector, which was an investment in a property bubble that burst by the end of the 2000s. Compared to most other European countries that suffered severely from the crisis, it was not a decade long accumulation of high debt levels that brought the country to the brink of bankruptcy, but the debt to GDP ratio rose sharply in a short time when the government decided to save the banks that were in trouble the deepest[10]. Nevertheless, these bailouts don't tell the full story, and an investigation of the Irish banking regulatory regime shows that it features a characteristic that is usually associated with MME or Mediterranean countries: clientelism. Chari and Bernhagen (2011) see a close connection between the state, banks, and the real estate industry and mention a common change of staff positions between these three sectors, thus leading to a negative effect on the independence of the Irish Central Bank and the country's regulatory institutions. They also uncover lobbying activities targeted at the national government. By having a look at the Irish economic development the difficulties that emerged when classifying Ireland as a specific variety

[10] If such bailouts are necessary or useful is part of a wider debate, see for instance Miller (2011) and Cordella and Yeyati (2003), that cannot be discussed within this paper

of capitalism just continue when framing the country's positions at the height of the European economic crisis as it combines a regime that is primary based on fluid market mechanisms, which in times of reform benefit from a social partnership that includes the government itself, with clientelistic features that one would not necessarily expect to see in a LME country. Figures 4, 5, and 6 illustrate these developments.

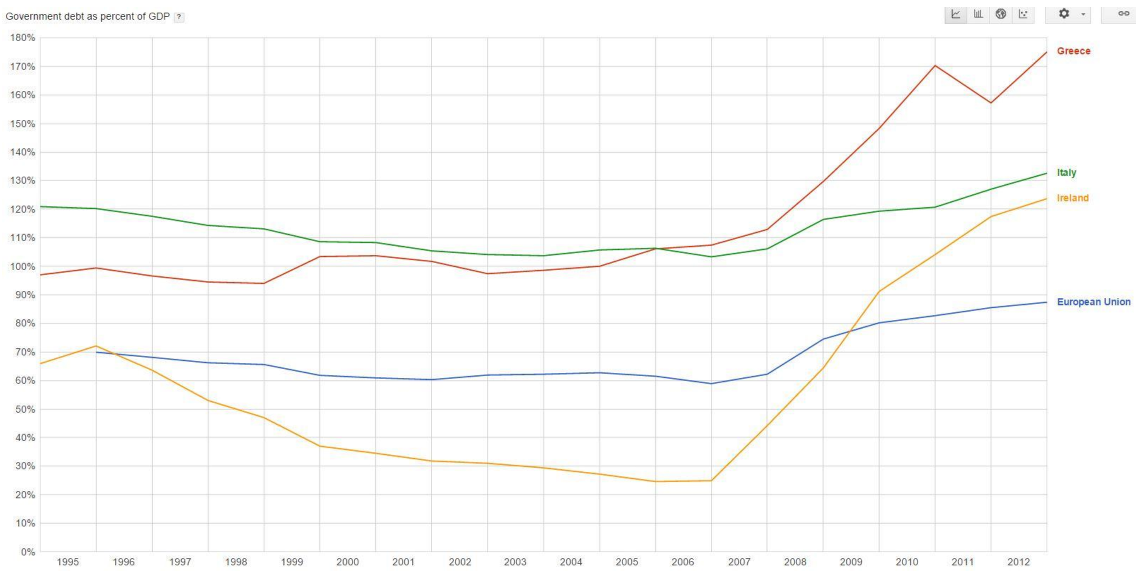

Figure 4: Development of public debt to GDP ratios, 1995 – 2012.

Source: Eurostat

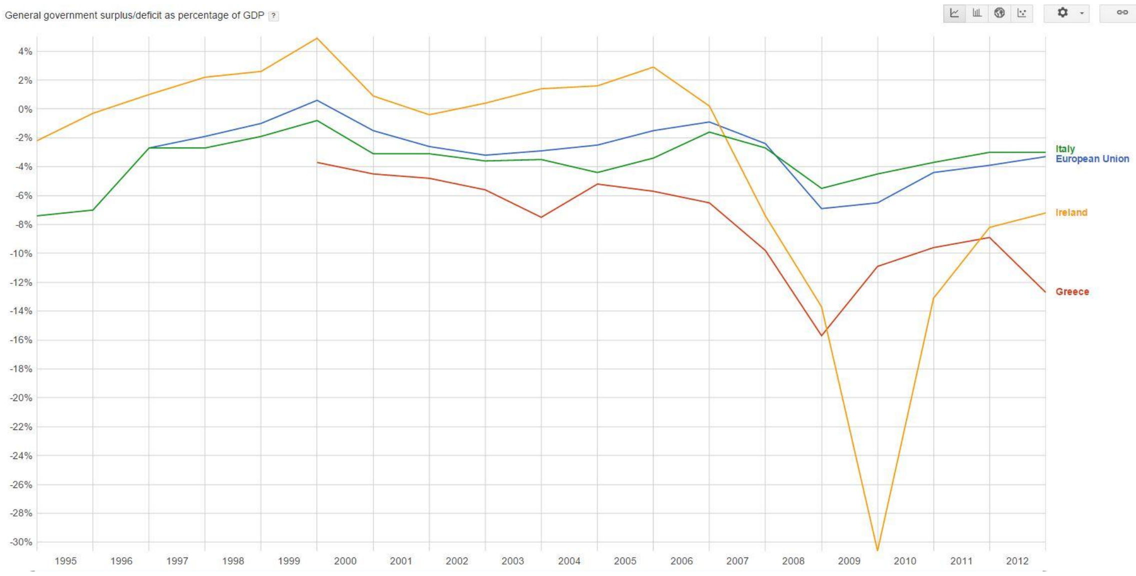

Figure 5: Development of central government surplus/deficit as % of GDP, 1995 – 2012.

Source: Eurostat

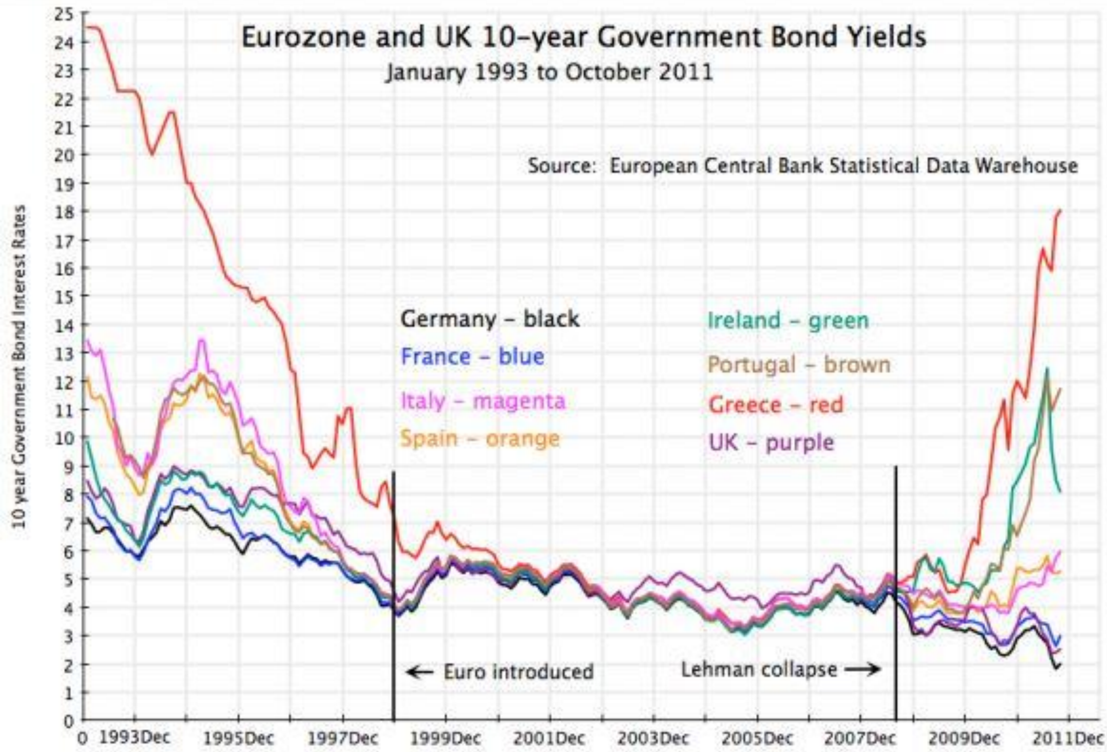

Figure 6: Development of 10 year bond yields, 1993 – 2011.

Source: Andolfatto (2012), Data from European Central Bank Statistical Warehouse

4.2 Adjustment programs, fiscal reform measures, and outcomes

By the end of 2009 Greece accumulated debt of around 130% of GDP. Added to this was the fact that international borrowers lost their trust in the Greek government, thus leading to interests rates higher than Greece could afford in order to refinance their debt. Therefore Greece had no other choice than to apply for a fiscal assistance programme, which it entered in spring 2010 and was therefore the first Eurozone country in a financial assistance programme carried out by the Troika (ECB, IMF and European Commission). So far this programme has disappointed and can be considered to be the least successful of the Troika's financial assistance programmes (Sapir, Wolff, de Sousa, & Terzi, 2014). This programme asked for strong measures by the Greek government in order to achieve fiscal consolidation and increase its competitiveness. These measures, also often labelled austerity measures, clearly demanded a shift of institutions towards a more liberal model (such as a smaller role of the state, reduced public spending, lower wages, lower social security payments or unemployment benefits). Although these measures, together with the stabilization of the euro by the EU's demonstrated willingness to not let countries in severe troubles go loose, were expected to bring Greece back on track, an empirical analysis shows no such positive effects. As Sapir et al. (2014) show the very assumptions at the initial stage of the financial assistance programme proofed to be largely wrong:

> *"The first and most striking finding is that reality proved the initial programme assumptions largely wrong. When financial assistance was granted in 2010, it was expected that growth would resume in 2012, unemployment would peak at 14.8% in 2012, no debt restructuring was needed, the debt ratio would peak in 2013 at 149 percent of GDP and that the government would recover market access in 2013. None of these assumptions proved nearly close to correct. Real domestic demand collapsed by around 30%, the unemployment rate rose to over 25%, while real GDP fell by more than 20%. The European Commission had estimated the size of the competitiveness problem, and the subsequent price adjustment need, to amount to around 20-30%. The baseline assumption of the programme was that price developments, as well as unit labour costs, would be less than the euro area average by 2011, thereby leading to a relative price*

adjustment. However, price rigidities in the economy proved to be very severe and relative price levels did not start to correct until 2013."

(Sapir et al., 2014, p. 23ff.)

Although pressures on the Italian fiscal health were similar to Greece, the country did not ask for assistance from the IMF, and its reform efforts thus did not follow the same formal approach and assessments. Reform efforts took place mainly between 2011 and 2013 (European Commission, 2014a), and were thus mainly carried out by the Monti government, with majority of reforms happening in the area of liberalising the business environment. The largest achievements were realised in the area of professional services, where the government was able to implement the abolition of compulsory minimum tariffs, more relaxed terms for traineeships and the right to establish companies among professionals, and administrative simplifications (ibid.). But already the cabinet preceding Monti, Berlusconi's, managed to realise budget surpluses, but as Hopkin (2012a) argues this was mainly the case because of Italy's low levels of unemployment support, thus enabling the automatic stabilisers to function. Nevertheless, as the country took a quite austere rout from the very beginning, the trust of the markets in the country did not drop as much as in Portugal or Spain when the "crisis of confidence" (ibid. p. 44) spread. Nevertheless, in the end also Italy faced the previously mentioned unsustainable situation, as markets became increasingly cautious about contagion, and they identified Italy as the next weak country in the Eurozone. Referring to Pagano (2010), Hopkin notes that

> *"to that extend, Italy's slide into debt crisis was in part the result of a self-fulfilling prophecy triggered by broader fears about the future of the euro."*
>
> (Hopkin, 2012a, p. 44)

By looking the current level of Italy's debt to GDP ratio, which accounts for 131.8%, it becomes clear that the policies the country followed did not reduce the overall fiscal dangers the country faces (Eurostat, 2015).

Generally speaking, the Irish financial assistance programme as directed by the troika is considered to be a success, and three years after it started in November 2011 the Eurogroup confirmed the success of the programme and announced Irelands exist for the end of 2013. By today, Ireland is now under the Troika's post-programme surveillance (Sapir et al., 2014). Briefly speaking, the financial assistance programme summed up to an amount of 85 billion euros (35 billion euros for the financial system, the rest for government funding) and included loans from the EU and IMF, but also bilateral assistance in the form of loans from countries like Sweden, Denmark and the United Kingdom (German Federal Ministry of Finance, 2015). Abide the reformation of the Irish financial sector, the Memorandum of Understanding between the Irish government and the Troika required large-scare fiscal austerity measures to be put into place in exchange for access to these loans. These conditions include a 15 billion euros governmental budget adjustment, split into 10 billion euros of expenditure savings and 5 billion euros in taxes, calling for measures such as lowering the personal income tax bands, a reduction of pension tax relief, and a general reduction of tax expenditures.

The call for structural labour market reforms called for a reduction of the minimum wage, a reform of the unemployment insurance system and enhancing the conditionality on work and training availability (O'Carroll, 2010). Abide the success of the fiscal reforms that came with the assistance programme, it also addressed the Irish financial sector and pressed for reforms.

But is the mere fact that Ireland was able to exit that programme (so far it has been the only country able to do so) enough to label the Irish reform programme successful? During the times of the assistance programme the Irish economic indicators improved (Sapir et al., 2014, p. 33), although not as fast as initially hoped (European Commission, 2011). From mid-2011 the assistance programme, after being redesigned to account for the experiences of the first six months, and the economic indicators developed as expected by the Troika during the rest of the programme time. Assessing the assistance programme's success Sapir et al. (2014) state that

> *"This was due not only to the rigorous implementation by the Irish government of the fiscal plans but also to the relatively realistic programme assumptions on economic growth. When read through the lenses of our criterion 3 for programme success (expectations vs. outcomes), the Irish programme can thus be seen as broadly successful."*
>
> (Sapir et al., 2014, p. 33*)*

In fact, the Irish primary balancing adjustment was so effective that the country is second in the adjustment progress index of all Eurozone countries (Schmieding & Schulz, 2013).

Looking at Ireland's past makes it clear that the country has already a decade of experience with reforms that liberalize the economy, namely since the policy shift towards export orientation and the focus on attracting foreign direct investment. This growth strategy relies heavily on low corporation taxes (12.5%), much lower than the average in CME countries. This is perfectly in line with the VOC model that locates a smaller welfare state in LME countries which logically needs less financial resources. The institutional support for such Irish policies was pushed by the Industrial Development Agency, but was institutionalized only shortly before the boom phase during the late 1990s (O'Sullivan, 2000).

Winding up the Irish case on its fiscal adjustment programme, one finds that the country already had a history of liberalization reforms when it started to reform its economy towards an export-driven economy, while at the same time creating a social partnership model that includes various economic actors in the negotiations over economic policy. In contrast to CME countries where such partnerships exclude the actual government and have therefore a considerably large veto power, the Irish version of that social partnership brings the government on the table together with the interest groups. This leads to a greater support within the society (where businesses are an integral part) and general attitude of *doing what needs to be done*. This attitude, together with the fact that the austerity demands that came with the financial assistance programme were in line with previously experienced liberalization efforts and the overall liberal structure of the Irish economy, made it possible for Ireland fare very well (Schmieding & Schulz, 2013).

Concluding on the outcomes of fiscal adjustments in the three studied cases, Ireland and Italy were able to slow down their upwards trend as shown in figure 7 on the next page.

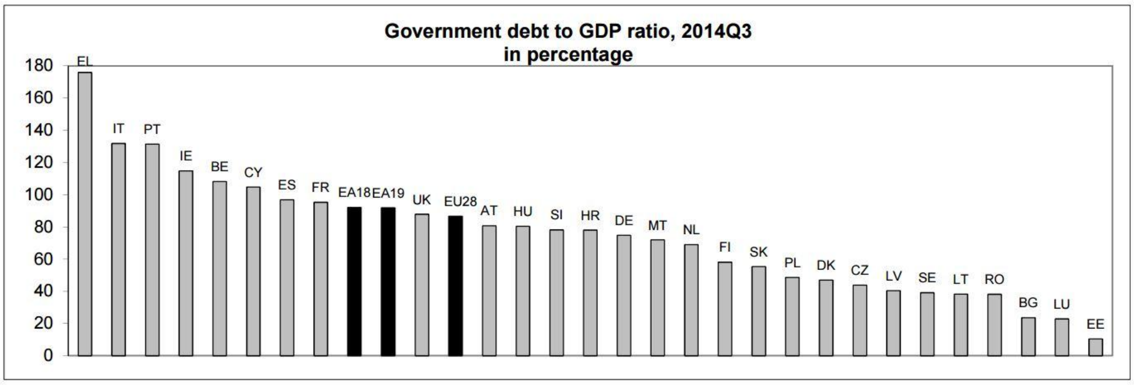

Figure 7: Government debt to GDP ratio, 3rd quarter 2014

Source: Eurostat (2015)

By evaluation the different adjustment processes and outcomes as described in this chapter, it can be stated that the hypothesis H1.1, which states that MME countries realise the benefits of adjustments later than other VOCs, thus raising the incentives for governments to avoid blame, holds.

4.3 Interest group reactions and backlashes

As the three varieties of capitalism model (Molina & Rhodes, 2007) identifies a variation of union structures and powers between different VOC categories, if follows that differences in the actual reaction of unions and their usage of veto powers can be expected. The two biggest trade unions in Greece are the GSEE and ADEDY, representing employees, whereas the SEV represents the interest of employers. Drawing on the features of MME countries it can be expected that all three of them oppose reforms towards liberalisation, as the trade unions (which mainly represent employees of the public sector) are afraid of reforms that endanger their favourable position of labour and welfare protection. Following a similar logic, the employers' union will also try to block such reforms as their big members (large firms) fear the loss of state protection from competition and compensations. The empirical assessment of union statements and publications largely confirms these assumptions, and both trade unions and employers representation oppose the adjustment measures of the troika assistance programme, often in a radical way (EPSU, 2014; GSEE, 2011; The Guardian, 2012), and organised large public protests (Reuters, 2011).

The analysis of Irish union and employers' representation reaction can be done in a more original way as their statements and press releases are available in English, and just as expected from a trade union representing the interest of employees the CTU largely opposes the adjustment programme which includes large wage cuts, and calls for an end of austerity measures. They call for the Irish government to invest in new jobs, skills training and a general promotion of growth (ICTU, 2010, 2011a, 2011b). In contrast to the ICTU's opposition, the representation of Irish employers, the IBEC, appreciates the liberalisation measures in order to increase the countries competitiveness. In comparison to the ICTU, which also addresses the promotion of economic growth and the creation of jobs, the IBEC does not call for the government to achieve these goals, but calls for a reduction of the minimum wage and the abandonment of labour regulations (IBEC, 2010; Ivory, 2014).

The task of analysing union reactions in Italy is complicated because of the same problem as in the case of Greece, as official statements of important interest groups are not released in English. Therefore the analysis has to be based on secondary sources. Nevertheless, Italy shows again a very similar picture compared to Greece, and all three major unions (CISL, CGIL and UIL) largely oppose both austerity measures and moves towards liberalisations (Namuth, 2012; Reuters, 2012a, 2012b), and organised large strikes against these reforms. They mainly criticised the lack of governmental investment in growth (a claim held by all trade unions under investigation across the cases) and blame the Monti government for only imposing austerity measures that "threaten social peace" (Namuth, 2012, p. 5). This was one of the few occasions where the CISL and UIL joined the CGIL in organising large scale protests and strike, thus bringing public sector and private sectors together on the streets and imposing the threat of large scale strikes (ibid.).

On the other hand, Italy's leading employers' federation, the CONFINDUSTRIA, supported liberalizing measures throughout the crisis, especially those regarding regulations on labour, being in favour of reforms that make it easier to let off employees (Culpepper, 2014; Jones, 2012).

Comparing all three cases, the power of unions to mobilise their members against reform measures is obvious in MME countries, and by taking into account Ireland's previously outlined history of liberalisations as well as its advantage of established social pacts it is no surprise that large scale protests and strikes, as seen in Greece and Italy (Hopkin, 2013), are absent in Ireland. Bringing hypotheses H1.2 and H1.3 into the analysis, it can be seen that the features of MME countries in terms of union powers and representation, mobilisation for reform blockage and unequal social protection indeed sums up to larger backlashes against reforms that aim to liberalise the production and labour markets. Both hypotheses are therefore confirmed.

4.4 The political game and government compositions

As stated throughout this research, both Greece and Italy experienced a shift towards technocratic governments, which adopted a substantial part of the required adjustment policies, whereas such a shit did not occur in Ireland.

In Greece, after George Papandreou's attempt to conduct a referendum on the implementation of the required austerity measures failed, followed by his resignation, a technocratic government was apointed, led by the non-partisan Prime Minister Lucas Papademos, a former governor of the Bank of Greece and vice president of the European Central Bank, backed by a government of national unity that enjoyed cross-partisan support in the Greek parliament. Although viewed as a technocratic government, it is worth to mention that his ministers where not technocrats, but had a partisan bias. As described in chapter 2.2, the view the government had about itself, in this case being a government that avoids a partisan ideology and puts efficiency before party conflict, justifies the description as a being a technocratic government. When Papademos resigned in 2012, the following elections did not provide a parliament configuration that allowed the formation of a cabinet, and a short term technocratic care-taker government, led by the head of the Supreme Administrative Court Panagiotis Pikrammenos, was appointed. As the only purpose of this cabinet was to prepare the next elections, it lasted for only one month (Pastorella, 2014a).

Compared to Greece, Italy experienced a different kind of technocratic government when Mario Monti, a former European commissioner and professor of economics, was appointed at the peak of the European debt crisis in 2011. In contrast to the Greek experience, his cabinet did not include a single partisan minister. It followed a period of Silvio Berlusconi being Prime Minister, and the large popular support for Monti indicates that Italians were waiting for a major change within the political class (Culpepper, 2014). His appointment was triggered by the country's need to re-gain the confidence of the international financial markets, and as a professor of economics, Monti was viewed as being perfectly capable of doing so. However, empirical evidence shows that his cabinet was not able to adopt as many proposals as one would expect given the nature of the government, and Maragoni (2012) points out that

> *"the Government has had some difficulties in overcoming (in a small amount of time) the resistance (if not the interlocking vetoes) of a heterogeneous parliamentary majority."*
> (Maragoni, 2012, p. 146)

Unusual for a technocrat, Monti decided to adopt features of a politician and ran for the following elections, where he was unable to receive a significantly high share of votes, thus ending the two years lasting Italian experience of a fully technocratic government.

In contrast, Ireland provides a completely different picture. A couple of months after the assistance agreement with the troika was signed, parliamentary elections were carried out, resulting in large losses for the party in charge, Fianna Fáil, as the electorate viewed them as being responsible for the negative effects the Irish people felt due to the adjustment programme. The elections thus resulted in a victory of the liberal party Fine Gael which formed a government with the Irish labour party. The large share of votes for the very pro-European party of Fine Gael indicates that the Irish people were still supporters of the European Union in general, although they blamed the troika for the costs of adjustment (Donovan & Murphy, 2013).

Based on the previously tested sub-hypotheses H1.1, H1.2, and H1.3, and reflecting on the picture this chapter provides, the overall hypothesis H1, which claims that the appointment of a technocratic government is more likely in MME countries than in countries with other VOC setups, can be stated to hold. Therefore the main research question of this thesis can be answered with saying that the VOC configuration of a country influences the incentives for countries to appoint a technocratic government when facing an economic crisis.

Chapter 5: Conclusion and Outlook

In order to answer the main research question of this thesis, namely "*Why were technocratic governments appointed only in a small number of countries, although the majority of countries faced the same economic crisis and similar pressures for austerity measures?",* this research developed an interest group theory based on the Varieties of Capitalism approach connected to the economic aspects of the European debt crisis, which was then combined with an existing model that explains the likelihood of technocratic appointments. The dichotomous character of the "economic crisis"-parameter was identified as a weakness of the model, as it hides institutional factors that are expected to have an impact on the incentives for parliaments to appoint technocratic governments. In order to advance this technocracy likelihood model, the two strands of literature connected to the European debt crisis, namely research on the economic reasons of the crisis as well as scholarly work on the occurrence of technocratic governments, were combined, resulting in a proposal for including the VOC characteristic of a country into the model. The then carried out comparative analysis of reform processes and governments during the European debt crisis in three countries broadly confirms the need for that advancement. By looking in depth at the setups and reform events in Greece, Ireland and Italy, it became clear that the VOC setup of a country influences the incentives for parliaments to appoint a technocratic governments if an economic crisis is present. However, more work has to be done in order to develop a reliable model for explaining the likelihood of technocratic government appointments, but this thesis provides a starting point for further developments. The fact that the model, as proposed by Pastorella (2014c), only reflects a snapshot of currently carried out research highlights two important factors to consider: First, taking into account that no other cross-country analyses that focus on the appointment of technocratic governments in Europe have been published to this date, the topic provides ample opportunities to engage in this evolving discussion. Second, given the "work in progress" nature of the model, the assumptions and operationalisations proposed by Pastorella (2014c) should be developed further to increase the model's robustness.

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