

Working Paper No. 53



International
Labour
Office
Geneva

**Assessing the impact
of the memoranda
on Greek labour market
and labour relations**

**Apostolos Dedoussopoulos
Valia Aranitou
Franciscos Koutentakis
Marina Maropoulou**

November 2013



Project financed
by the European
Commission

Governance
and Tripartism
Department



Project financed
by the European
Commission

Working Paper No. 53

Assessing the impact of the memoranda on Greek labour market and labour relations

Apostolos Dedoussopoulos

in collaboration with

**Valia Aranitou
Franciscos Koutentakis
Marina Maropoulou**

**Governance and Tripartism Department
International Labour Office • Geneva**

November 2013

Copyright © International Labour Organization 2013

First published 2013

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: pubdroit@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with reproduction rights organizations may make copies in accordance with the licences issued to them for this purpose. Visit www.ifro.org to find the reproduction rights organization in your country.

ILO Cataloguing in Publication Data

Dedoussopoulos, Apostolos; Aranitou, Valia; Koutentakis, Franciscos; Maropoulou, Marina

Assessing the impact of the memoranda on Greek labour market and labour relations / Apostolos Dedoussopoulos, in collaboration with Valia Aranitou, Franciscos Koutentakis, Marina Maropoulou ; International Labour Office, Governance and Tripartism Department. – Geneva: ILO, 2013

GOVERNANCE working paper ; No.53; ISSN 2226-7433; 2226-7840

International Labour Office; Governance and Tripartism Dept

labour market / employment / unemployment / labour relations / collective bargaining / social dialogue / economic recession / Greece

13.01.2

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications and electronic products can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address, or by email: pubvente@ilo.org

Visit our web site: www.ilo.org/publns

Foreword

This paper is part of a series of studies funded by the European Commission in the framework of a project of the International Labour Organization (ILO) on “Promoting a balanced and inclusive recovery from the crisis in Europe through sound industrial relations and social dialogue”. The project falls under a recent partnership agreement between the ILO and the European Commission, which aims to study the impact of the crisis and crisis-response policies on national tripartite social dialogue, collective bargaining and labour law in the Member States of the ILO and the European Union (EU), and the role of social dialogue actors and institutions in this context. The project builds on ILO research initiated since 2008 on best practices in the area of crisis responses, and the Global Jobs Pact adopted by the International Labour Conference in June 2009.

This study on Greece by Apostolos Dedoussopoulos (Panteion University) in collaboration with Valia Aranitou (University of Crete); Franciscos Koutentakis (University of Crete); Marina Maropoulou (University of Athens) examines the impact of the labour market measures adopted and implemented under the Memoranda of Understanding concluded between the Greek Government and the so-called “Troika” (IMF, EC, and ECB). Two and a half years after the first Memorandum, debates on the necessity and effectiveness of the policy fiercely continue not only among Greek policymakers and economists but also among the “troika” partners.

These debates have arisen due to the social impact of the advocated policies as well as the difficulties encountered in achieving specifically set targets (i.e., the management of public debt, restoring economic growth and improving labour market prospects). Currently, the Greek economy remains caught in a recessionary spiral with negative results for social cohesion, productivity, labour market institutions and mechanisms.

An earlier version of the paper was presented and debated at the ILO-EU research workshop on “The governance of policy reforms in Europe: Social dialogue actors and institutions in times of economic downturn and austerity” (28–29 May 2012, Geneva, Switzerland).

The responsibility for opinions expressed in this paper rests solely with its authors, and its publication does not constitute an endorsement by the Governance and Tripartism Department of the International Labour Office, or the European Commission.

Moussa Oumarou
Director,
Governance and Tripartism
Department

Contents

Foreword.....	iii
Abbreviations.....	vi
1. Overview	1
1.1 Introduction.....	1
1.2 Context.....	3
1.2.1 Macroeconomic background	3
1.2.2 External trade and competitiveness	9
1.2.3 Questions of policy effectiveness	11
2. The Greek labour market.....	16
2.1 Structure and trends	16
2.1.1 Employment.....	16
2.1.2 Evidence of flexibility in the Greek labour market	18
2.2 Employment in times of crisis	30
2.3 The unemployment rate	37
3. Industrial relations, collective bargaining and social dialogue under the memoranda and austerity policies.....	39
3.1 Introduction.....	39
3.2 Policy formation.....	40
3.3 Policy content: Rationale	41
3.4 Policy content: Classification	42
3.4.1 Phases	43
3.4.2 The reforms in collective agreement law.....	45
3.4.3 The reform of the mediation and arbitration institution	51
3.4.4 The reform of individual labour contracts	52
4. Results of the reforms: Preliminary evidence.....	56
5. The role of social partners	61
6. Additional remarks	62
References.....	65

Abbreviations

EC	European Commission
ECB	European Central Bank
EU	European Union
GCGW	General Confederation of Greek Workers
GDP	Gross domestic product
GMEO	Greek Manpower Employment Organization
GNP	Gross national product
ILO	International Labour Office
IMF	International Monetary Fund
LFS	Labour Force Survey (Eurostat)
LIB	Labour Inspectorate Body
NGCA	National General Collective Labour Agreement
OECD	Organisation for Economic Co-operation and Development
OMED	Organization for Mediation and Arbitration
PASOK	Greek Panhellenic Socialist Movement
VAT	Value-added tax

1. Overview

1.1 Introduction

The financial crisis of 2008 has had a strong impact on the Greek economy, as well as on the economies of other euro countries. The Greek economy in 2009 exhibited a double-edged weakness in terms of budget deficits and a mounting public debt combined with an increasing external trade deficit. Both of these had been partly offset in the past by financial resources available within the functioning of EU Funds and policies. In 2010, the Greek Government decided to advocate a “rescue” plan (Memorandum I in April 2010) which has been since then continuously reformed and extended (notably in July 2011 and in February 2012, the so-called Memorandum II, which included a “haircut” of the public debt).

The events that led to these developments are highly debated. There are still remaining questions unresolved about the extent of the problem, its management by the then Government and the rationale for the policy advocated. The main issues involved are briefly raised below.

Was the Greek crisis a specifically “Greek” crisis, or was it the result of the financial crisis in 2007–2008? Though such a question may seem superficial, it is worth noting that the Greek Government approached the issue as if it resulted solely from mismanagement in the past. As a result, the Government over-dramatized the situation,¹ interest rates in the financial markets increased rapidly and the burden of refinancing accumulated public debt became unbearable. In conceiving the “Greek crisis” as a specifically Greek one, the Government created the wrong psychology in the financial markets, allowing speculation to take place on the country's borrowing needs and the euro.

There are some conjectures about why the Government acted this way. One may list a number of possible explanations: the decision of the Government not to implement promises made at the election campaign in September 2009; its fear that planned but not officially announced reforms would be fiercely opposed, which led it to choose to impose a “shock treatment”; pressures from dominant business interests; or merely its own inadequacy. These may be considered alternative or combined reasons for its decision.

However, the end result of this public rhetoric on the crisis has been simple: if Greece is responsible for its own crisis, the Greek people have to pay the price. This might explain both the reaction of certain European countries and several press publications at the time. It also explains why aspects of the Memoranda Agreements have taken the form of a vindictive policy.

Such a conceptualization of the Greek crisis was more than welcomed by the EU institutions. On the one hand, it eased the pressure for major reconsiderations of policies and institutional changes in times of hard financial conditions. On the other hand, the Greek Memorandum I provided a guiding post for the offensively called “PIIGS”.² In this sense, the EU lost an opportunity for a major reform towards economic and political unification, which relates to the current problems it faces.

It is clear that a different approach, i.e. conceptualizing the Greek crisis as part of the international and European crisis, would have proven more fruitful. Under such an approach, the possibility of an alliance between the southern European countries and a renegotiation of European policies and institutional settings might have been explored.

¹ The then Finance Minister referred frequently to the “sinking Titanic” and whenever he issued a press release the interest rate on public debt was raised.

² Portugal, Italy, Ireland, Greece, Spain.

Given that the political choice was made and Memorandum I was adopted, has this policy been effective in terms of its own goals?

The simple mathematics of the relations of the public debt require, for the share of the public debt in gross domestic product (GDP) to be reduced, either a rate of growth in excess of the interest rate with a balanced budget or a surplus budget at a rate capable of offsetting any difference between the interest rate and the growth rate. Calculations of the dynamics of the Greek debt ratio conducted by several economists at the time³ concluded that the Greek debt was unmanageable – even if the very optimistic macroeconomic scenario indicated in Memorandum I had been realized.

In a recent book, P. Roumeliotis,⁴ former representative of Greece to the IMF, revealed that IMF officials had been convinced that the Greek debt had become unmanageable and they suggested a major haircut before signing Memorandum I. This suggestion was rejected by both the Greek Government and the EU.⁵

In relation to the macroeconomic model IMF has been using to estimate the impact of the fiscal measures, the IMF *World Economic Outlook 2012* (October 2012)⁶ carries an important revision stating that the size of the fiscal multiplier should be revised from an average 0.5 to multipliers ranging from 0.9 to 1.7. This implies that the impact of budget deficit cuts on growth rates (and hence unemployment) has been severely underestimated. The authors' own rough estimate of the size of fiscal multiplier for Greece is around 1.3. This means that the 13.5 billion euro in fiscal cuts decided in September 2012 will result in a 9 per cent recession for the succeeding two years depending on the time structure of the measures. An additional impact on recession will be brought about by the wage cuts in the private sector and the increasing death rate of enterprises – especially those of small and medium size.

It is not the author's intention to review the fast-growing literature on the causes of the “Greek problem”. Reference should be made to the works of J. Manolopoulos (2011), C. Lapavitsas' numerous working papers for the University of London's School of Oriental and African Studies (SOAS) and press articles, G. Varoufakis' analysis and policy proposals mostly presented in his blog, and to the publications of J. Geanakoplos (2011) as well as E. Laskos and E. Tsakalotos (2011). The common ground of these works is to analyse the Greek crisis as part and parcel of the world financial crisis and of the role of financial institutions, in sharp contrast to the conceptualization of the crisis mechanisms advocated both by the Greek Government and by the troika. Such a conceptualization reduces the crisis to its phenomena, i.e. public deficit and external trade deficit. The authors argue that even if they had adopted this view, the policy conclusions would have to be different.

Turning to the numbers of the Greek crisis, the budget deficit in 2009 stood at 15.6 per cent of GDP while public debt amounted to 129.3 per cent of GDP in the same year. Interest rates on Greek public loans had been climbing, making further borrowing extremely costly for the Greek economy. The response of the newly elected Greek Government (October 2009) was to come to an agreement with the European Union, the European Central Bank and the International Monetary Fund (Memorandum I). The agreement provided new loans for the Greek State and established a rather ambiguous programme of public-sector cuts and restructuring, and increased taxation on wage earners, pensioners and independent professionals. It also contained a number of policy proposals,

³ See, for example, R. Janssen, 2010, *Greece and the IMF: Who Exactly Is Being Saved?*, CEPR.

⁴ P. Roumeliotis, *The Unknown Background of Greece's Appeal to IMF*, 2012 (in Greek).

⁵ Roumeliotis refers to the strong opposition of the German Government. A recent estimate of the Greek debt ratio conducted by the Centre for Economic Research and Planning (KEPE) developed a number of alternative scenarios, none of which is compatible with the target of reducing the debt ratio to 120 per cent in 2020, though the assumptions concerning growth rates are grossly over-optimistic. See P. Korliras and Y. Monogios, *An Analysis of the Manageability of the Greek Public Debt*, 2012, Bulletin, KEPE.

⁶ IMF, *World Economic Outlook 2012*, p. 41, box 1.1.

mainly in the areas of labour market regulation and provisions, pensions, and health and education cuts.

With regard to the labour market, Memorandum I was based on the assumption that the Greek labour market had been largely inflexible. Legislative action was taken in order to deregulate and/or increase the institutional flexibility of the market. Thus, an intensive policy of internal devaluation was activated, which continues up to now. This policy aims at reducing wage and non-wage costs on the assumption that such reductions will give rise to price reductions and to export expansion. This increase in exports may compensate for the falling internal demand (reduced private consumption and state expenditure).

Today it is widely accepted that Memorandum I has failed to achieve its targets, mostly with regard to public debt reduction, and to anticipate the depth of recession it created. Public debt as a proportion of GDP climbed dramatically (162.8 per cent in 2011) and unemployment rose to extremely high levels (more than 20 per cent by the end of 2011). The external trade deficit has declined somewhat, mostly because of import reduction. The attempt to boost public sector revenue through increased taxation (by reducing tax exemptions, raising value-added tax (VAT) rates and imposing a number of taxes on dwellings) has, due to the strong recession, failed as well. High unemployment rates, recession and wage reductions, as well as surging proportions of undeclared casual employment, have also put the viability of the pension funds into question.

In early 2012, Memorandum II was adopted, after a long debate both in Greece and among the troika partners. Putting aside the question of the debt haircut and its impact on the viability of the Greek debt in the near future, the Memorandum II policy design is based on the assumption that the policy advocated in Memorandum I has been correct, but that its implementation was inefficient. It imposes, therefore, further measures towards the deregulation of the Greek labour market and more reductions in public services, wages and salaries, coupled with an ambiguous programme of privatization.

It should be pointed out that Memorandum I (and Memorandum II in succession) policies have constituted an inappropriate treatment for an incorrectly diagnosed illness.⁷ Furthermore, both these packages of policy measures lack the necessary flexibility to accommodate the obvious failures in targeting and results. In relation to the policies advocated in the labour market, the changes are profound and their impact is both harsh and lasting. Bargaining structures and processes have been severely damaged and labour relations simply replaced by managerial power. It is difficult to re-establish consensual policies, and this may well lead to a situation ridden with open conflict.

It is important to realize that the policy form and content of the two Memoranda amount to a total restructuring of Greece's economic, political and social spheres. However, this restructuring faces more opposition than acceptance. The beginning of a major structural crisis, where nothing remains intact and all possibilities are open, is being equated – realistically according to many – to a shifting of sand under one's feet.

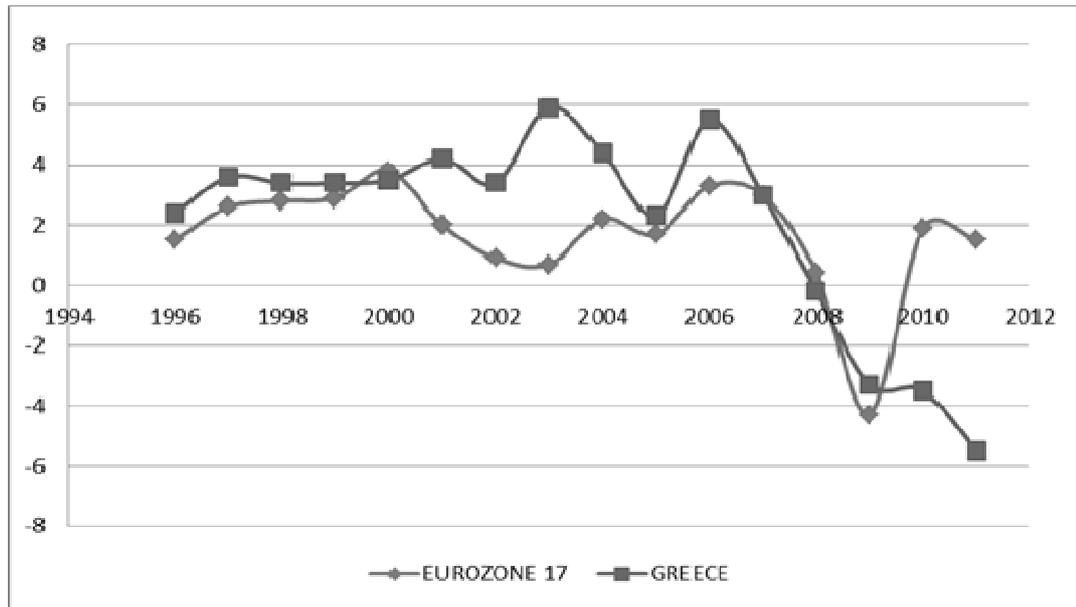
1.2 Context

1.2.1 Macroeconomic background

After a long period of high growth rates, the Greek economy slowed down abruptly and fell into a deep recession. GDP growth had been steadily well above the 17-nation eurozone average for more than a decade, but in 2008, the year of the worldwide financial crisis, the rate of growth went negative for the first time since 1993. Economic activity dropped further thereafter as austerity measures were implemented, leading to a 14 per cent fall in GDP (2007–2011).

⁷ A. Dedoussopoulos and M. Lampropoulou (2012).

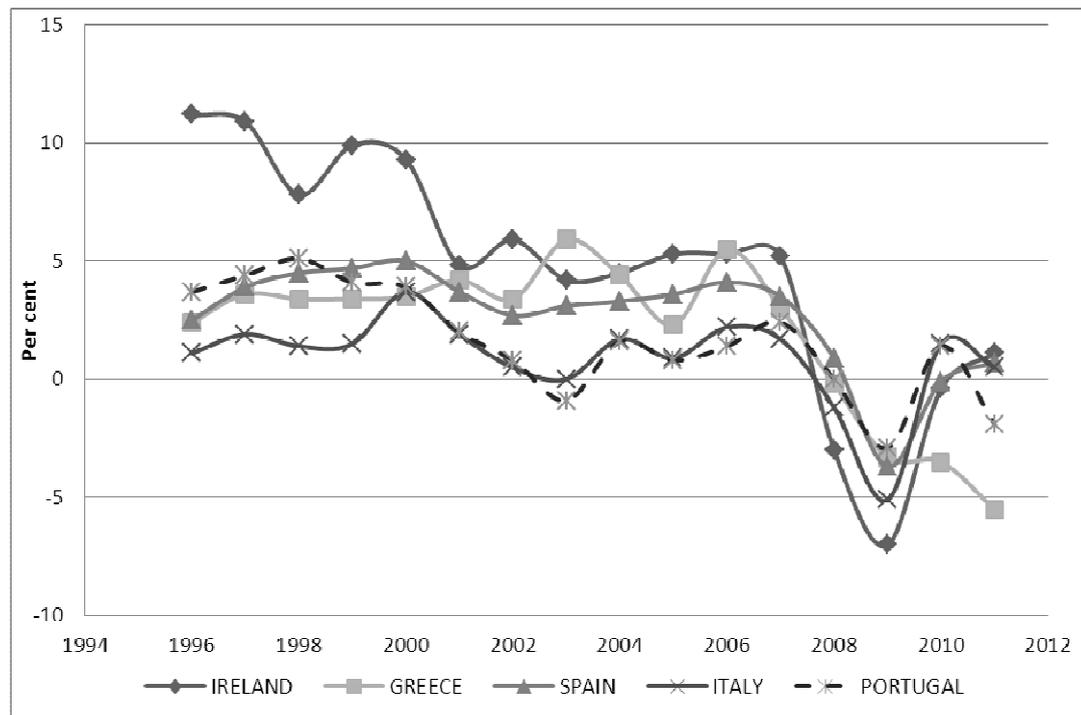
Figure 1. GDP: annual growth rate, 1996–2011



Source: Eurostat.

Figure 2 recapitulates similarities and differences in growth rates among the infamous PIIGS countries – including Ireland. Growth rates have moved very close together since the early 2000s, after the moderation of the high Irish rates in the 1990s. All these countries stepped together into a deep recession in 2008. Today, however, Greece still exhibits downward negative growth rates in contrast to a recovery, albeit still weak and unstable, in the other countries.

Figure 2. GDP growth rates (%) in PIIGS countries, 1996 to 2011

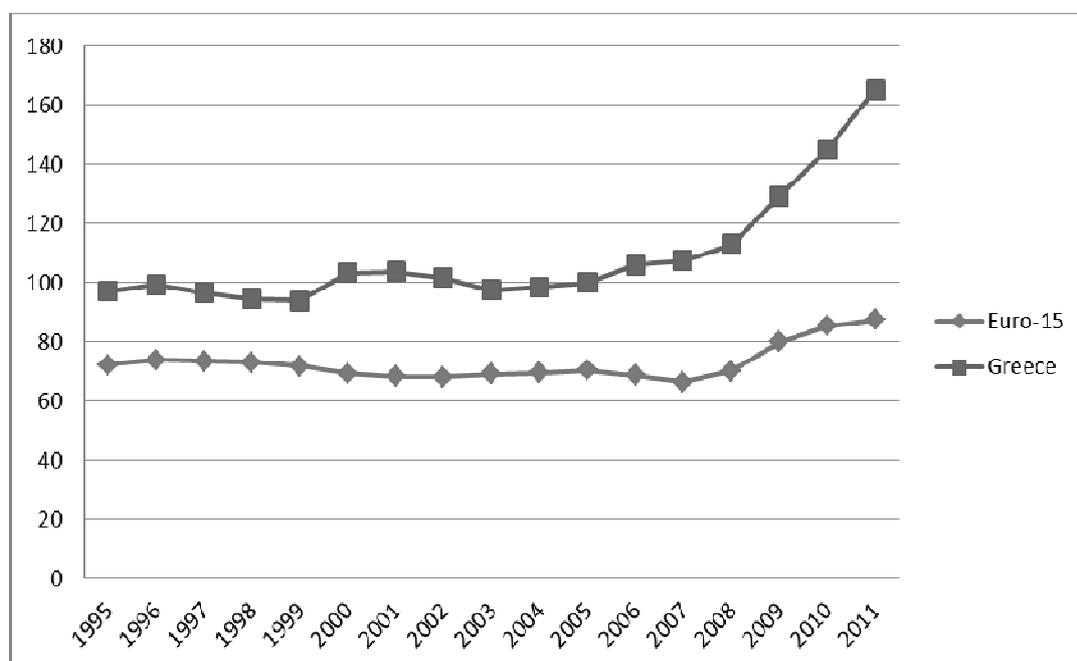


Source: Eurostat

The debt crisis of the Greek State is presented in figure 3. After a period of moderate fluctuations, the debt ratio to GDP started to climb in 2005. The fiscal management of the economy seemed to be out of control by 2009, probably as the result of an attempt to counter the severe economic recession. Far from justifying a rather hasty and ineffective policy, one should remember that, in view of a major world recession after the financial crisis in 2008, most advisors and policymakers had openly started to reconsider policy remedies and a return to Keynesian solutions had been favoured, suggesting even the relaxation of the Stability and Growth Pact (SGP) for European economic integration. This is shown by the increase of the debt ratio in euro-15 countries, higher by 10 points in 2009 than in 2008. Obviously, the Greek Government had gone much further.

However, a closer look at the determinants of the debt ratio indicates a long run of mismanagement of the Greek public economics. A comparison of Greek public expenditure and public revenue with euro-15 averages supports this conclusion (figures 4 and 5).

Figure 3. Euro-15 and Greece: General government consolidated gross debt as percentage of GDP, 1995–2011



Source: Bank of Greece

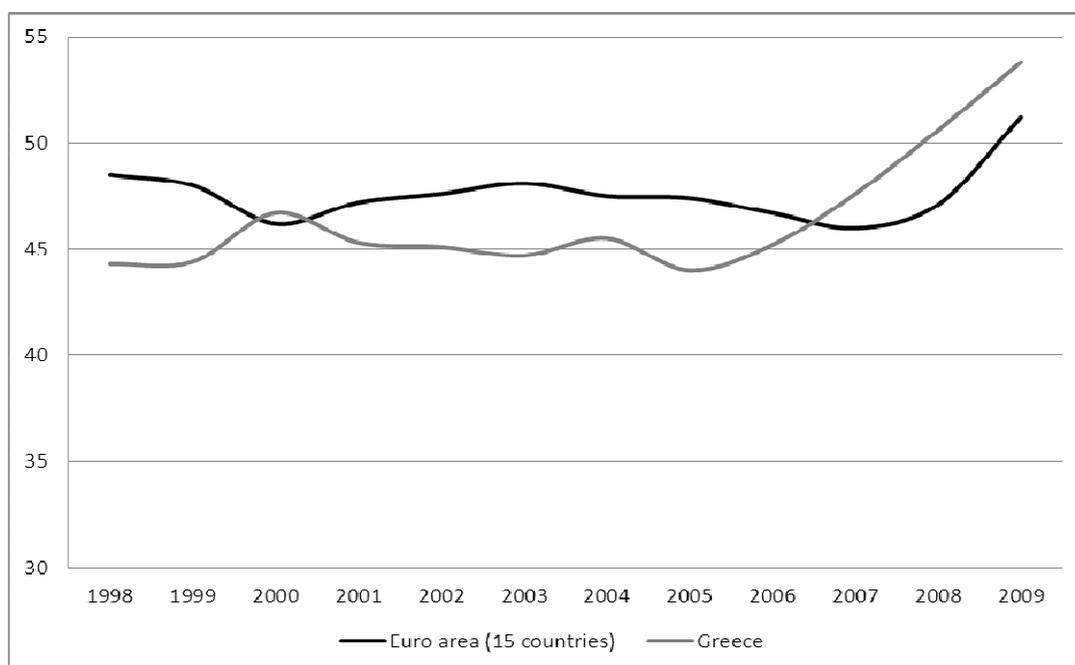
As figure 4 shows, public expenditure in Greece started to rise in 2006. Until then it had remained at a level significantly lower than the average of the euro-15 countries. It is worth noting that public expenditure increased in election years (2000, 2004 and 2007), indicating the operation of a political cycle through public spending.

Figure 5 reveals the long-term problem of the Greek economy. It is not a problem caused by excessive spending or by a disproportional state mechanism,⁸ but a problem of state revenue. The Greek State lags well behind, on the average by 5 percentage points, in the share of state revenue in GDP in comparison to the EU and eurozone countries. This shortcoming is almost entirely explained by the lower revenues from direct taxes, 4 per cent to 5 per cent of GDP below the European average. Furthermore, while the public

⁸ According to statistics of the Organisation for Economic Co-operation and Development (OECD), the ratio of public servants in Greece to either the total employment figure or the total population did not exceed the EU or eurozone averages.

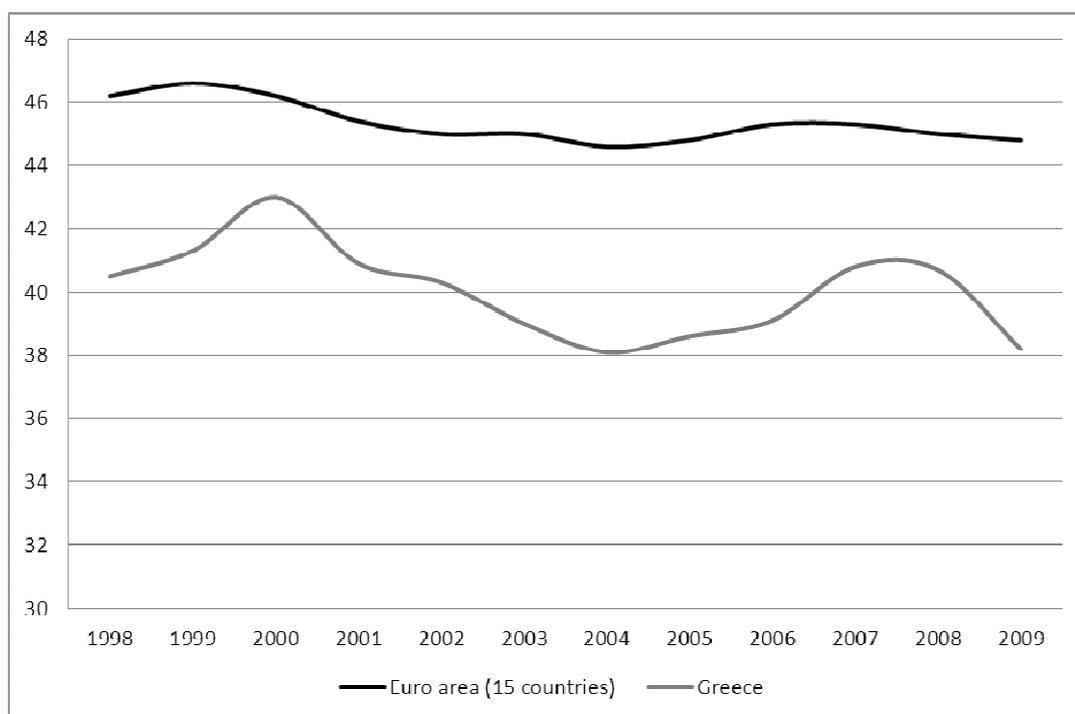
revenue share in GDP exhibits a noticeable declining trend in the eurozone, in Greece this trend has been stronger.⁹

Figure 4. Europe and Greece: Public expenditure as percentage of GDP, 1998–2009



Source: Eurostat.

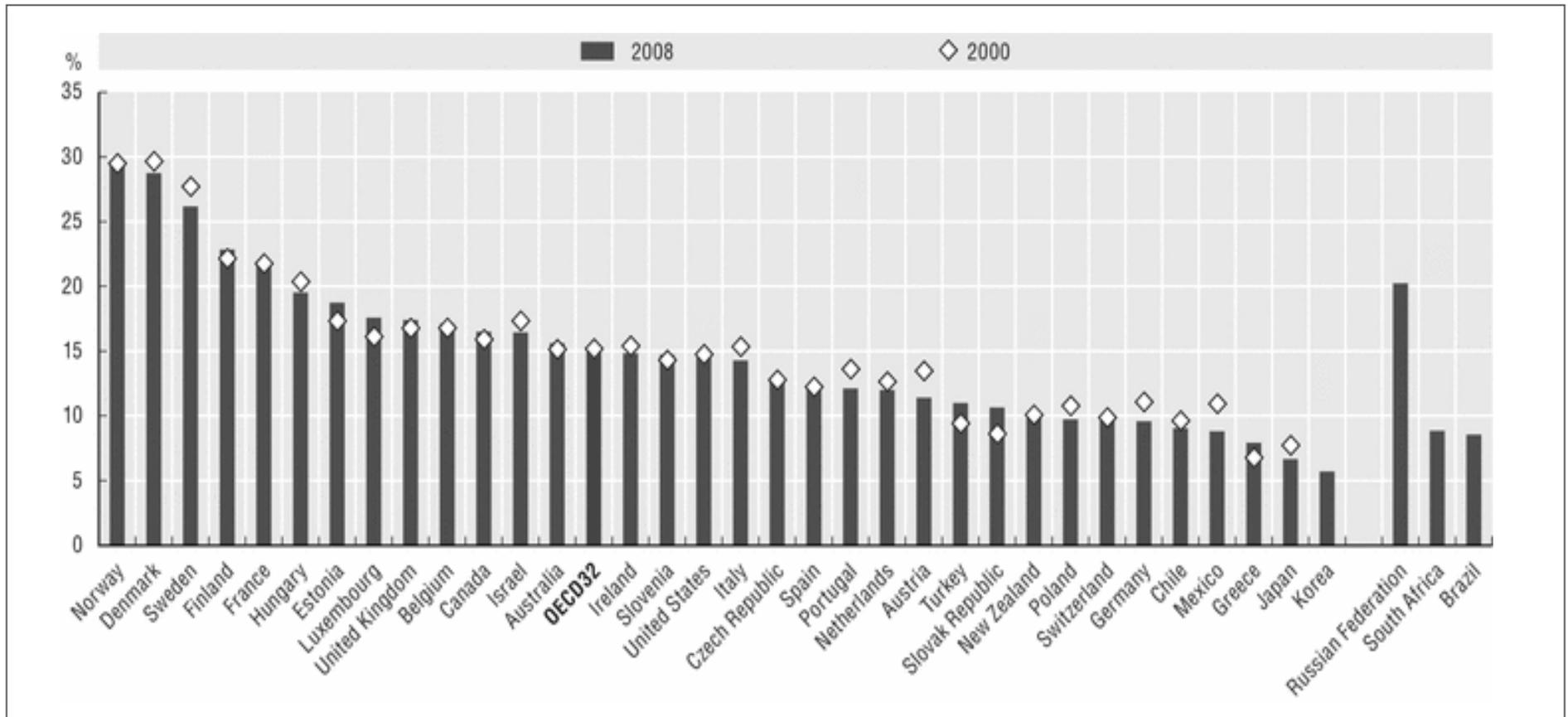
Figure 5. Europe and Greece: Public revenue as percentage of GDP, 1998–2009



Source: Eurostat.

⁹ For a comparative view of Greek public consumption and salaries as a percentage of GDP, see Ana Lamo et al., (2007), p. 39.

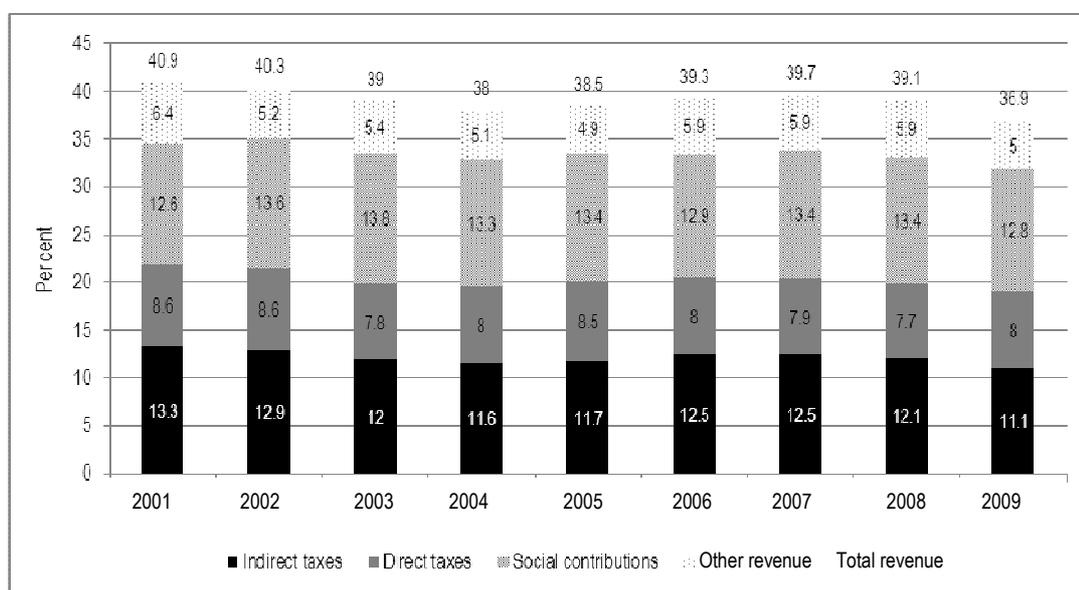
Figure 6. Various countries: Employment in general government as a percentage of the labour force, 2000 and 2008



Source: OECD, Government at a Glance 2011

The composition of state revenue in Figure 7 indicates important features of the Greek budget problem.

Figure 7. General government revenue, as percentage of GDP, 2001–2009



Source: EC DG for Economic and Financial Affairs, "The Economic Adjustment Programme of Greece", Occasional Paper No. 61, 2010, p. 4/90.

According to the data, the share of state revenue in GDP fell by four percentage points between 2001 and 2009. Social contributions and indirect taxes provided the bulk of revenues, contributing 63.3 per cent of the total state revenue in 2001, and 64.7 per cent in 2009. However, the share of indirect taxes fell, though an increase in social contributions compensated for it. Over the same period direct taxes on incomes and property constituted only 21 per cent of total state revenues, or 8 per cent of GDP.

Though the taxation burden has become heavier since 2010 in the form of drastic reductions of tax exemptions, special income contributions and a generalized tax on private housing, further increasing the tax burden on wage incomes and declared incomes, the total income tax on households fell by almost 25 per cent within two years. During the same period, income taxes on profits dropped at an even greater rate, while the share of indirect taxes in total taxation rose, though their level is lower. In general, measures to combat tax evasion were not realized and those that were implemented were not effective.

It is commonly argued in public speech in Greece that low tax revenue collection has to be attributed to the incompetence of the fiscal mechanism and corrupt tax collectors. A comparative study made by Piancastelli (2001), though his results should be accepted with caution, does not support this view. Piancastelli estimates a cross-country tax-effort function for the period 1985–1995 and then constructs an index of tax effort by measuring country deviations from estimated figures. In his analysis, Greece's performance is well above average, though it lags behind all euro countries with the exception of Germany.¹⁰ As his estimates depend on the country's tax system and its economic structure, they are interpreted as reflecting the capability of the tax collection system.¹¹ One may conclude that, if a major ethical or work compliance change has not happened since 1995, falling tax

¹⁰ Piancastelli, 2001, Table 7, p. 10 and Table 15, p. 15.

¹¹ "A high value of tax effort index indicates that a particular country is collecting more tax than would be predicted, given its tax structure and prevailing economic and social conditions." (ibid. abstract).

revenue reflects changes in policy orientation and/or the inadequacy of the tax system as such.

This elaboration on public spending and tax revenues in Greece may appear to be a rather inappropriate exercise, but it touches upon the core of the changes advocated for labour market regulations. Not only has the tax burden on wage labour and pensions been increased, but the rise was also accompanied by a substantial reduction in before-tax wages and pensions, reducing net disposable income and accelerating the recession. Furthermore, the treatment of the tax system under Memorandum I is indicative of the overall approach to policy formulation: *the measures taken are simply the easiest, not the most efficient ones, nor those that directly address the problem*. This point has been raised by several of the persons interviewed in the preparation of this study, and it will be illustrated with respect to the labour market dimensions of the policy.

A second point is that the policy is self-defeating. This is partly due to the very nature of the policy itself, i.e. a policy of large-scale and prolonged recession. In addition to that, however, the representatives of the research institutes affiliated with the social partners have noted that the macroeconomic model used by the IMF is totally inadequate. It is a model which, among other significant omissions, uses incorrect macroeconomic multipliers and formulation, and overlooks the impact of the recession on tax revenue and unemployment.

1.2.2 External trade and competitiveness

Traditionally the Greek economy has had a substantial deficit in its external trade of goods. This deficit was financed from three main sources: maritime trade, emigration and, since the 1960s, tourism. Tourism has become the main source of financing the trade deficit, as the first two sources were significantly reduced or even eliminated in the last quarter of the twentieth century. An additional source of external finance emerged after Greece's accession to the EU in 1980, mainly through successive development projects.

Figure 8 shows the development in exports and imports of Greece in the twenty-first century.

Exports have been rising steadily, but imports have grown much faster, leading to an increasing trade deficit. The trends of both series reversed in 2008, after a peak in 2007. Since then, imports have fallen fast, while exports are gradually recovering.

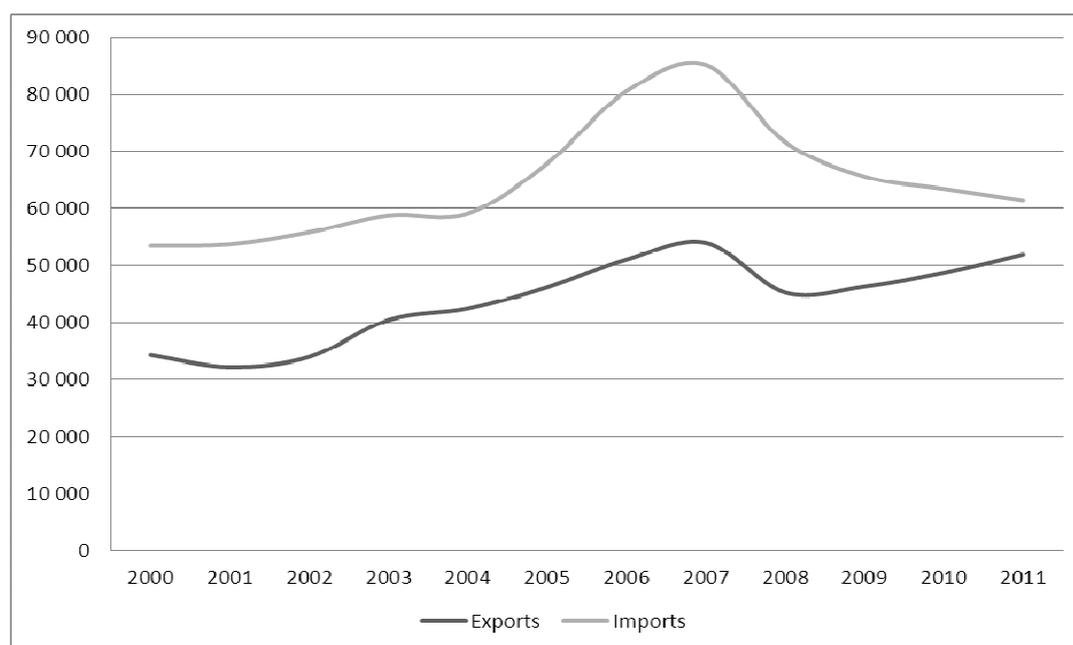
A conclusion one might draw is that wage moderation and reductions have contributed to the recovery of Greek exports. However, a more detailed analysis indicates that the rise in exports is largely the result of expanded exports of oil products, which in turn is partly attributable to a hike in the international price of oil.

According to the World Economic Forum (WEF), Greece was ranked 67th in terms of competitiveness in 2008–09.¹² Its position has steadily deteriorated since then (71st in 2009–10, 81st in 2010–11 and 83rd in 2011–12). Examining the ranking in its components, Greece fell 16 positions in basic requirements, 2 positions in efficiency enhancers and 5 positions in innovation and sophistication factors.¹³ It seems that Greece's deterioration in ranking is mostly due to the decline in the basic requirements component, which covers institutions, infrastructure, macroeconomic environment, and health and primary education.

¹² WEF, Global Competitiveness Report 2008–9, p. 12.

¹³ WEF, Global Competitiveness Report 2011–12.

Figure 8. External trade, 2000–2011 (in million euros)



Source: Eurostat.

Among the factors determining competitiveness, Greece's labour market efficiency is reported to be a problem. Areas such as cooperation in labour relations, flexibility of wage determination, rigidity of employment, hiring and firing practices, pay and productivity, reliance on professional management, brain drain and female labour force participation ranked very low for Greece, with the exception of redundancy costs, indicating the existence of a malfunctioning labour market. Redundancy costs, female participation and employment rigidity are calculated directly, while all others reflect the opinions of high-level managers of enterprises operating in Greece.¹⁴

An interesting paper by D. Malliaropoulos¹⁵ tries to deconstruct the deterioration of the Greek loss in competitiveness since 2002. The first main conclusion of the Malliaropoulos study is that the deterioration took place in industrial and agricultural production, with services partly compensating for the losses. Second, a mild internal devaluation brought about by the recession and a devaluation of the euro will augment both competitiveness and exports. Third, the loss in competitiveness in industrial products is attributed to the increased profit margins which resulted in a faster increase in export prices in relation to unit labour cost.

Although there is some conflict between the last two conclusions of the Malliaropoulos study, his third conclusion is supported both by recent price-setting practices and price increases in contrast to a severe drop in consumer spending, and by an examination of the history of drachma devaluations in the 1980s and 1990s. The gains in competitiveness and export increases were only short-lived phenomena following a devaluation of the national currency.

¹⁴ It is not clear how employment rigidity is measured. Possibly the WEF uses the OECD's measurement of employment protection. In Greece, the labour market is highly segmented: core state employment is secure by constitutional law; employment in state-controlled organizations has also been highly protected; and employment in the private sector is far less protected, largely owing to redundancy costs, while a large undeclared, unprotected and highly flexible workforce exists. Immigrant labour, both legal and illegal (i.e. living in Greece with no formal documentation) makes up a large sector of this workforce. However, persons of Greek origin also participate in this totally unregulated labour market. Evidence supporting the argument that the Greek labour market exhibits high labour mobility is provided in the section that follows.

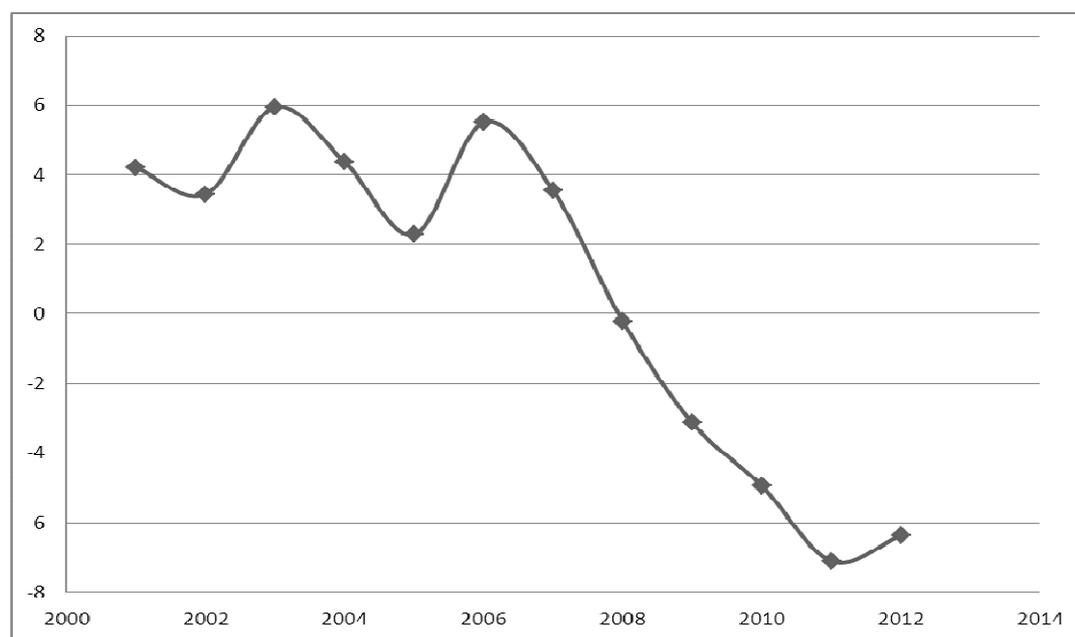
¹⁵ D. Malliaropoulos (2010).

As noted by some persons interviewed for the purpose of this study, the measures advocated in Memoranda I and II try to increase competitiveness through a policy of severe internal devaluation. However, these policies, though attempting to deregulate market sectors such as taxis, pharmacies and transport, have not touched upon the oligopolistic product and services markets¹⁶ which dominate in Greece. The anti-monopoly policy and related institutions (the Hellenic Competition Committee and the Secretariat for the Consumers Protection) have played only a marginal role to date.

1.2.3 Questions of policy effectiveness

The evolution of the main macroeconomic indicators depicted in the figures that follow indicates the extent of the recession and the ineffectiveness of the policy advocated.

Figure 9. Rate of change (%) in GDP, 2001–2012



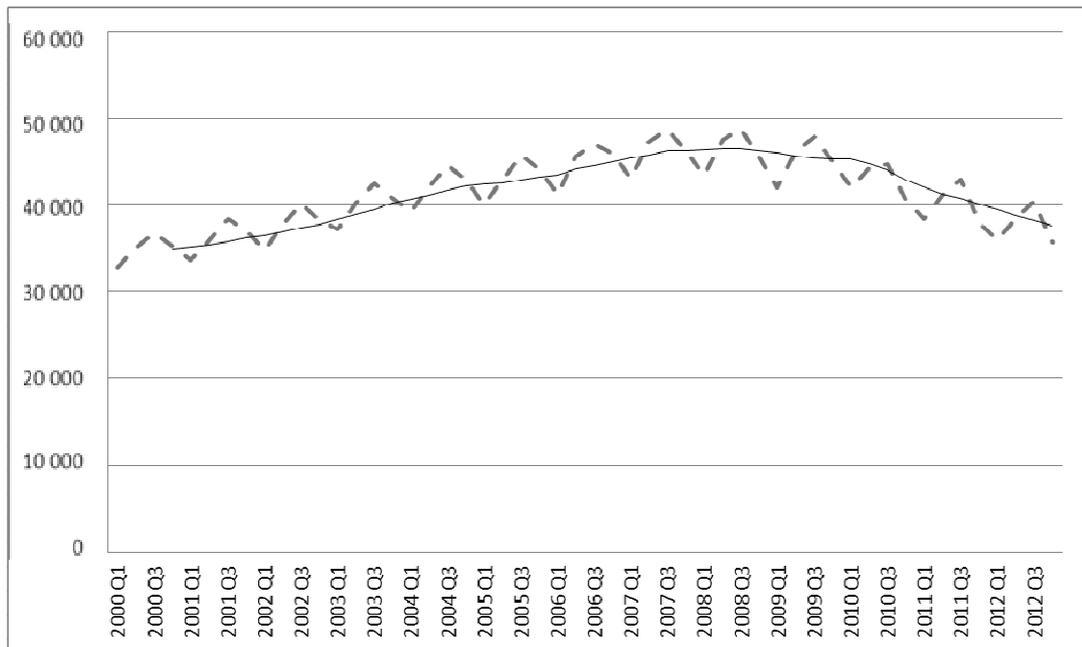
Source: EL. STAT

Figures 9 and 10 depict developments in GDP, with figure 9 showing changes in yearly growth rates and figure 10 reflecting evolution at quarterly levels, smoothed by a four-quarter moving average. A slight reduction in the rate of recession is noticed – from –7.1 per cent in 2011 to –6.4 per cent in 2012, but this development far from signals an overall turn in pace. Furthermore, one should be aware that cuts in public spending amounting to 9 billion euros and increased taxation have been provided for in the 2013 budget; these would have begun to take effect since January this year.¹⁷

¹⁶ Oligopolistic organization in product markets and in some services and collusive price practices are dominant in food-processing and distribution chains, oil refining, banking, air transport, coastal maritime services and the mass media among others. One should distinguish between oligopolistic pricing (which explains the downward price inflexibility of Greece's product and services markets and even price increases when labour costs have been largely reduced) and direct price setting by the Government in specific sections (pharmaceuticals, taxi fares, legal services, etc.).

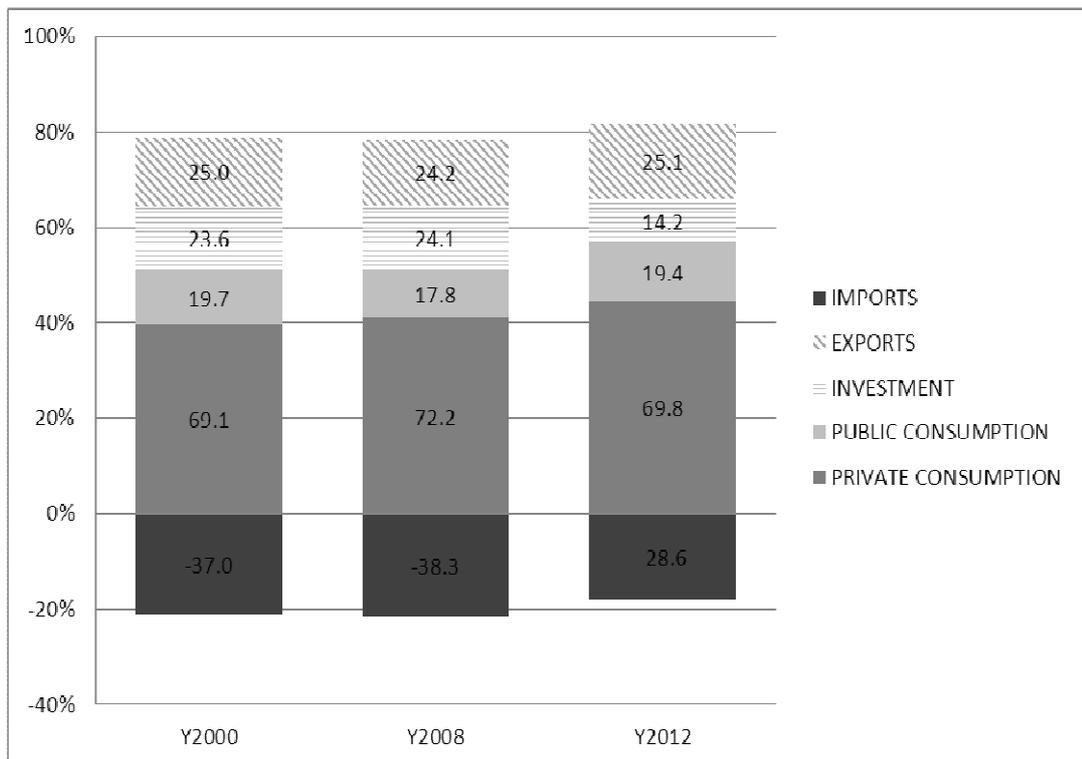
¹⁷ The cuts amount to 5.5 per cent of the 2012 GDP. An additional cut in public spending by 5.1 billion euros is planned in the 2014 budget. According to the Governor of the Bank in Greece "one euro reduction in spending contributes to one euro additional recession," probably assuming a unit fiscal multiplier. Such a prospect makes recovery in 2014 untenable.

Figure 10. GDP by quarter, 2001–2012 (in million euros)



Source: Hellenic Statistical Authority (EL. STAT.)

Figure 11. Composition of GNP: 2000, 2008 and 2012



Source: EL – STAT

Figure 11 illuminates the structural changes or continuities in the macroeconomic categories of trade, investment, public consumption and private consumption over the period 2000–2012. Only investments and imports show significant change. Their share in the composition of the gross national product (GNP) fell rapidly by 10 percentage points

between 2008 and 2012, a profound outcome of the deep recession. A sharp reduction in both the level and share in GNP of investment expenditure further supports the argument of a “destruction with no creation” situation.

Private consumption dropped more rapidly than GDP, but public consumption, though falling, lagged behind. Adjustment in public spending was carried out mostly through reductions in the salaries and pensions of public servants, leaving relatively intact other expenditure. Finally, exports marginally improved their share in GNP. However, an export-led recovery does not seem a plausible scenario.

Further observations on the macroeconomic variables are given below.

Private consumption increased at an almost constant rate ranging from 4 per cent to 5 per cent yearly in the period before 2008. It was, in effect, the main force behind the high rates of growth achieved by the Greek economy in the 2000s. After 2008, it fell rapidly and at accelerating rates. This decline resulted from the sharp drops in private disposable income brought about mainly by shrinking salaries and pensions, increasing taxation levels and rising unemployment.

The rate of change in public consumption was highly unstable, but it seemed to follow a political pattern, i.e. it increased during election years – with the exception of a hike in 2003, the year before the Olympic Games.

The rate of growth in investment expenditure exhibited a cyclical pattern until 2008, but remained negative thereafter. As most investment went to dwellings and public construction, there was a lack of resources for modernizing the Greek productive infrastructure. This directly reflects the problems posed by the Greek entrepreneurial class, and their attitude to long-term commitment in productive activities. However, the sharp decline in investment after 2008 was to be expected, because of the rapid reduction in consumption and the feeble performance of exports. Nobody invests (or increases employment) when the product market is shrinking.

The export trade seems to be the only macroeconomic category to have registered a positive rate of growth since 2008 (though there was a dramatic drop in 2009). However, this applied only to goods, with services remaining at negative rates. The positive performance of goods was due mainly to petrol products and minerals, a rather dismal indication of the future of the other Greek manufacturing sectors.

Finally the behaviour of imports over the period reviewed is to be expected from a situation of falling demand (consumption and investment) and the noticeable shift in intermediate demand to domestic suppliers because of a lack of cash to pay foreign providers. That is also a possible motive for an import substitution policy, at least in some manufacturing sectors.

The spring 2013 forecast of the European Commission (EC) for GDP growth predicted a recession of –4.2 per cent for 2013 and a recovery in 2014 of 0.6 per cent. In general, forecasts have proven to be over-optimistic in the past, so one should be rather cautious. Table 1 presents EC forecasts for three periods and the corresponding actual figures (2010–2012) for GDP growth, unemployment and public budget deficit.

Table 1. Economic forecasts (2010–2014) and actual figures (2010–2012)

	Forecasts			Actual figures (2010–2012)
	Autumn 2010	Interim 2012	Spring 2013	
GDP growth rate				
2010	–4.2			–4.9
2011	–3.0			–7.1
2012	1.2	–4.7		–6.4
2013		0.0	–4.2	
2014			0.6	
Unemployment rate				
2010	12.5			14.2
2011	15.0			20.7
2012	15.2	19.7		26.0
2013		19.6	27.0	
2014			26.0	
Budget deficit				
2010	–9.6			–10.7
2011	–7.5			–9.5
2012	–7.6	–7.3		–10.0
2013		–8.4	–3.8	
2014			–2.6	

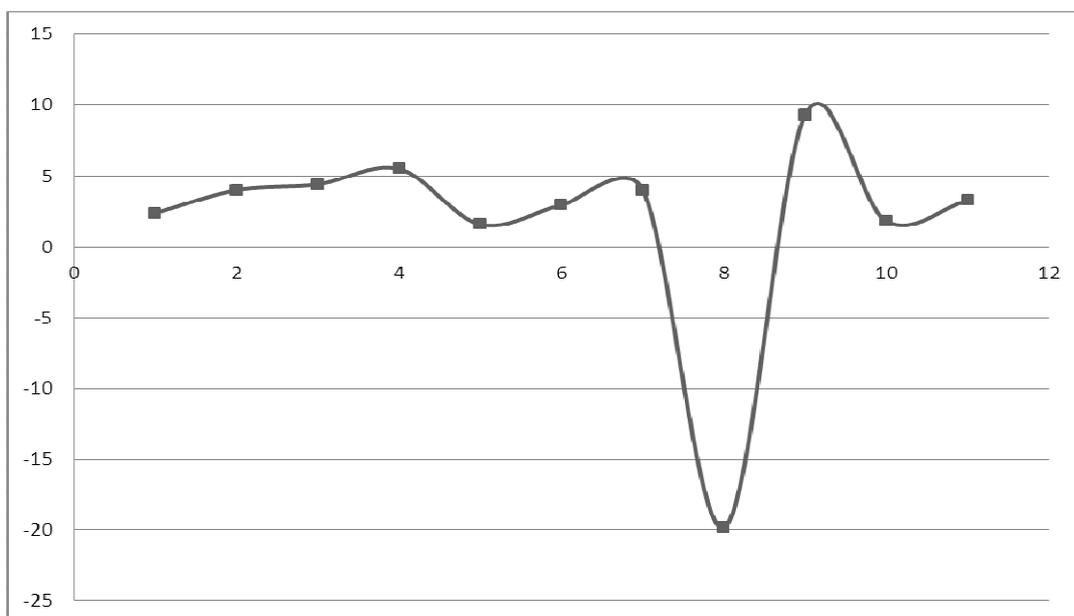
Source: EC Directorate–General for Economic and Financial Affairs, *European Economic Forecasts*, various issues.

It is obvious that EC forecasts far from predict the real pattern of change for macroeconomic categories. To a large extent, this is due to the famous “multiplier underestimation” also used by IMF for assessing the impact of budget reductions.¹⁸

The impact of the “more-than-expected” recession of the Greek economy is reflected in the debt dynamics of the Greek State. Figures 12 and 13 depict the evolution of the Greek debt.

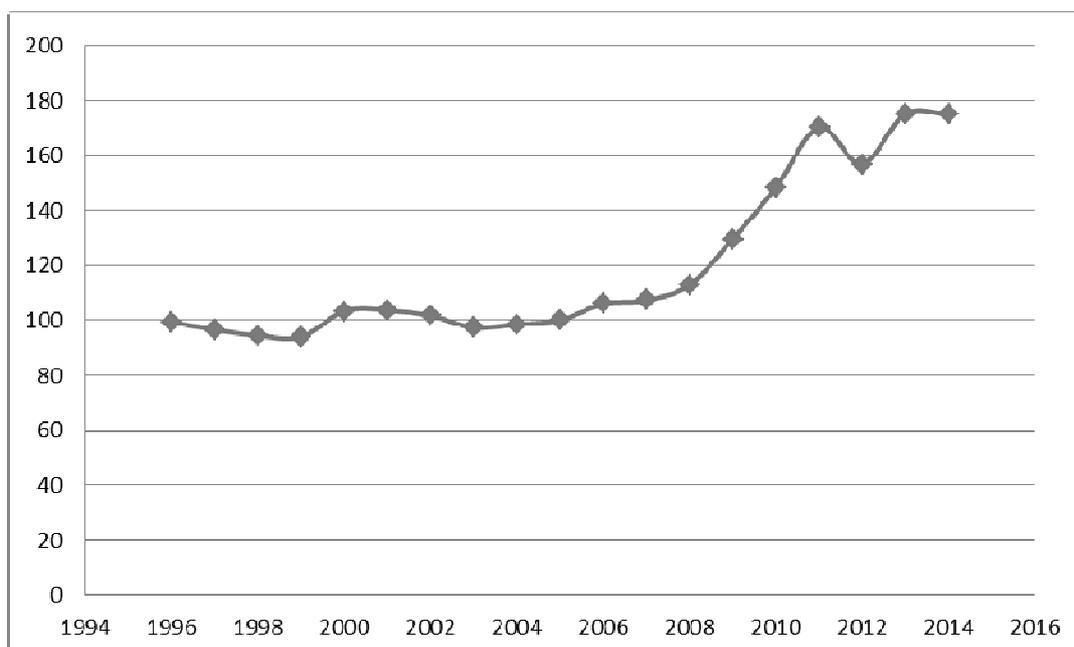
¹⁸ IMF, *World Economic Outlook October 2012*, box 1, p. 41.

Figure 12. Debt to GDP ratio: Rate of change (%) – quarterly data, 2010–2012



Source: Hellenic Statistical Authority (EL. STAT.)

Figure 13. Evolution of debt to GDP ratio, 1996–2014



Source: Eurostat, European Commission Directorate-General for Economic and Financial Affairs European Economic Forecast 2013.

The PSI (private sector involvement) agreement¹⁹ in February 2012 reduced the Greek debt to GDP ratio by 34 percentage points (33.8), but by the end of the year almost two-thirds of the reduction had been eliminated. It is more than clear that all factors contributing to the increasing pace of the debt ratio remain intact and reinforce one another – the only exception being the price level, though the rate of inflation remained at positive figures.

¹⁹ Under the PSI agreement private investors were asked to accept to write off 53.5 per cent of the face value of the Greek governmental bonds they were holding, the equivalent to an overall loss of around 75 per cent.

IMF staff use the following relation in exploring debt dynamics:

$$b_t = \frac{1 + i_t}{(1 + p_t) + (1 + g_t)} b_{t-1} + D_t + e_t$$

It has the interesting feature of referring to nominal magnitudes. As a result, the size of the debt is positively related to previous debt, the rate of interest on past debt and the extent of the primary budget deficit, and inversely related to the rate of inflation (GDP deflator) and the rate of growth. In a simpler expression the change in the debt ratio is calculated as:²⁰

$$db = (i - p - g)b_{t-1} + d_t$$

However, these relations cannot be estimated as single equation. The size of the primary budget deficit (surplus) has a significant effect on the rate of growth through the multiplier. Hence, the size of the multiplier not only affects the growth rate, it affects the debt dynamic as well. It seems that the forecasts made by the EC continue to be based on a multiplier of 0.5, i.e. of a value almost half the average value of the fiscal multipliers of the other eurozone countries.²¹ Furthermore, the size of the fiscal multiplier increases in times of recession from their level in times of normal growth.

This is probably the source of distorted forecasts in the past, to be repeated in the future, leading to a badly specified policy formulation.

2. The Greek labour market

2.1 Structure and trends

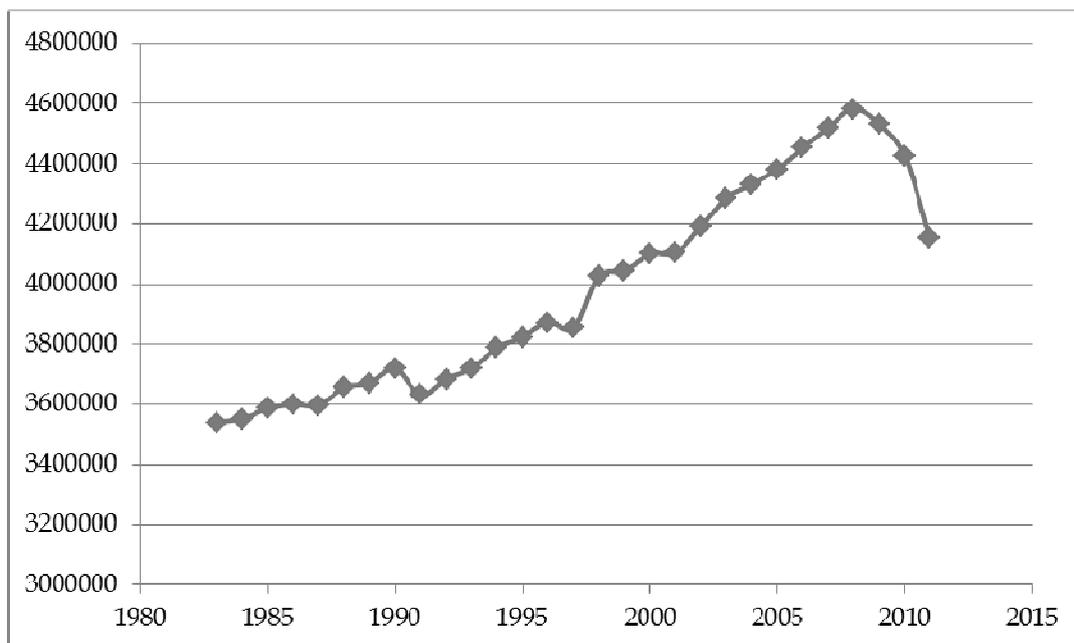
2.1.1 Employment

Employment in Greece increased almost steadily over a long period of 26 years from 1983 to 2008. The trend was reversed in 2008, resulting in a sharp reduction in the overall employment level. Figure 14 depicts the long-term tendencies in employment.

²⁰ P. Esposito et al., “The Debt Dynamic of Selected Euro Area Countries and Sustainable Paths for Fiscal Consolidation”.

²¹ J. Boussard et al., *Fiscal Multipliers and Public Debt Dynamics in Consolidations*, 2012, European Economy Economic Papers 460, Table 3, p. 12.

Figure 14. Total employment level, 1983–2012



Source: Labour Force Survey.

Note: The Labour Force Survey was conducted annually in the second quarter of the year for the period 1983–1997 and quarterly since 2008. In order to allow comparison, the second quarter is used in all years.

The upward trend was remarkably stable during the 1983–2008 period (with two small and short-lived exceptions in 1991 and 1997). On the average, the net increase in employment amounted to 42,000 per year, or an average rate of increase of 1 per cent.

An evaluation of this achievement must take the profound structural change in Greek employment into account. Employment in agriculture declined over this period at an average annual rate of 2.75 per cent. In consequence, employment in the non-agricultural sector more than countervailed the noticeable modernization of Greek society in terms of employment structure. The share of agriculture in total employment dropped from 30 per cent in 1983 to 11.6 per cent in 2011. However, this rapid transformation did not result in a significant increase in unemployment, mainly because of the age structure in agricultural employment. The much older labour force in agriculture led a flow out of employment into inactivity rather than to a seeking of employment opportunities in other sectors of economic activity.

A second transformation in the employment structure during this period was the increasing share of female employment. Though female employment rates are well below the average European levels, the ratio of female employment to total employment climbed from 32.7 per cent in 1983 to 39.4 per cent in 2008, i.e. a rather moderate rise.

A third important transformation in the Greek employment structure from 1983 to 2008 was the quite rapid upswing in wage employment. Wage employment in 1983 accounted for less than half (47.7 per cent) of total employment. In 2008 two-thirds of the employed were wage earners – 65.8 per cent of total employment.

Concentrating on the period 1999–2008, for which available data exist, table 2 focuses attention on evidence in regard to a hotly debated question in Greece: employment in the public sector.

Table 2. Wage employment by sector: 1999, 2004 and 2008

	Absolute levels			Average rate of change	
	1999	2004	2008	1999–2004	2004–2008
Public servants	435 433	499 700	519 649	3.0	1.0
Public organizations	164 829	225 968	223 845	7.4	–0.2
Municipalities	70 551	106 487	127 021	10.2	4.8
Public utilities	96 704	75 228	73 486	–4.4	–0.6
State-owned banks	44 367	37 845	33 761	–2.9	–2.7
Enterprises controlled by the public sector	39 751	42 097	44 359	1.2	1.3
Private sector	1 486 461	1 757 245	1 952 695	3.6	2.8
Total	2 338 096	2 744 570	2 974 816	3.5	2.1

Source: A. Dedoussopoulos, *The extent of precarious work in the public sector*, 2010, Panteion University. Data from Eurostat, Labour Force Survey (LFS).

In 2008, core public employment accounted for 11.5 per cent of total employment in Greece, or 17.5 per cent of wage employment. According to OECD data, only Germany, Ireland and the Netherlands of the EU countries had a lower percentage of core public employment than Greece in 2004. However, broad public sector employment accounted for 34.3 per cent of wage employment or 22.6 per cent of total employment in 2008. During the period from 1999 to 2008, core public employment contributed 14.4 per cent to the rise in total employment, while the share of the private sector accounted for 71.1 per cent of the total increase.

2.1.2 Evidence of flexibility in the Greek labour market

Flexi-types of work

Employment in the broad public sector defines the boundaries of a major section of the Greek labour market. It is characterized by secure job tenure, wage maturity and relatively low working hours. Overtime working hours, either real or in compensation for stagnating salaries, were paid regularly, though the work burden has been unequally distributed. This has long been the area of political clientelism, in a traditional or a renewed form,²² but its importance is rather overstated.

It is interesting to note that it is in the public sector, rather than in the private sector, where an overall increase in labour contract forms differing from full-time permanent work can be identified. Part-time work, work on fixed-term contracts, subcontracting and employee hiring, as well as stage employees (traineeship/internship) are often extended to

²² Traditional clientelism is defined as the political bond between a politician and his/hers voters, in which favours are exchanged for political support. Renewed clientelism is a form in which the clientelistic relation is mediated by the political party rank and file personnel. Greece's political system advocated traditional clientelism prior to the 1967 dictatorship. After the fall of the dictatorship in 1974 elements of traditional clientelism were maintained, while renewed clientelism emerged and became fully established after 1981. Although clientelism is a method of controlling the electorate's voting behaviour, it is not the main source of political corruption in Greece.

two or three years of continuous work and have flourished in both the core and broad public sector.²³

Table 3 indicates that in the period 1999–2004 (i.e. under PASOK, the Greek Panhellenic Socialist Movement) a plan of introducing “flexible” working patterns into the broad and core public sector was implemented.

The data in table 3 make it apparent that the private sector was rather indifferent to augmenting its use of flexi-type forms of work, at least until the outbreak of the crisis in 2008. There are a number of reasons for this private enterprise reluctance to expand flexi-type arrangements for its workforce. Two provisional considerations are in order.

First, it is clear that the legal framework, i.e. arrangements under the labour law brought about in the 1990s and the Civil Code, permit the extensive use of such types of work. Secondly, programmes of employment subsidies were directed towards increasing part-time jobs in the private sector in the late 1990s and in the 2000s. Nevertheless enterprises have avoided exploiting such opportunities.

A closer look at the data reveals that private firms employ part-time employees in sectors such as tourism, in large supermarket chains and in other service activities. Fixed-term jobs are more common in hotels, construction and in industrial sectors such as food processing, i.e. industries with a strong seasonal pattern of activity.

Second, part-time work and fixed-term work have never been popular among wage earners, since the total pay is comparatively small. Recent studies of poverty distribution among population segments have pointed out that poverty is more concentrated among part-timers than among the unemployed in Greece.²⁴

Table 3. Part-time and fixed-term contracts, 1999, 2004 and 2008

	Absolute levels			Average rate of change	
	1999	2004	2008	2004–1999	2008–2004
Part-time					
Public servants	8 566	13 100	12 600	10.6	–1.0
Public organizations	6 443	6 893	5 827	1.4	–3.9
Municipalities	4 119	2 925	4 825	–5.8	16.2
Public utilities	1 122	1 430	1 118	5.5	–5.5
State banks	750	0	407	–20.0	...
Enterprises controlled by the public sector	1 350	733	664	–9.1	–2.4
Private sector	94 726	94 638	109 089	0.0	3.8
Total	117 076	119 719	134 530	0.5	3.1
Fixed-term					
Public servants	22 857	36 732	38 297	12.1	1.1
Public organizations	14 731	25 405	23 214	14.5	–2.2
Municipalities	10 431	18 644	22 900	15.7	5.7

²³ A. Dedoussopoulos (2010).

²⁴ See C. Papatheodorou and Y. Dafermos (2010).

	Absolute levels			Average rate of change	
	1999	2004	2008	2004–1999	2008–2004
Public utilities	4 035	3 967	6 531	–0.3	16.2
State banks	1 400	799	624	–8.6	–5.5
Enterprises controlled by the public sector	3 149	2 638	3 344	–3.2	6.7
Private sector	258 443	253 066	247 990	–0.4	–0.5
Total	315 046	341 251	342 900	1.7	0.1

Sources: LFS; authors' calculations.

Returning to the question of the private sector's reluctance to expand flexi-types of work, one should be careful to distinguish between the legal provisions for the regulation of the labour market and the actual implementation of such provisions. The implementation of Labour Law regulations, especially those on the notification of overtime work and payment of overtime premiums, is one of the many grey areas in the functioning of the Greek labour market. Reports by the Labour Inspectorate Body (LIB) reveal that many firms systematically avoid the payment of overtime hours, even before the crisis started.²⁵ According to a standard labour economics treatment of the issue, law violation is greater the larger the benefit, the smaller the possibility of being caught and the smaller the fine imposed. This is what actually takes place in the Greek labour market. Labour inspectors usually intervene only after a formal complaint is posted and inspections initiated by the inspectors themselves are rare. Fines are small and very often not paid by the firm.

The same applies on an even larger scale to the clandestine labour force, which is composed of persons of Greek nationality and foreign immigrants. The actual size of this uninsured workforce cannot be estimated, but it is considered to be large, especially in construction, agriculture, tourism, some manufacturing industries, and services.²⁶

Labour mobility

An additional piece of evidence of the high degree of flexibility inherent in the Greek labour market comes from hiring and firing statistics. The three graphs below (figures 15 to 17) indicate the evolution of dismissal and hiring levels per wage earner and the ratio of hiring to dismissals. All point to the same result. The Greek labour market is extremely unregulated, to a degree that the stability of the whole social system is put into question.²⁷

Since 1997 there has been a rapid change in labour protection. Most changes had been unopposed by trade unions. But, within five years, dismissals had climbed steadily. As figure 15 shows, the historical probability for a wage earner to be dismissed during a year increased from 13 per cent to 25 per cent within the period reviewed. That is, on average, a quarter of all wage earners had lost their jobs within a year as early as 2001. For wage

²⁵ Out of 300 Labour Law violations recorded by labour inspectors in the second half of 1999, 245 were violations of time schedules. See LIB, Report 1999, p. 52. Unpaid overtime work amounted to 40 per cent of total overtime (notified and not notified) in the early 2000s. See A. Dedoussopoulos (2005b).

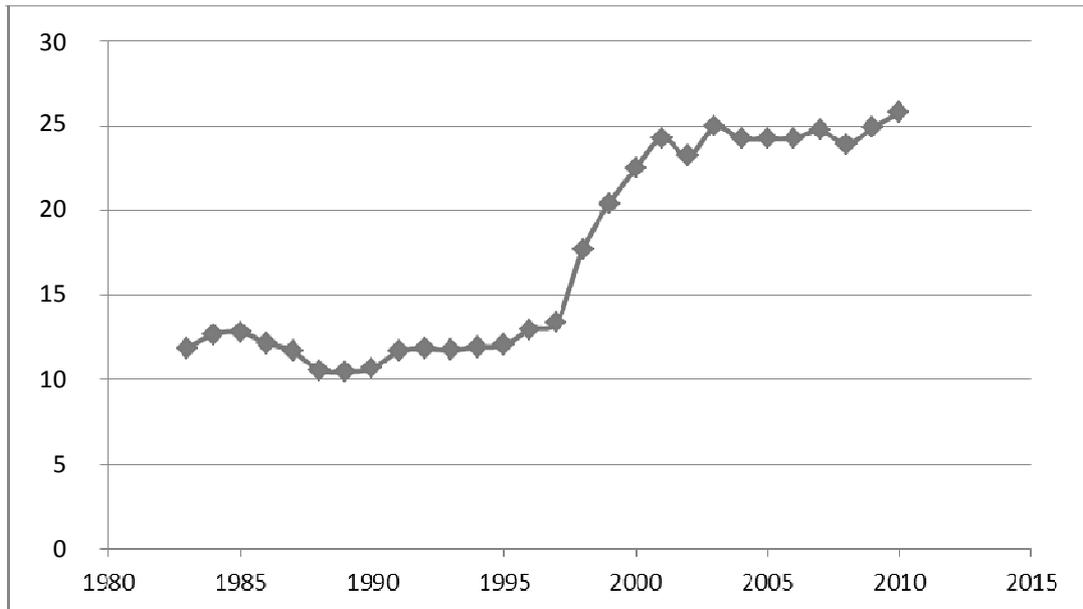
²⁶ In this sense, i.e. when the gap between legal provisions and the implementation of the law is taken into account, one should consider the Greek labour market as an extremely flexible and highly deregulated market, contrary to the assertions made by international organizations such as OECD. Actually, the non-implementation of regulation provisions was an argument put forward by the Government in support of Labour Law changes and the abolition of the General Collective Agreement in February 2012.

²⁷ On this, see A. Dedoussopoulos (2005b) and A. Dedoussopoulos (2011).

earners outside the core of the public sector, this probability increases by six percentage points. Job insecurity had been established long before the recent legislation was adopted.

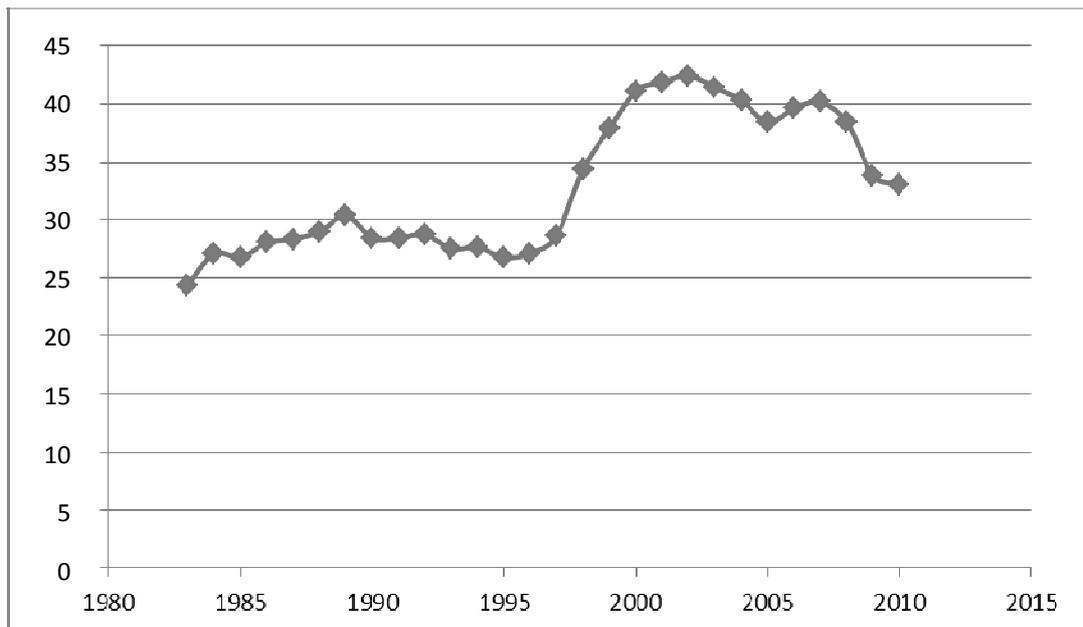
Has job insecurity had any positive results in terms of employment? The answer is negative. After a sharp increase in hiring levels, a phenomenon that was quite extraordinary as more than 40 per cent of all wage earners seemed to change jobs or enter a new job within a year, a clear negative tendency started in 2002 (figure 16). The graphs thus indicate a very high turnover ratio, which is partly responsible for a number of the negative features of the Greek labour market. These include low productivity, low rates of innovation, extremely low rates of actual on-the-job training and re-training, among others.

Figure 15. Percentage of all wage earners dismissed within a year, 1983–2012



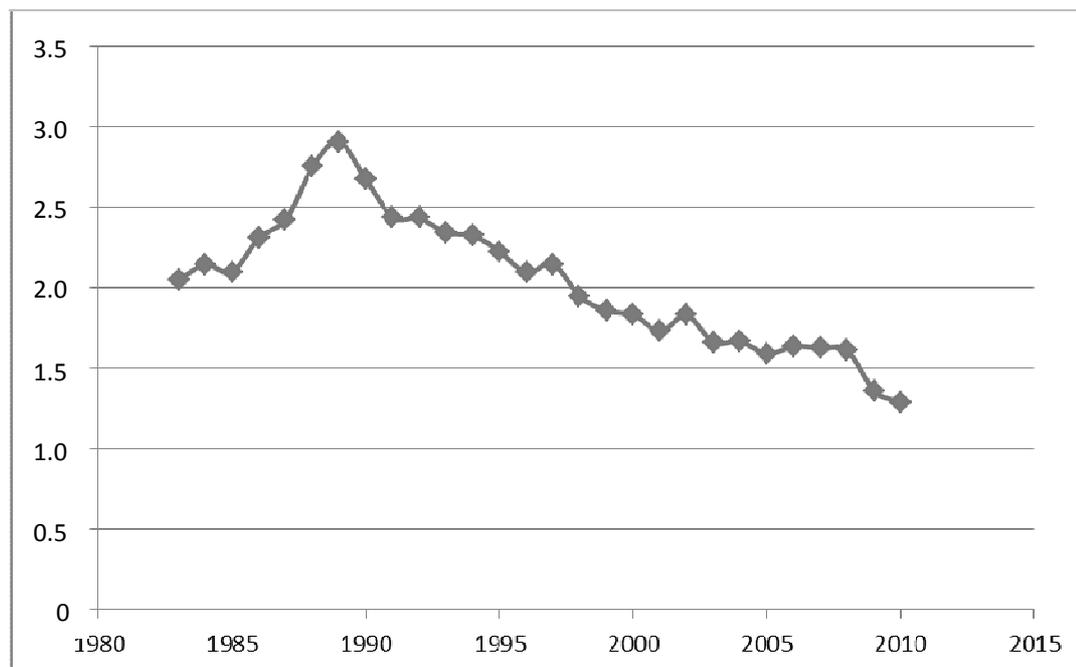
Sources: Bank of Greece and LFS; authors' calculations.

Figure 16. Percentage of all wage earners hired for a new job, 1983–2010



Sources: Bank of Greece and LFS; authors' calculations.

Figure 17. Evolution of hirings/dismissals ratios, 1982–2010



Sources: Bank of Greece and LFS; authors' calculations.

Figure 17 recapitulates the basic argument. The ease with which dismissals are made relates negatively to decisions of private firms to hire personnel. The medicine is prescribed because the diagnosis of the problem is biased.

This evidence is in conflict with the labour flows reported in EC *Employment in Europe 2009* and in OECD *Employment Outlook 2009*. In both these publications, using data from the Labour Force Survey (LFS), mobility in Greece is estimated very low. Differences in statistical data are important in explaining such a divergence. This paper uses administrative data recording all dismissals and hirings *within a year* for wage labour under private contracts. LFS data are longitudinal-type data referring to two periods. The person interviewed reports his/her state of employment in the previous period (preceding year) and his/her current situation. He/she does not report any changes in employment *during* the year. Short periods of employment followed by short periods of unemployment, or frequent changes in employment are not recorded.

Second, if labour flows are linked to spells of employment (or unemployment) reference has to be made to the concept of equilibrium unemployment, i.e. a model which is based on the assumption that unemployment is partly a consequence of rational choices made by the unemployed themselves. The authors do not support this approach, especially in times of high and increasing unemployment.²⁸

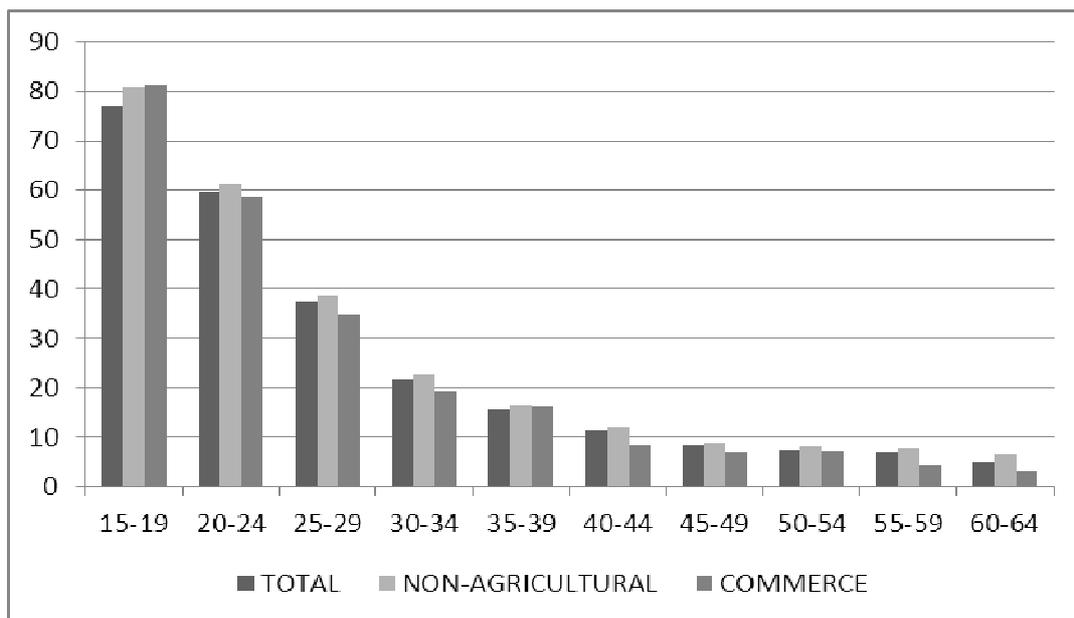
Third, one should consider the question of denominator, especially when cross-country comparisons are made. Greece has a comparatively low share of wage labour in total employment. Independent professions, shopkeepers, small farm agriculture and small firms in manufacturing and services account for a far more significant section of the working population than in other EU countries. Presumably their mobility is extremely limited; in fact it is affected by the birth and death rates of the corresponding firms and professions. If the wage labour segment and the independent labour segment are not treated separately, estimates of labour mobility in the labour market are bound to be distorted downward.

²⁸ For a discussion of the relevant literature, see A. Dedoussopoulos 2000, *Theories of Unemployment*, Typothito (in Greek).

There is additional evidence in support of a high mobility of wage labour among firms, sectors and, possibly, occupations. In the Labour Force Survey, wage earners are asked to answer a question regarding the time they started to work under their current employer. The elaboration of these data is reported in figures 18 and 19 for the year 2007.

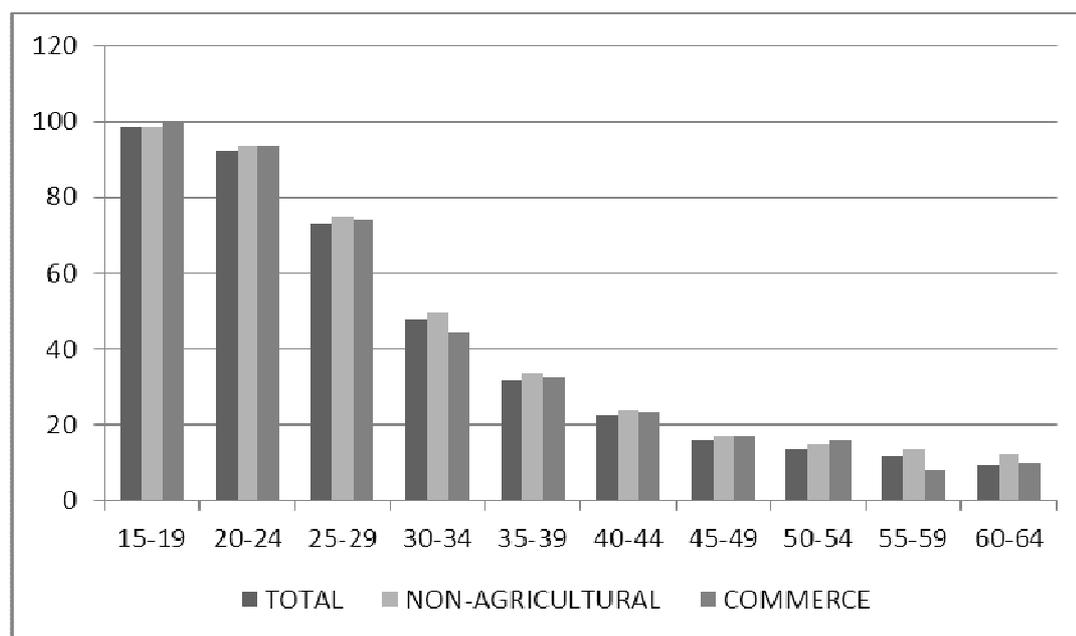
As expected, mobility declines with age, but even at the age of 60+ 17.5 per cent of the age group was hired within less than five years of the Survey and 8.2 per cent of the same age group within less than two years. The respective rates for mature working ages (age cohort 35–39) are as high as 30.1 per cent and 11.7 per cent.

Figure 18. Percentage of wage earners who started working with their current employer in the last two years



Sources: LFS; authors' calculations.

Figure 19. Percentage of wage earners who started working with their current employer in the last five years



Sources: LFS; authors' calculations.

Wages and labour costs

Wages and labour costs have been the main area of controversy in the Greek debate over the Memoranda. As will be shown in chapter 3, the aim of all legal action on collective bargaining procedures has been to introduce a greater degree of flexibility in the wage-setting mechanisms.

The main argument, from the employers' point of view, is that the collective bargaining process in Greece had resulted in wages that are irresponsive to the actual situation in the industrial sectors and/or individual firms. Sectoral or occupational bargaining began from a previously concluded national collective agreement (NCA) which set the minimum wage. Then, sectoral or occupational agreements put a mark-up on wage increases, with the wages determined in a cumulative pattern. According to some views, the independent Organization for Mediation and Arbitration (OMED) made decisions irrespective of the economic prospects of sectors or individual firms. Some malfunctions in the setting of wages through structures that existed until recently and processes of collective bargaining are acknowledged by representatives of entrepreneurial interests and by the President of the General Confederation of Greek Workers (GCL), but not by the other members of the GCL Board of Directors. In any case, they did not consider the problem a very important one, and their proposals tended towards the institutionalization of clearly defined exemptions rather than the abolition of collective bargaining as such.

An estimate of the responsiveness of wages and earnings to labour market conditions and evidence of how wages diverge across industries in the private sector are given below. But before going to that, it is useful to point out the significance of some related evidence.

Figure 20 reports the difference between nominal increases in the wage rate minus the rate of inflation and the rate of change of labour productivity. This is based on a simple model of wage setting which assumes:

$$\dot{W} = \dot{P} + \dot{q} \quad \text{where } \dot{W} \text{ is the rate of change in money wages, } \dot{P} \text{ the rate of inflation and } \dot{q} \text{ the rate of change in the productivity of labour.}$$

Hence, the data in figure 20 report deviations from this wage-setting mechanism. If the value is positive, it is to the benefit of wage earners; if it is negative, it favours the enterprises.

First, the long period from 1964 to 2001, i.e. before Greece entered the eurozone, is examined. What is striking is that, with a few exceptions over this period, the wage-setting mechanism favoured enterprises, not labour. The exceptions to this ‘rule’ were linked mostly to political changes: the years after the restoration of democracy (1974–1978); the first PASOK²⁹ Government (1981–1984); the three-party Government in 1989–1990. One can easily deduce that the wage-setting process has been determined by political events of major significance as the balance of power shifted in one direction or the other. But throughout this entire period, wage rate increases did not cover inflation or changes in productivity.³⁰

Figure 21 tries to extend the argument into the euro years.³¹ These time series data are at nominal prices and no attempt has been made to exclude changes in the consumer and producer price indices. Wage data for two distinct categories of employees: salaried personnel and manual labour are included. The composition of employees in manufacturing has been changing rapidly in favour of salaried personnel.

Again, wage pressures seemed to lessen in the period after the Olympic Games and a redistributive effect against wage labour has been seen since 2006.

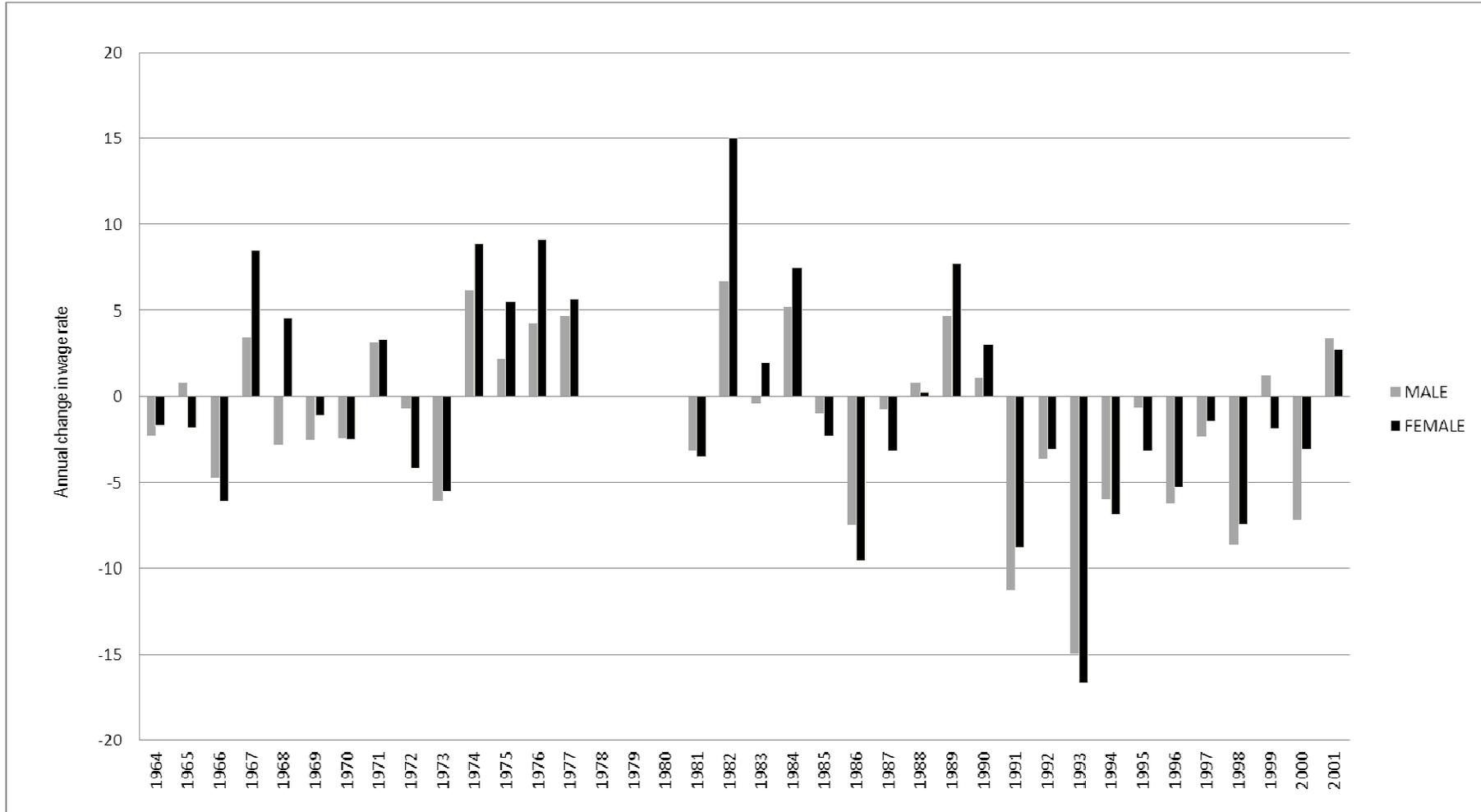
In 2007, the share of total labour cost in total manufacturing costs averaged 15.2 per cent. This implies that a reduction of labour cost by 22 per cent would have a moderate effect on total cost of less than 3.5 per cent to 5 per cent if indirect effects through intermediate inputs are taken into consideration. Most probably, market prices would be unaffected. Thus, wage reduction would lead to a temporary increase in profits, but to a severe reduction in domestic demand, i.e. the acceleration of deflation. Even if product prices were reduced by 5 per cent or more, the net effect on the final demand for products would be negative, as the income elasticity effect would prevail.

²⁹ Greek Panhellenic Socialist Movement.

³⁰ See A. Dedoussopoulos (2005).

³¹ Data from different sources are used in the construction of figures 20 and 21. Figure 20 is based on the Social Insurance Institute’s estimate of wages for male and female employees. The productivity index is constructed from the indices of industrial production and employment taken from the Annual Industrial Survey of the National Statistical Service of Greece. Figure 21, also based on the Industrial Survey, covers establishments with more than 10 employees. No data are available after 2007. Productivity is measured by net value-added divided by the number of employed personnel (including owners of firms participating as well as members of their family working with no formal compensation).

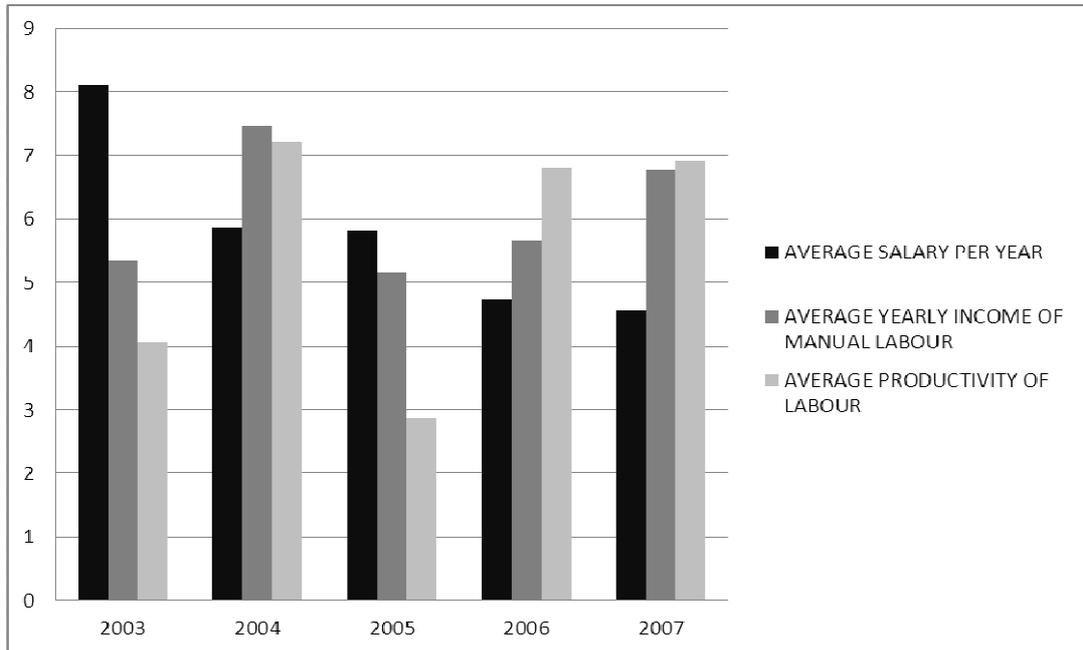
Figure 20. Annual differences between increases in wage rates and changes in labour productivity, male and female work force, 1964–2000



Source: National Statistical Service of Greece, Annual Industrial Survey.

Note: Wage rate change minus inflation minus the rate of change in labour productivity

Figure 21. Rate of change (%) in yearly wage incomes and labour productivity, 2003–2007



Christina Berdekli, a Ph.D. student at Panteion University who is working on how to measure flexibility in the labour market, has provided answers to crucial questions. For the period 1983 to 2007, she has estimated the elasticity of wages with respect to unemployment, a sound measure of wage responsiveness to labour market conditions, as follows:

$$\frac{d\left(\frac{w}{p}\right)}{du} * \frac{u}{\frac{w}{p}}$$

where w is the wage rate, p the level of prices (price index) and u the unemployment rate.

She discovered that elasticity changes over time. The overall patterns of elasticity change vis-à-vis the unemployment rates of mature male and female wage earners are similar. Elasticity has been steadily falling over time and since 1988 its value for the male wage has been negative, as expected. However, for females, wage elasticity of wages remained positive until 2000 and since then has also displayed negative values. Her findings are reported in figures 22 and 23 below.

Figure 22. Wage elasticity (%) of men in relation to the unemployment rate of mature men, 1984 to 2007

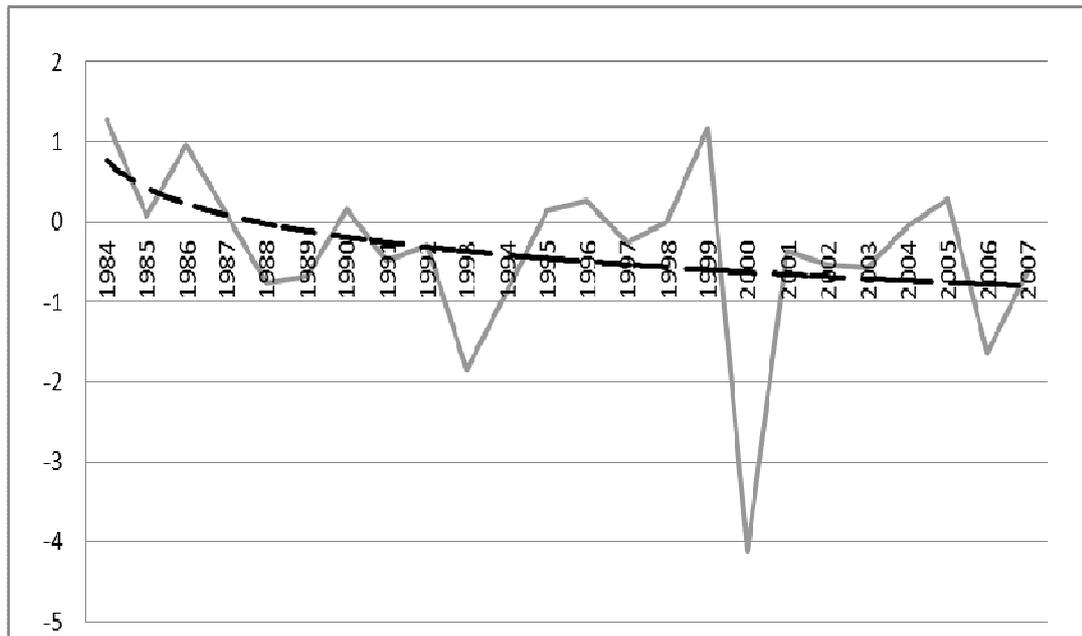
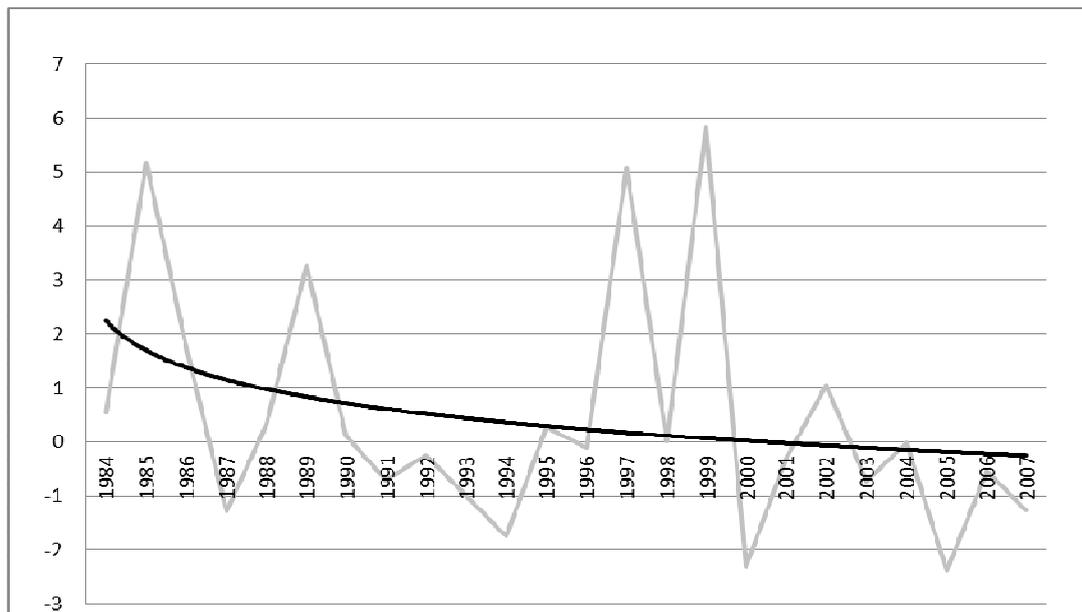


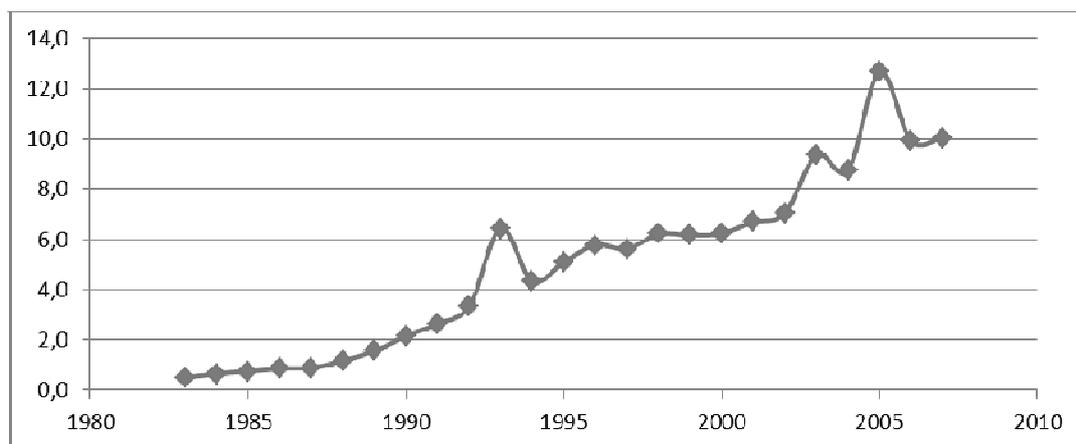
Figure 23. Wage elasticity (%) of women in relation to the unemployment rate of mature women, 1984–2007



According to Berdekli's findings, and using her estimated elasticity value for 2007, a 1 per cent increase in the unemployment rate would have resulted in a 0.6 per cent reduction in the male real wage rate and in a 1.26 per cent fall in the female real wage rate.

On the question of sectoral wage flexibility, Berdekli has also obtained some interesting results. Estimating standard deviations of sectoral wages from the average for the entire manufacturing industry over the same period, she found that the diversity among manufacturing sectors increases significantly over time. Her findings are shown in figure 23.

Figure 24. Standard deviations of average earnings across manufacturing sectors, 1982–2007



Source: Christina Berdekli (estimates)

Some of this increased diversity may be attributable to factors such as changing gender, educational and occupational composition of employees, differences in employee management, turnover rates and seniority rules. However, when all these considerations are taken into account, the evidence seems incompatible with the view of a highly centralized and bureaucratically managed institutional wage-setting process.

A provisional conclusion

All the evidence indicates that the Greek labour market has not been strictly regulated. It is clear that the market is highly fragmented, but every national labour market is highly segmented. Employment in the core of the public sector has been well protected, that in the broad public sector has been relatively well protected, and employment in the private sector provided far better protection for white-collar occupations than for blue-collar ones. Discrimination against female employees and professionals still exists (while male-female pay differences are converging, they are not equalizing), and discrimination against youth is widespread. The large immigration flows have reinforced black economy structures and tend to create a parallel structure of employment opportunities comprising peddling, petty crime, drug dealing and trafficking in addition to unrecorded labour. Many private firms providing services to state organizations (contracting), especially in the areas of cleaning and maintenance, rely on cheap uninsured immigrant labour. The boundaries between the black or the grey economy on the one hand and that of crime are never clearly defined. There have been certain accusations in the past concerning the role of trade unionists in running such subcontracting firms (the case of Kouneva).³² Forms of grass roots trade unionism are appearing in some occupations characterized by precariousness (delivery and courier services, etc.), but the official trade unions continue to be rather unsupportive.

One should be very cautious in using overall indices of labour market flexibility. The trade-off between flexibility and security is not always clearly defined. However, a review of flex-security, a topic that has been rapidly forgotten, and the merits of combining labour market flexibility with security indicates that, to a certain extent, there may be more complementarity than conflict between these two ideas.

Furthermore, given that a minimum of security is a necessary precondition for social coherence, one should consider the numerous trade-offs possible between flexibility and

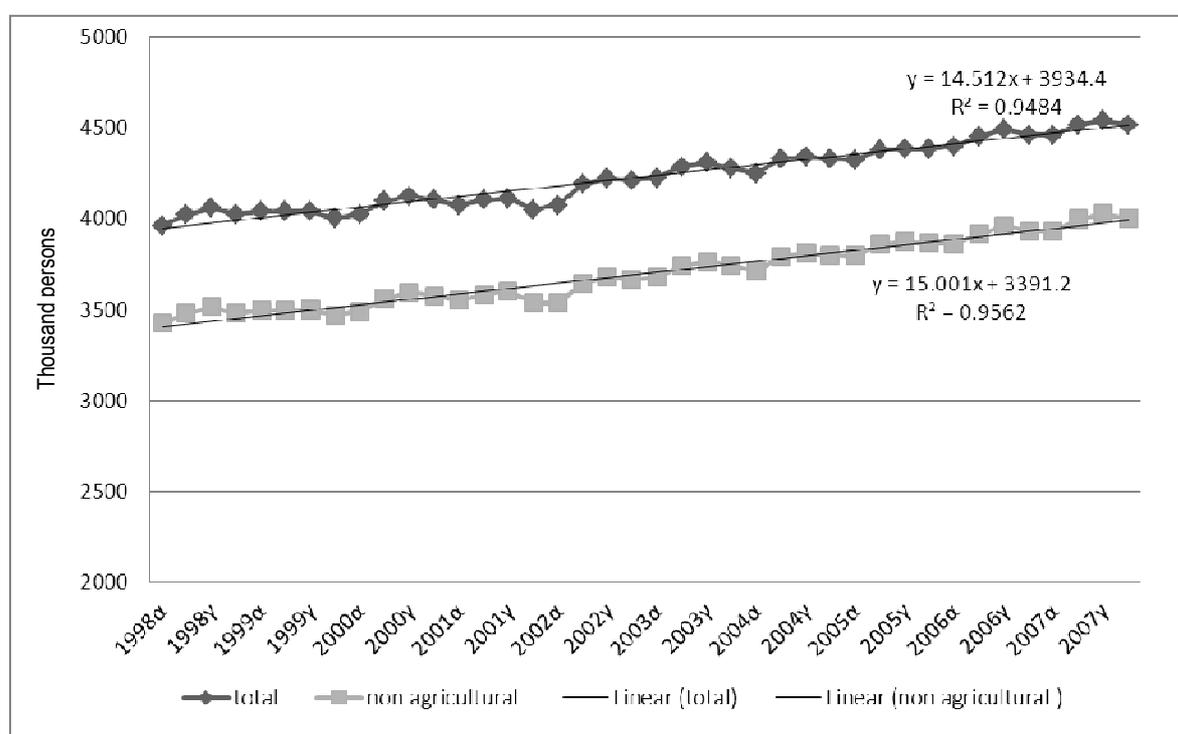
³² Kouneva is a immigrant woman working in a cleaning firm under a subcontract with a broad public sector enterprise. Kouneva had been active in trade unions and, after threats, she was attacked and acid was thrown at her, causing severe damage. The subcontracting firm was run by a former trade union leader. The case did never come to justice.

security. Within the flexibility nexus, the undeclared and mostly unpaid overtime work in the Greek private sector can be considered a trade-off with the creation of new jobs in times of prosperity. In the security area, there is a trade-off between the level of compensation in lay-offs and the level of unemployment benefits in relation to former wage revenues. These issues, though noted in advance, have never been the concern of public policy.³³

2.2 Employment in times of crisis

In order to estimate the effect of the current crisis on the Greek labour market it is worth comparing the pattern of employment growth before and after the 2008 crisis. Figure 25 indicates the quarterly level of total and non-agricultural employment³⁴ for the period 1998a–2007d.³⁵

Figure 25. Employment level, 1998a–2007d



Source: Eurostat, Labour Force Survey (LFS).

What is remarkable about the situation depicted in figure 25 is the constancy of a strong upward tendency in both total and non-agricultural employment. Average employment in Greece increased by 15 000 persons in each quarter, or by 60 000 persons yearly. This rate of increase was sufficient to absorb the fall in agricultural employment and to cut the unemployment rate from 10.8 per cent in 1998 to 8.1 per cent in 2007.

Figure 26 indicates the evolution of the level of employment since 2008 (first quarter), i.e. during the times of crisis. The tendency is not a linear one anymore, but quadratic. The

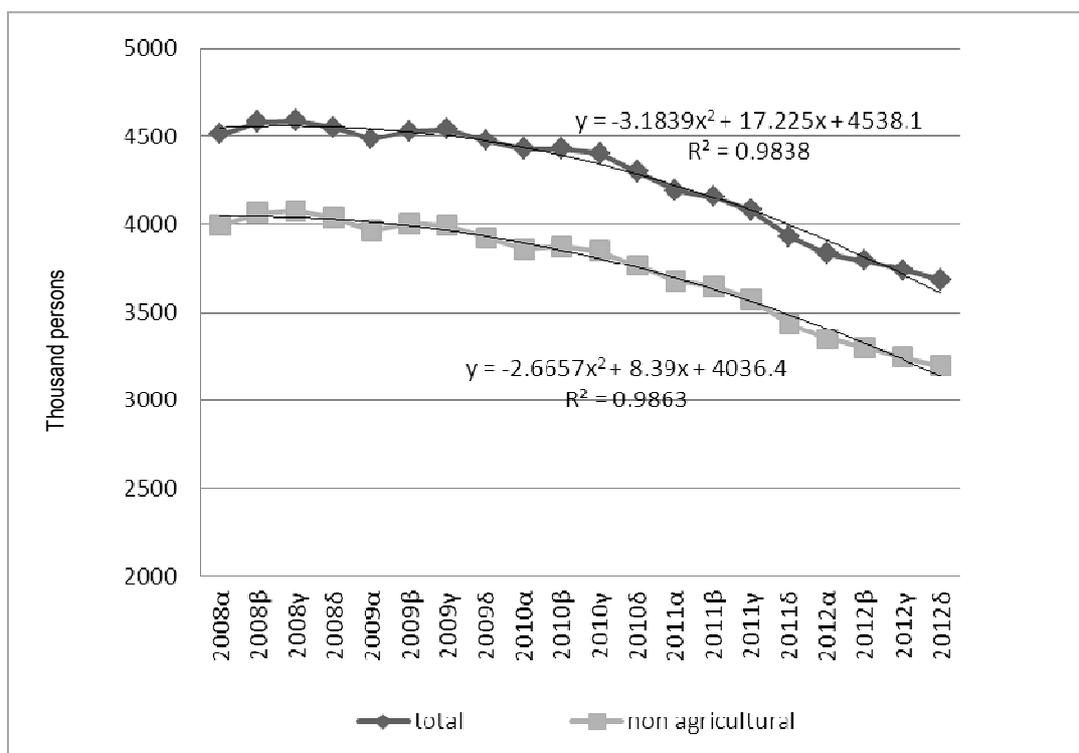
³³ A. Dedoussopoulos et al., *Social Preconditions of Employment and Unemployment*, 1997, in two volumes, Panteion University and the Ministry for Development.

³⁴ Agricultural employment has been falling sharply over the years, mainly because of its age structure. However, this decline has not resulted in a significant net movement of employment from agriculture to other sectors. Another characteristic of agricultural employment in Greece is its biannual cyclical pattern.

³⁵ Letters a, b, c, d behind the year indicate respective quarter.

effect of crisis on employment levels is depicted by the square term of time in the quadratic form of tendency, indicating an accelerating rate of (negative) change.

Figure 26. Level of employment during the crisis, 2008a–2012d



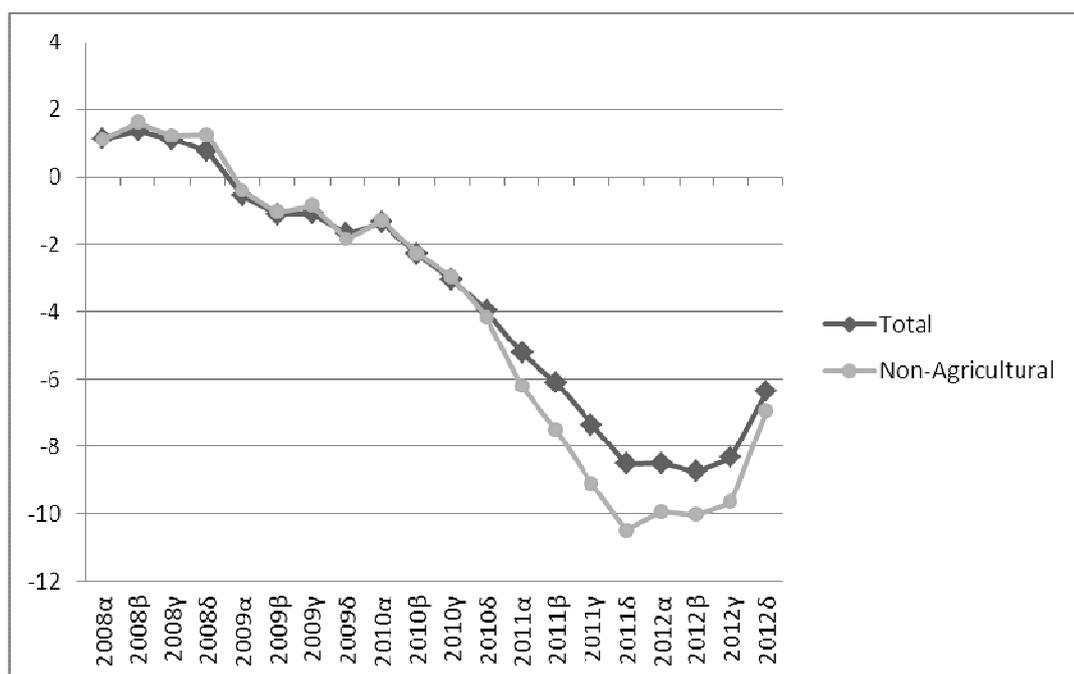
A comparison of the tendencies before and during the crisis illuminates the above argument.

Period	t (time)	t ²
Before (1998a–2007d)	15.001	
During (2008a–2012d)	14.013	-3.581

Figure 27 indicates the annual rate of change in employment in the period 2008–2012, as compared to the same quarter in the previous year. A slight improvement is noticeable for the last quarter of 2012, though the rate remains negative and of high value (–7 per cent for non-agricultural employment). For the three other quarters of 2012 the rate of change in non-agricultural employment remained near to –10 per cent annualized.

On the whole, over the period 2009a–2012d the Greek economy lost 871,000 job positions. A simple arithmetical calculation would imply that if the economy had regained the pre-crisis pace of job creation of 60 000 jobs per year, it would have taken 14.5 years to return to the employment level of 2009a. This alone indicates the extent of the employment crisis and the problems ahead.

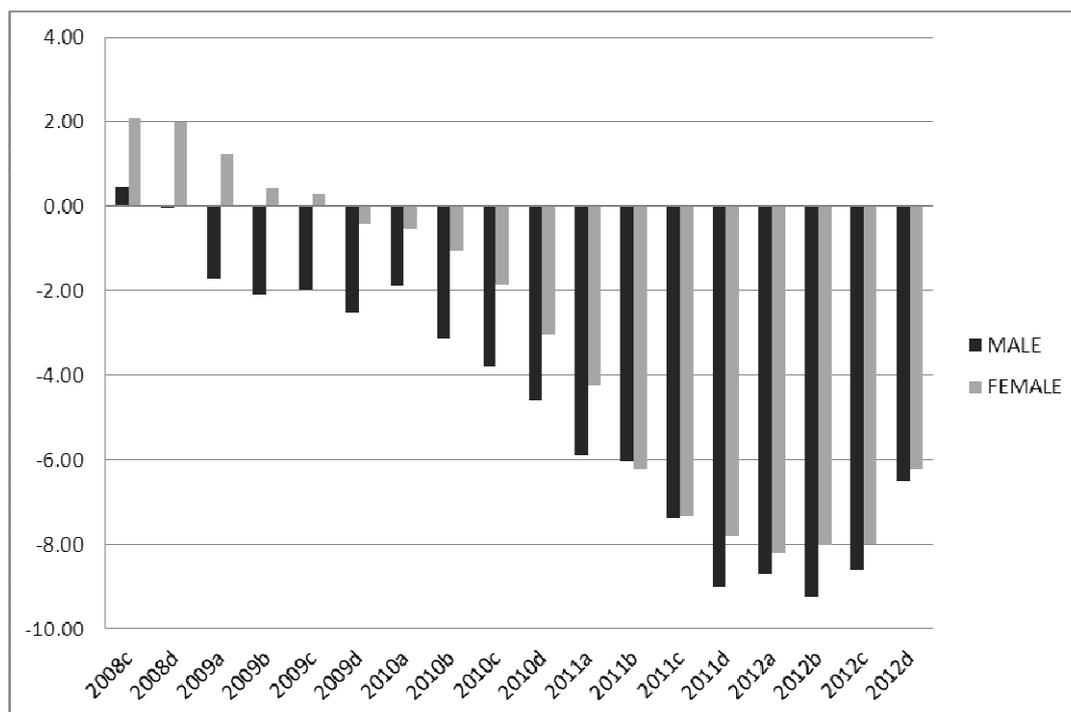
Figure 27. Rate of change (%) in employment level – same quarter previous year, 2008–2012d



The fall in employment accelerated with the implementation of Memorandum I. At the beginning of the crisis, construction and manufacturing were the sectors most severely affected, but soon the employment crisis affected the service sectors as well. This produced a particular pattern in the adjustment of employment levels by gender. The crisis first made its impact on male employment, as there was a large concentration of male employment in manufacturing and, especially, in construction. The response of female employment was delayed by almost four quarters. This pattern in employment adjustment is shown in figure 28.

It should be noted that although part-time jobs slightly increased their share in total employment, the absolute numbers of both part-time and fixed-term jobs decreased over the period reviewed.

Figure 28. Rate of change in employment by gender, 2008a*–2012d*



Sources: Eurostat, LFS; authors' calculations.

*a = first quarter, d = fourth quarter

An econometric estimation

Previous attempts to estimate an econometric Okun-type* relationship between changes in GDP and changes in employment or unemployment from annual data did not succeed. Some economists considered this an indication of labour market inflexibility, i.e. employment was not responsive to production changes. However, the use of quarterly data indicates that such a relationship exists and that it is statistically valid.

The authors have estimated a relationship between the dependent variable rate of change in employment level and the independent variable rate of change in GDP (at constant, producer prices). In fact, they have estimated an employment function. Lags in GDP have been included, indicating a time-spread effect of GDP changes on the employment level. The effect has a duration of three quarters.

The estimated relationship is shown below.

Dependent variable

Rate of change in employment level

\dot{N}_t

Independent variable(s)	Coefficient (b)	t – value
Rate of change in GDP t	0.27	4.39
Rate of change in GDP t-1	0.14	6.01
Rate of change in GDP t-2	0.14	9.07
Rate of change in GDP t-3	0.18	4.64
Constant	-0.47	

$R^2 = 0.723$

DW = 1.566

$$\dot{N} = -0.47 + 0.27GDP_t + 0.14GDP_{t-1} + 0.14GDP_{t-2} + 0.18GDP_{t-3}$$

This implies that a 1 per cent drop in GDP level will have a cumulative effect of a reduction of more than 1.2 per cent in the level of employment within three quarters.

* The percentage by which GNP/GDP changes when unemployment changes by 1% is called the Okun coefficient.

All sectors of economic activity have been experiencing severe cuts in employment levels, with the exception of small service sectors such as property management and professional services to business. Over the period 2009–2012 three main sectors of economic activity contributed almost 60 per cent of all job losses. Manufacture and construction were hit earlier. While employment in trade started to decline only after 2010, this decline has been quite severe. In 2012 one in four job losses occurred in the trade sector.

The distribution of job losses by sector and by gender indicates that the job losses in male employment are concentrated in the sectors producing material goods (87 per cent of these losses are in construction, manufacturing and agriculture). Losses in female employment are observed mainly in services; only 32 per cent of all female job losses are in construction, manufacturing and agriculture.

Table 4. Contribution of sectors to employment reduction, 2009–2011 (as percentage of all jobs lost)

Economic sector	2009d–2010d*	2010d–2011d*	2011d–2012d*	Total
Agriculture, forestry and fishing	9.80	10.12	4.46	8.26
Mining and quarrying	0.11	0.60	0.52	0.47
Manufacturing	25.63	16.56	15.26	18.17
Electricity, gas, steam and air conditioning supply	1.35	–0.41	–0.48	–0.04
Water supply; sewerage, waste management and remediation activities	–0.73	1.94	0.92	1.02
Construction	36.90	19.53	15.74	22.21
Wholesale and retail trade; repair of motor vehicles and motorcycles	–1.86	19.53	26.45	16.94
Transportation and storage	2.65	4.61	5.54	4.46
Accommodation and food service activities	10.76	2.70	9.76	6.73
Information and communication	2.65	4.09	–3.90	1.25
Financial and insurance activities	–0.68	–0.79	5.30	1.16
Real estate activities	1.07	–0.55	0.80	0.24
Professional, scientific and technical activities	7.61	–0.82	–1.75	0.77
Administrative and support service activities	–3.55	1.31	3.63	0.96
Public administration and defence; compulsory social security	2.03	7.67	–2.87	3.08
Education	6.87	2.76	9.32	5.75
Human health and social work activities	–1.46	2.40	3.71	1.95
Arts, entertainment and recreation	0.39	0.25	2.67	1.04

Economic sector	2009d–2010d*	2010d–2011d*	2011d–2012d*	Total
Other service activities	-1.92	1.50	1.75	0.82
Activities of households as employers	2.20	7.12	3.03	4.73
Activities of extraterritorial organizations and bodies	0.17	-0.11	0.16	0.04
	100.0	100.0	100.0	100.0

Source:LFS, authors' calculations

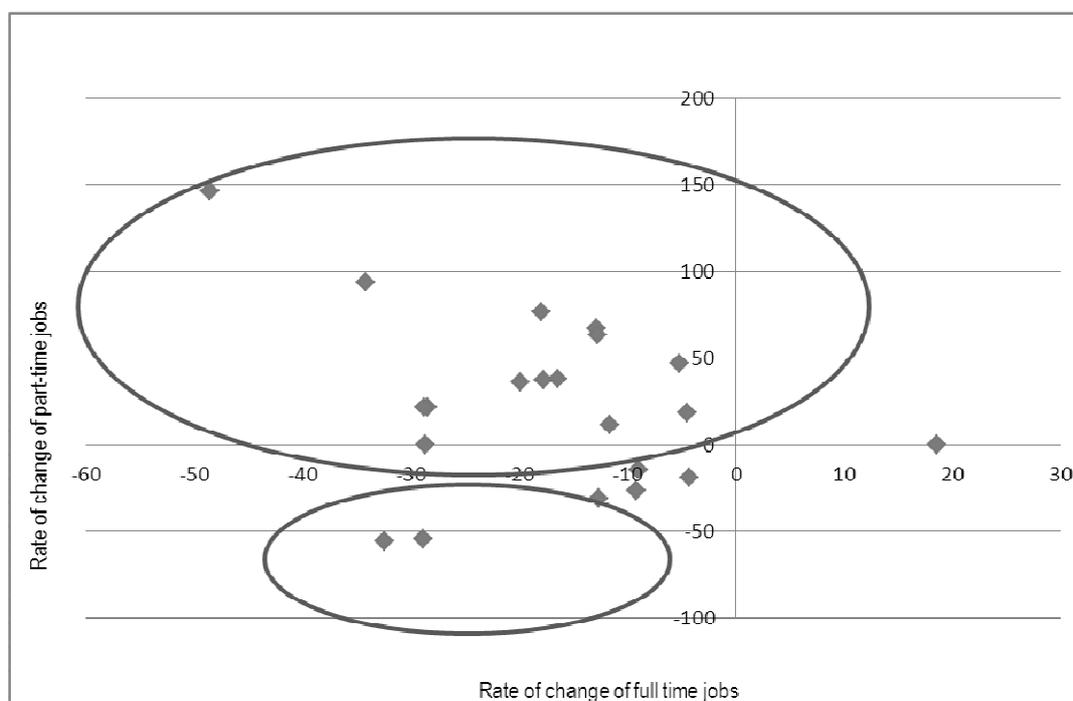
* Fourth quarter

Deep and widely spread reductions in employment levels in all economic sectors are indicative of the extent of the crisis, but this picture is incomplete. Qualitative and quantitative evidence both support the view of dramatic changes in labour relations, social dialogue, the enumeration of labour and living standards.

Part-time employment increased, as expected. In 2008, with the exception of agriculture, part-time employment had been concentrated in a few economic sectors, namely trade, tourism, education and household services. Part-time employment has been otherwise unpopular both among entrepreneurs and salaried personnel. Between 2008c and 2012c part-time employment increased by 17.6 per cent, while full-time employment dropped by 20.6 per cent.

Two mechanisms contribute to this result. While part-time work increases among previously full-time personnel as activity rates are reduced, some firms are exploring the possibility of increasing flexi-type jobs. Figure 29 indicates the direction and the extent of changes in employment and part-time employment by sector of economic activity.

Figure 29. Rates of change in total employment and part-time employment by sector, 2008c–2012c



Sources: LFS; authors' calculations.

In seven sectors total employment and part-time employment change in the same direction, i.e. they both shrink. In all other sectors a fall in total employment is accompanied by a rise in part-time employment. Part-time work and job rotation rose marginally in construction and mainly in manufacture partly as a result of the “labour hoarding” policies advocated by firms to retain skilled personnel.³⁶

A press release from the Labour Inspectorate Body (LIB)³⁷ indicates the extent of the problems faced. The evidence is summarized in tables 5 and 6. Two aspects need to be noted.

First, a rapid decline is observed in the total number of new job contracts (hiring) during the period 2009 to 2012. The decline amounted to 27.7 per cent, a development indicating both the extent of the recession and diminished labour mobility.

Table 5. Number and distribution of new contracts, 2009–2012

	No. of new contracts	Type of new contracts		
		Full-time	Part-time	Job rotation
2009	945 138	746 911	157 738	40 489
2010	875 952	586 281	228 994	60 677
2011	762 544	460 706	233 538	68 300
2012	683 443	375 843	241 985	65 615
Composition of new contracts (percentage of total)				
2009	100	79.0	16.7	4.3
2010	100	66.9	26.1	6.9
2011	100	60.4	30.6	9.0
2012	100	55.0	35.4	9.6

Source: LIB, press release 12th March 2013, Tables I, IV and V.

Second, there was a rapid fall in the share of full-time jobs in new contracts, while the share of part-time jobs and job rotation more than doubled. The share of job rotation increased in the first three years, but dropped between 2011 and 2012. The share of part-time jobs swung up by 53.4 per cent in the overall period reviewed as did job rotation which rose by 62.1 per cent. The share of full-time job contracts fell by 49.7 per cent.

During the same period there was a clear tendency to change the status of current job contracts. Table 6 reports the relevant evidence.

³⁶ See A. Dedoussopoulos, The State of the Greek Labour Market under Crisis, part of an ongoing research project on Strategic Human Resources Management, Hay Group, OMAS, EEDE.

³⁷ LIB, press release 12 March 2013.

Table 6. Changes in the form of job contracts, 2009–2012

	Total	Part-time	Job rotation		
			Total	Rotation 1	Rotation 2
2009	16 977	12 219	4 758	4 146	612
2010	26 253	18 713	7 540	6 527	1 013
2011	58 962	32 420	26 542	19 128	7 414
2012	84 290	49 640	34 650	21 278	13 372
Composition of changes in contract form					
2009	100.0	72.0	28.0	(87.1)	(12.9)
2010	100.0	71.3	28.7	(86.6)	(13.4)
2011	100.0	55.0	45.0	(72.1)	(27.9)
2012	100.0	58.9	41.1	(61.4)	(38.6)

Source: LIB, press release 12 March 2013, Tables III.

Notes:

Rotation 1: Made after an agreement between the employer and the employee.

Rotation 2: Rotation is imposed by a unilateral employer's decision.

Though LIB distinguishes between consensual and non-consensual changes in the form of work contract with respect to job rotation, one should realize that most of the changes from full employment to part-time or job rotation are activated under the explicit or implicit threat of dismissal. About 37 per cent of all wage employees in the private sector were affected in 2012 either by being dismissed, or by being employed as part-timers or in job rotation schemes.

Changes in the form of labour contract are closely related to changes in wage incomes. Part-time jobs and job rotation schemes, though possibly preferable to open unemployment, have been considered the main factor contributing to increased poverty among the working population, as has been shown in a number of papers by Professor Christos Papatheodorou.³⁸ Flexible working patterns reduce total individual consumption (and the social security revenue), thus increasing the pace of recession. This is the result of the treatment of labour merely as a private cost, overlooking the macroeconomic effects and the impact of low remuneration on employees' morale and productivity.

2.3 The unemployment rate

The unemployment rate has been increasing rapidly since the third quarter of 2008. Its path is presented in figure 30.

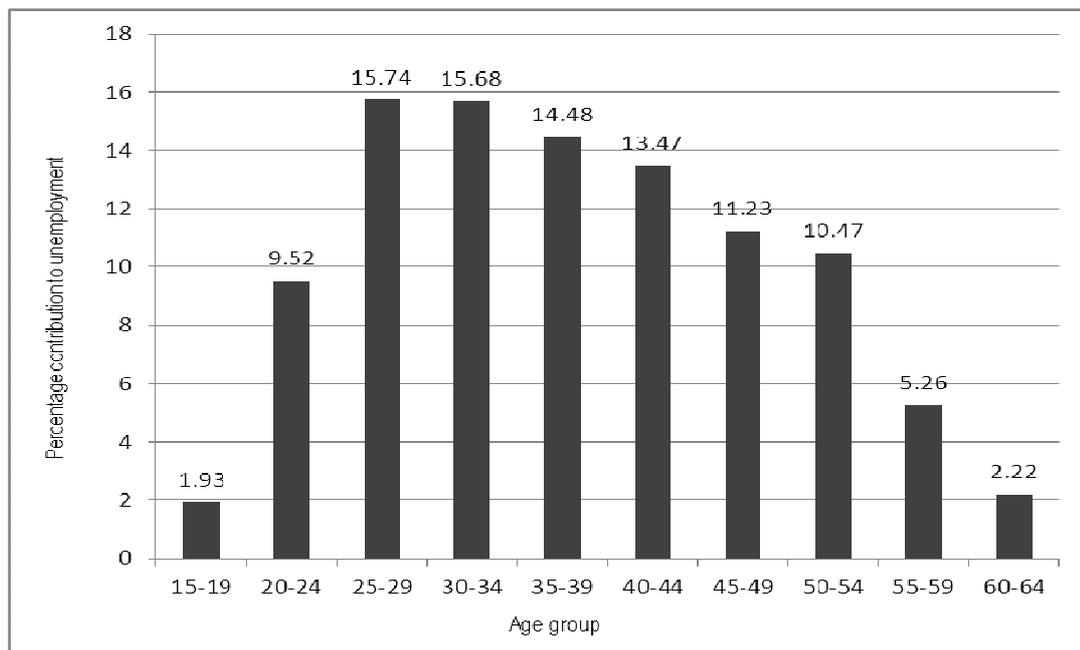
³⁸ See, among others, Dafermos, Y. and Papatheodorou, C. (2012) "Working poor, labour market and social protection in the EU: a comparative perspective", *International Journal of Management Concepts and Philosophy*. Vol. 6, no. 1/2, pp. 77–88.

Figure 30. Unemployment rate (percentage): Working age population, 2007–2012



Source: LFS; authors' calculations.

Figure 31. Percentage contribution to unemployment by age group, 2011d–2012d



Sources: LFS; authors' calculations.

Figure 31 indicates the contribution to unemployment by age group from 2011 to 2012 (fourth quarter). A look at the composition of the rise in total unemployment reveals that male unemployment was a larger contributor than female unemployment (56 per cent as against 44 per cent). Furthermore, youth unemployment accounted for only 11.5 per cent of the total increase in unemployment, even though the youth unemployment rate reached 60 per cent.

Table 7 reports the levels in unemployment rates by gender and age group for 2010 and 2012 (third quarter).

Table 7. Unemployment rate by gender and age group, 2010 and 2012 (3rd quarter of the year)

Age group	2010			2012		
	Men	Women	Total	Men	Women	Total
15–19	33.2	43.7	37.5	52.0	81.5	65.9
20–24	24.5	40.6	31.8	48.4	62.6	55.0
25–29	15.4	25.1	19.8	35.2	41.4	38.0
30–34	11.2	17.9	14.0	25.4	29.7	27.4
35–39	9.0	14.1	11.2	20.1	27.4	23.3
40–44	6.5	13.1	9.4	15.6	25.2	19.7
45–49	6.7	10.3	8.3	15.6	21.8	18.3
50–54	7.5	10.5	8.6	17.8	21.3	19.2
55–59	6.1	7.7	6.6	14.9	15.3	15.1
60–64	4.8	3.9	4.5	12.1	11.9	12.0
65–69	1.8	2.2	1.9	7.4	4.6	6.5
70–74	1.3	0.0	0.9	0.9	0.0	0.7
75+	0.0	0.0	0.0	0.0	0.0	0.0
Total	9.7	16.1	12.4	21.7	28.9	24.8
Total 15–64	9.9	16.2	12.6	21.9	29.1	25.0

Sources: LFS; authors' calculations.

3. Industrial relations, collective bargaining and social dialogue under the memoranda and austerity policies

3.1 Introduction

Since May 2010, Greece has been witnessing extensive and rapid legislative changes in labour law and collective bargaining conditions which are unprecedented in Greek and European political history.

At the outset, the aim of Memorandum I was twofold: to reduce the public deficit and the Greek debt to GDP ratio on the one hand; and to restore the competitiveness of the Greek economy on the other. Inherent to this approach was the introduction of numerous structural changes in the institutional setting of the Greek labour market, which was seen as inflexible. Legislative action was chosen as a tool to bring about these changes. The social partners reacted moderately at the beginning and then fiercely after the first year of implementation of the programme. By June 2011 reaction against Memorandum I policies

was mounting and questions of the legitimacy of the policies were openly posed, even by members of the then Government.

It is clear that the legislative action advocated in those two years has severely transformed labour law. The main changes are in the field of collective bargaining, legal provisions, and in the area of the mediation and arbitration of industrial disputes. However, legislation was also adopted that changed legal provisions in the area of individual labour contracts.

In a large number of interviews, the authors had the opportunity to raise and extensively discuss the questions of: how the interventions in the institutional labour market settings came about; what the rationale was; and what role was played by the various actors and by the Government, i.e. the Ministry of Labour, and the social partners.

3.2 Policy formation

On the question of whether the policies of Memoranda I and II were mainly the result of the conditions imposed by IMF, ECB and EU (the troika), were initiated by the Government, or were the result of social dialogue among social partners, all persons interviewed expressed the opinion that almost all interventions had been imposed by the troika. Some said that the Government enforced a further deregulation of the labour market in excess of the troika's demands. All the social partners interviewed said that their role was minimized during the consultation phase. The troika representatives had had some discussions once or twice with each of the social partners, but they did not seem to take the partners' analysis and positions into consideration. "They asked questions and kept notes, but they were obviously not interested in what we were saying," one of the social partners put it. On the other hand, it would appear that lobbying of troika officials by some business interests did take place.

Some forms of bilateral discussions were held among the social partners and between individual partners and the Ministry of Labour. Ms Luka Katseli, the former Minister of Labour who kindly accepted to be interviewed for this study, mentioned a number of unofficial discussions that she and high-ranking officials of the Ministry had had with all the social partners. She expressed some disappointment at the stance adopted by trade union leaders, though she was in close contact with them. She had expected a more militant approach, so that her bargaining position would be strengthened. As to the question of "why a legislative procedure had to be adopted and not one through collective bargaining and social dialogue," she said that *the troika considered social partners part of the problem, not part of its solution*. This could explain very clearly why social dialogue, collective bargaining and labour law have all become an empty shell in Greek socio-political life, as one of the experts interviewed aptly put it. One of the high-ranking officials in the Ministry of Labour – not a political appointee – who had participated actively in the preparation of the legislation and discussions with the troika put it bluntly: "You can talk for hours only to receive the answer 'we pay your bills, so you will do as we ask'. There is not much scope for bargaining."

Ms Anna Stratinaki, General Secretary in the Ministry of Labour since March 2011, also confirmed the "numerous meetings" between the Ministry and the social partners. She stated that the Government had to proceed unilaterally given the lack of consent, and characterized the reforms as "measures of conventional necessity", i.e. imposed on the Greek Government by Memorandum I provisions. This phrase is indicative of the way the dominant political parties in Greece conceived the idea of "social dialogue". To them social dialogue was mostly a process through which the social partners are convinced to consent to the political choices of the Government.

The authors asked the interviewees whether the troika representatives knew the Greek economy and the details of the institutional setting of the labour market well. All said that the troika understood the institutional setting in detail. Some had doubts about whether the

troika had a clear view of the functioning of the Greek economic system. The discussion with two representatives of research institutes³⁹ has raised the question of the efficiency of the macroeconomic model used to predict the results of the measures taken. It is certain that none of the targets set has yet been met. Both agreed that the indirect effects and induced changes in target values – for example, the effect of recession on tax revenue – were grossly overlooked. Ms Katseli stated that it was the failure to achieve targets that forced the troika to ask for additional measures to compensate for their failure. “This is how they came to demand a 22 per cent reduction in minimum wages,” she said. The interviewees agreed that the Greek economy seemed trapped in a “death spiral”, a vicious cycle of recession, unemployment and falling tax revenue.

Most of the measures taken had been on the agenda of the Hellenic Federation of Enterprises (SEV) in social dialogue since 1997. But in some cases, the SEV proposals seemed almost moderate when compared to the measures adopted. The authors raised the question of whether there are Greek interests pushing for the legislation and their implementation. In most cases the answer was descriptive such as “export-oriented big enterprises”, “some large firms in the tourist sector”. Ms Katseli gave a very direct answer. She named one private bank, two editors of daily newspapers who are also owners of two national television channels, and a few owners of large hotels “who are in a state of bankruptcy”. One should keep in mind that Ms Katseli had refused to vote for Memorandum II in February 2012 and was consequently expelled from PASOK. The other two Ministers of Labour, Mr Andreas Loverdos, who was the PASOK Minister of Labour when voting on Memorandum I took place, and Mr Georgios Koutroumanis, deputy Minister of Labour since 2009 and Minister since June 2011, did not respond to the authors' requests for interviews.

3.3 Policy content: Rationale

Everyone interviewed said that the motive for all measures taken was to reduce labour costs sharply. The troika believes that all other cost elements are inflexible: the prices of intermediate products (mostly imported), interest rates, rents, costs of public utilities and taxes. Hence, the only cost that can be adjusted is labour cost. This was clearly stated by two persons interviewed as they attempted to explain the policy choices made. All agreed that the target for the wage reductions was set by wage levels in Bulgaria, Romania and the Baltic States.

If this is so, the rationale for the policy poses a number of important issues, both theoretical and political. On the one hand, it is based on a political philosophy, quite widespread in recent decades, that the labour market has to absorb all shocks in the economy. In order to perform this “shock-absorber function”, it must be inherently flexible in terms of staff levels, wages, working time and functionality. One should note that this conception of the labour market totally reverses even neoclassical causality, which assumes that the labour market is always at equilibrium, with goods and money markets adjusting accordingly. According to this “new” concept, the labour market becomes a *residual* market, very far from its role as a social institution, to mention an idea⁴⁰ from Robert Solow’s celebrated book.

In this regard one should note that the labour market performs a double function in contemporary societies. First, it has an allocation function, i.e. it allocates personnel to jobs. Second, it has a reproductive function, i.e. it creates the conditions for the daily maintenance, adjustment and long-term reproduction of the labour force. Labour law,

³⁹ The Labour Institute of the General Confederation of Greek Workers (GCGW) and Foundation for Economic and Industrial Research (FEIR).

⁴⁰ The Solow residual is a measure of the empirical productivity growth in an industry or macroeconomy over comparable time periods, such as from year to year and decade to decade. The measure is deemed residual because its growth is not explained by capital accumulation or any increase in labour.

unemployment benefits and all the services provided by state institutions are necessary because the labour market cannot fully perform this reproductive function, especially in times of crisis and high unemployment.

Related to this is the idea that wages should be regarded exclusively as a cost. Indeed, the wage bill is a cost to the individual firm, but it is more than a cost to society as a whole. It is part of the value added of domestic products and, as a source of income, it is essential to consumption, that is, a precondition for domestic demand. Treating wage rates exclusively as production costs results from the belief that by lowering wages one will move along a stable labour demand curve. In fact the demand curve shifts inwards, because of reduced incomes and consumer demand.

Over and above these theoretical considerations, some important political and social questions must be examined. This paper will raise only two of these, but there are many more. Both relate to the European Union as a political and economic institution. First, if this political choice is taken for granted, i.e. that the Greek wage rate should be adjusted to such low levels, then one should begin to worry about the architecture of the European Union. The Treaties of the European Union clearly refer to the establishment of a coherent economic and social space, and not to the creation of a Europe of two, three or more tiers. Second, Europe is not merely an arena of competing economic entities. It is also a cultural entity, a socio-economic reality. And, although the provisions of the welfare state have been gradually dismantled and the European Union's social policy is subordinated to competition policy, one has to reflect on the future. One cannot compete with low-cost countries in the developing world by establishing low-cost zones inside Europe, at least without increasing tensions and social conflict. Acute problems of policy legitimization emerge, and their importance cannot be underestimated.

However, the question of how to identify the driving force behind these transformations in labour law, industrial relations and social dialogue in Greece is still unclear. Is this a policy designed to protect specific economic interests, or do the policymakers actually believe in the targets they have set? Are they using such a deep recession in order to dismantle all social rights and social policy, or is their programme simply badly conceived, planned and implemented?

3.4 Policy content: Classification

All policy measures, as mentioned before, have been imposed through legislation or government decrees. The role of the social partners has been minimized and their interventions achieved only small amendments of secondary importance.

The authors have tried to build upon a classification scheme in order to facilitate understanding of the evolution of the policies and measures taken. The classification criteria used are the timing and the content of the legislative actions.

With respect to timing, four phases can be distinguished, each with specific policy content and characteristics.

There have been three main areas of legislative action on industrial relations:

- Legislation on the regulation of collective bargaining structures;
- Legislation on mediation and arbitration procedures;
- Legislation on individual labour contracts.

A fourth area of legislative action encompasses the structure of social security provisions and the conditions for, and the level of, pensions. Although in principle these are on the social dialogue agenda, this paper will address the issues very briefly.

Measures are also classified on the basis of whether they target employment in the public sector or the labour market per se. Interventions in the public sector will also be

treated separately. This paper will not present the legislation adopted in detail as this has already been ably done by Patra.⁴¹ Instead, it will concentrate on main issues and their impact on social dialogue, collective bargaining and industrial relations.

Provisions of the Memorandum of economic and financial policies*

3 May 2010

To strengthen labour market institutions:

Following dialogue with social partners, the Government proposes and Parliament adopts legislation to reform the wage bargaining system in the private sector, which should provide for a reduction in pay rates for overtime work and enhanced flexibility in the management of working time.

The Government allows local territorial pacts to set wage growth below sectoral agreements and introduce variable pay to link wages to productivity performance at the firm level.

The Government amends the law regulating the arbitration system, Law 1876/1990, so that both parties can resort to arbitration if they disagree with the proposal of the mediator.

Following dialogue with social partners, the Government adopts legislation on minimum wages to introduce sub-minima wages for groups at risk such as the young and long-term unemployed, and put measures in place to guarantee that current minimum wages remain fixed in nominal terms for three years.

The Government amends employment protection legislation to extend the probationary period for new jobs to one year, to reduce the overall level of severance payments and ensure that the same severance payment conditions apply to blue- and white-collar workers, to raise the minimum threshold for the activation of rules on collective dismissals, especially for larger companies, and to facilitate greater use of temporary contracts and part-time work.

* Also known as Memorandum I.

3.4.1 Phases

Phase A is the pre-Memorandum phase. The intervention was implemented in Law 3833/2010 (15 March) and was directed exclusively to personnel in the core and the broad public sector. The Law prohibited wage increases in the public sector, imposed wage and allowance⁴² cuts, reduced overtime hours and reduced hiring levels in the public sector. Furthermore, as Patra notes, “In 2009, employees working in the public sector under private law were still able to negotiate their respective collective agreements or resort to arbitration. This right was lost under Law 3833/2010.” (p. 14).

Phase B began in May 2010 when the “Memorandum of Economic and Financial Policies” was signed and ratified by the Greek Parliament (Law 3845/2010).⁴³ The noteworthy point of this phase was the official denial that Memorandum I provisions for wage cuts were applicable to the private sector. Overall wage cuts and the reallocation of personnel in the broad public sector connected with wage reductions were important objectives of Memorandum I. This phase ended in June 2011.

⁴¹ E. Patra (2012).

⁴² In the Greek public sector, over and above the basic salaries, specific allowances were frequently provided in the Ministries, organizations or other public bodies as a method of meeting wage demands. Allowances, though taxed and contributing to social security, did not count in the determination of pensions. Divergences in specific allowances have been extremely wide among public servants. In the Greek core public sector salaries have been set by a decree issued by the Minister of Finance, as part of the budgetary policy. No negotiations at a formal level between the Government and the Confederation of Public Servants (CPS) ever took place, with the CPS tending to act as a pressure group rather than a trade union.

⁴³ The ratification of Memorandum I has caused a fierce debate as to whether it conforms to constitutional provisions. Opposition parties and the academic Committee of Parliament maintain the view that the Constitution demands a vote of approval by two-thirds of all Members of Parliament. Memorandum I was ratified with a simple parliamentary majority. An appeal was made to the High Court by professors of constitutional law. The decision of the High Court is not yet known officially, but it is said to be in favour of ratification “on the grounds of a state of emergency”. If this is correct, the ruling would appear to be rather peculiar, as the Constitution clearly defines the reasons for declaring a state-of-emergency situation and requires a three-fifths majority for such a declaration (Article 48.1 and 48.6).

Phase C started in June 2011 with the adoption of the Medium-Term Fiscal Strategy 2012–2015. This new legislation (Law 3986/2011) is the first open recognition of the failure of the macroeconomic and fiscal targets specified in Memorandum I. The parliamentary procedures for the ratification of Law 3986/2011 and the voting on the Law took place during a state of siege of the Parliament as thousands of protesters clashed with police for several days. Law 3986/2011 imposed further taxes on incomes, goods and housing and introduced further flexibility in regard to hiring and fixed-term jobs.

Phase D began in February 2012. Law 4046/2012 destroys – as phrased by one expert, a university professor in labour law – any traces of labour law in Greece. In fact, it abolished the General Collective Agreement reached by the social partners in 2010 and imposed a 22 per cent reduction on the minimum wage. Wages of young persons less than 25 years of age have been cut by 32 per cent of the initial minimum. Bargaining on an individual basis for wages, working time schedules and working conditions is promoted, while sectoral or occupational labour agreements that are not renewed on time cease to be in effect (signalling the end of *metenergeia*, according to which any collective agreement terminated because the time period for which it was concluded ended continued to be in effect for six months until a new settlement was achieved through collective bargaining or after an arbitration decision). Social insurance contributions by employers are reduced and institutions such as the Workers' Housing Organization (OEK) and the Workers' Social Fund (OEE), which had been financed exclusively from social security contributions and provided loans for housing and rent subsidies to low-income families or for vacations and entertainment for workers and pensioners in the private sector, have formally closed down.⁴⁴

Finally, Phase E begins in November 2014 after the adoption of Law 4093/2012. The law activates the Medium-term Fiscal Framework 2013–16 agreed between the Greek Government and the troika and further specifies labour market issues already covered by Law 4046/12. These are:

- A significant reduction in the salaries of university professors and research personnel, members of the judicial system and public servants excluded from the unique public sector remuneration codes;
- The abolition of the 13th and 14th salary for all public servants;
- A reduction in pensions and the extension of the age limit for qualifying for pensions;
- The introduction of unqualified suspension of public sector personnel, i.e. suspension not related to work standards, for one year leading to dismissal, unless the suspended person is re-employed in a different service;
- The abolition of the five-day week without a reduction of the 40-hour week;
- The facilitation of shift work by establishing an 11-hour period between two shifts;
- Optional notification in advance of overtime work, which makes LIB inspections superfluous. Though specific evidence is not yet available, it is expected that the levels of undeclared overtime and non-paid overtime hours have been significantly increased.

In addition, two further interventions in the labour market were adopted in November 2012: the abolition of the marriage allowance (which amounted to 10 per cent of base salary) and a further reduction in the cost of redundancies. One should add an important modification in regard to the implementation of the fiscal programme; this provides for

⁴⁴ There is still some ambiguity about the future of these two organizations. There are several unresolved problems, especially in regard to OEE and loans granted in the past. For the time being, both are under the supervision of the Greek Manpower Employment Organization (GMEO).

additional measures to be taken if prescribed targets are not met. Law 4093/2012 also gives a framework for wage setting in the private sector. The minimum wage rate has to be determined by Ministry Decree, after consultation with the social partners. However, the Minister of Labour is not obliged to decide in accordance with the social partners' recommendations, nor are the social partners able to determine labour remuneration via national collective agreements.

Furthermore, a number of allowances have been abolished. Allowances in the Greek private sector – and in the public sector as well – have been widely used as a substitute for direct wage increases. They are a means of providing for low-cost remuneration increases and, for the public sector, for circumventing incomes policy guidelines.

Of the numerous special allowances, only four have been maintained: child-related benefits, dangerous work, seniority benefits and benefits related to the level of education (tertiary education only). However, seniority benefits are frozen at current levels until the rate of unemployment is reduced to 10 per cent.

3.4.2 The reforms in collective agreement law

A forewarning of the abrogation of a basic principle of the collective agreements law was already included in Article 2 §7 of the “original Memorandum of Law” (Law 3845/10). This Article stated that the terms of professional and company collective agreements may diverge from the equivalent terms of sectoral agreements and the National General Collective Labour Agreement (NGCA) and that the terms of sectoral agreements may diverge from the equivalent terms of the NGCA. In essence, the modification abolishes the principle of the “most favourable arrangement” in the case of a concurrence of collective agreements; the principle was set out in Article 10 of Law 1876/1990 on free collective bargaining.

Law 3845/10 established for the first time the predominance of the Law (emergency measures) over collective bargaining agreements or arbitration decisions in determining pay and working conditions for employees in private employment relationships in the public and broader public sector (public utilities and private entities). It abolished any terms contrary to it in collective agreements or arbitration decisions. The predominance of the Law was reiterated in subsequent legislation implementing the Memorandum.

Law 3846/10 introduced changes in the specific terms governing the representation of employers in the banking industry with regard to negotiating and concluding collective labour agreements. Under previous regulations, collective bargaining was possible (in exceptional cases) for individual employers who had a jointly authorized representative, provided that these employers covered more than 70 per cent of the employees. The new arrangement established the alternative option of the authorized participation of the five employers with the largest number of employees and gave other employers a concomitant right to participate in the negotiations and sign a collective labour agreement. Where no joint representative is appointed or there is a refusal to appear in the negotiations or negotiations fail, procedures are activated in order to resolve the dispute through mediation and arbitration.

Law 3871/10 (Article 51) established special conditions under which all arbitration decisions to resolve disputes through the procedures of OMED are rendered null and void. These were applicable “in the event that they grant, in any way, wage increases for the period from 1.7.2011 to 31.12.2012 above those specified by the National General Collective Agreements (NGCA).” Law 3871/10, which was part of the binding agreements with the troika aimed at reducing labour costs, increased at the same time the formal power of the NGCA which was in force then. However, during the period of the implementation of Memorandum I, the most important reversal in collective agreement law occurred through Law 4024/2011. This Law moved towards reaching the troika's goal of “facilitating” the conclusion of collective agreements and “decentralizing” the collective

bargaining process. As described below, Law 4024 radically changed the status of collective bargaining as it had stood from 1990 in Law 1876/1990.

- It establishes the institution of collective agreements with “associations”
- The Law abolished special company collective agreements (CA), instituted just 11 months earlier under Article 13 of Law 3899/10. However, it provides an opportunity for signing company collective labour agreements with the employees’ union or, if such a union does not exist, with a so-called “associations of persons”. An association may be created by three-fifths of those working in a company, regardless of the total number of the company’s employees. No time limit is imposed on the duration of the agreement. Such a company agreement has precedence over all other collective arrangements.
- It hinders the involvement of sectoral unions since the “Association of Persons of 3/5’s of the employees” takes precedence in the negotiation and conclusion of company collective agreements.
- Paragraph 5 of Article 37 Law 4024/11 replaces the former regime of the concurrence of company agreements with sectoral collective agreements. It states: “As long as the Medium Term Financial Strategy Framework is being implemented ... the company collective agreement shall prevail in the case of the concurrence of both occupational and sectoral collective agreements even if it contains more unfavorable terms for employees.” Therefore *it violates one of the basic principles of labour law, i.e. the principle of the precedence of a more favorable arrangement*. However, the company collective agreement may not provide less favorable working conditions for workers than those specified in national collective agreements.
- According to Article 37.6 of Law 4024/11, the Minister of Labour has the right to suspend the universal applicability of sectoral and professional collective agreements, i.e. their applicability to non-members of the signatory organizations, for as long as the Medium-Term Financial Strategy Framework (2012–2015) is being implemented. In effect, this abolishes the *extension principle*. Sectoral and occupational collective agreements bind only the workers and employers who are members of signatory union organizations. This has the practical effect of enabling companies to withdraw from, or refuse to participate in, their respective employers’ associations, freeing them from the obligation to follow sectoral and occupational collective labour agreements and leading to the dismantling of employers' organizations.
- In order to facilitate the drawing up of company collective agreements, the Law sets up a process to accelerate the establishment of trade unions and shorten the time period required for the respective court resolution to be issued.

The most recent Law, 4046/12 (Memorandum II), and Cabinet Act No. 6/29–2–2012, which implements the Law, penetrate to the core of the mechanism for setting minimum wages under both the NGCA and sectoral collective agreements.

The reversals brought about by the Law in the private sector workplace and their consequences are set out below.

1. Minimum wage adjustment – new reduced earnings thresholds for NGCA

- 1.a. Horizontal cuts in current minimum wages for all of NGCA's conventional wage brackets (single, married and three years of service) by 22 per cent.
- 1.b. Reduction by 32 per cent of the minimum wage for young people under 25 years of age.

1.3. Wage reductions may be imposed unilaterally by the employer without the consent of the workers and this reduction will not constitute a detrimental change in working conditions.

1.4 Employer-employee agreements below the new minimum wage are rendered null and void.

Law 4046/12 imposed on the Government the obligation to draw up “after consultation with the social partners” a clear timetable for the “detailed” reform of NGCA by the end of July 2012. This is aimed at the convergence of the minimum wage with those of the relevant competing economies, i.e. Bulgaria and Romania.

2. *Collective labour agreements (sectoral, professional, company)*

2.a *Time validity of collective labour agreements*

- The option providing for the indefinite validity of the collective agreement is abolished; the period of validity has been set at a minimum of one year and a maximum of three years.
- Collective agreements that would have been in force for 24 months or more by 14 February 2012 were to have expired on 14 March 2013.
- Agreements that would have been in force for a period of less than 24 months on the above date would be terminated three years from the date they came into force unless they are terminated earlier.

2.b *Continuance of collective labour agreements*

The regulatory terms of a collective labour agreement that will expire or has terminated shall remain valid for three months after the expiration or termination thereof. (In contrast, para. 4 and 5 of Article 9 of Law 1876/1990 stipulated that the regulatory terms of an expired agreement would remain in force for six months and covered workers hired during that period. After the completion of this six-month period, the existing terms of employment remained in force until the individual employment relationship was terminated or modified.)

After this three-month period, the regulatory terms that continue to apply consist of those covering basic salary or daily wages and allowances related to length of service, dependent children, education and hazardous work. These terms must have formed part of the collective labour agreement that expired or was terminated. They remain in force until their replacement by those of either a new collective agreement or a new or modified individual employment agreement.

Any other benefit provided by those collective labour agreements shall be immediately terminated. This adjustment shall be made without prior consent of the workers.

3. *Suspension of salary increases and increases due to length of service*

According to Article 4 of Cabinet Act No. 6/29–2–2012, until the unemployment rate is reduced to less than 10 per cent, any wage increase related to length of service is suspended, whether such a wage increase was part of a collective labour agreement or was awarded by arbitration decision (AD). Hence, wage rate increases which were linked to the time of employment by the same employer (seniority) and automatic movement to higher pay scales (multi-year service benefit, three- and five-year benefits, etc.) have been abolished.

4. Abolition of unilateral arbitration: prohibiting inclusion of a clause maintaining terms of earlier collective agreements or arbitration decisions (Article 3 of Cabinet Act No.6/29–2–2012)

The unilateral right of trade unions or of employers' associations to resort to arbitration is abolished. Henceforth, recourse to arbitration by all collective agreements and arbitration decisions can be taken only with the mutual agreement of employers and employees. Applications already submitted to OMED by unilateral action before the publication of the Law are rejected.

The earlier terms of Law 3899/10 on the content of arbitration decisions have been made stricter. The Law now states that arbitration will cover only the determination of basic salary/wage and it strictly prohibits any reference to the so-called "maintenance clause" in the arbitration decision, i.e. the period provided for maintaining the regulatory terms of previous collective labour agreements and arbitration decisions.

With regard to documentation of the arbitration decision, the Cabinet Act states that the arbiter or the arbitration committee must refer to the financial data collected during the arbitration procedure and particularly to data on economic conditions. Wage reductions are to take place according to the "competitiveness gap" during the country's fiscal adjustment programme and in reference to the productive activity of the occupational sector to which the collective dispute refers.

5. Removal of permanent employment clause in fixed-term work contracts with public enterprises and organizations or public utilities

As of 14 February 2012, express provisions of Law 4046/12 and the corresponding Cabinet Act transform all labour contracts that were to end when the employee either reached a certain age or completed all the requirements for retirement before that age (permanent employment contracts) into contracts of indefinite duration. This transformation makes it possible to terminate them in accordance with the compensatory terms set by Law 2112/20 as amended by Memorandum I through Law 3863/10 and Law 3899/10. Within this framework, all previous terms of laws, regulatory decisions, collective labour agreements and arbitration decisions, personnel regulations and business administration decisions that establish or conceal permanent employment or permanent employment clauses deviating from the general rules of labour law or provide any direct or analogous application of the Civil Code are abolished. This provision affects the employment of workers in public enterprises and organizations and some banks; these workers can now be laid off just like private sector employees.

These are the main changes to collective bargaining procedures and provisions. On the whole, collective bargaining procedures are strictly determined and even the end-result of the bargaining procedures is largely prescribed. The social partners have responded negatively to most of these changes. Their reactions to the most significant changes are described below.

- *On the reduction of minimum wages set by the National General Collective Agreement (NGCA).* All social partners and experts have been strongly against this intervention. They consider it not only a threat to social dialogue (in fact, it is the abolition of dialogue), but also a totally ineffective measure likely to produce results opposite to those aimed at. One expert referred cynically to the way the troika demands interventions: "They told me that they couldn't go back empty-handed, as some measures implemented did not produce the results foreseen or the Greek Government was slow in implementing the policies prescribed, so they demanded a 22 per cent reduction in minimum wages."

All agreed that wage costs are not an important factor in determining competitiveness. An expert from the Foundation for Economic and Industrial Research (FEIR), Professor Yannis Stournaras and former Labour Minister Luka

Katseli described the non-wage labour cost as being relatively high. All the people interviewed expressed the opinion that reductions in wages would lead to an even deeper recession. Representatives of business interests were concerned about a “catching up with each other” competition among employers in a race to cut wages. They all thought that a “death spiral” had been triggered.

- *On the question of wage increases based on length of service.* The matter of freezing wage increases related to the length of service with the same employer has been pinpointed as one of the recent indications of consensual arrangements between trade unions and employers’ associations.

The freezing of wage increases based on length of service was one of the alternative proposals discussed by the social partners in February 2012, before Law 4046/2012 was ratified by the Greek Parliament. What was thought to be at stake at the time was the elimination of the Christmas, Easter and holiday allowances in the private sector, amounting to two monthly wages (base wages). One proposal from the National Confederation of Hellenic Trade (NCHC) was to reduce non-wage costs by slashing the employers’ social security contributions. This proposal was discussed at a meeting of experts from affiliated institutes, but they found it difficult to find alternative sources of revenue to compensate for the losses to the social security system.

- *The extension of collective bargaining agreements.* The social partners have expressed their open opposition to the abolition of the extension clause in collective bargaining agreements. The clause extended collective agreements concluded by the representative (i.e. representing the majority of employees) employers’ association and trade unions to firms which did not belong to the employers’ association. Under the new legal framework, this is no longer applicable. Collective bargaining agreements are binding only on firms that are members of the negotiating association. Furthermore, individual firms and employers have the choice of opting out, if they disagree with the agreement concluded (Law 4024/11, Article 37.6).

Trade unions fear that this may lead to the determination of wages and conditions of work on an individual level. That would mean the end of any collective bargaining process, especially in a situation of deep recession and extremely high and rising levels of unemployment.

For their part, employers’ associations worry that the opting-out clause will result in a rapid loss of members. Although they believe that the wage rate is not an important problem in the determination of competitiveness, they are forced by their members – individual firms or sectoral and occupational associations – to bid down wages. Their attempts to propose moderate wage reductions (around 8 per cent) are often met with hostility by their members. National employers’ associations and their affiliated research institutes anticipate that further reductions in wage rates will deepen the recession and put many firms out of business. What may seem a private virtue may end up being a public vice.

Some of the social partners have identified an additional source of malfunction in the new system. They have pointed out that collective bargaining, while far from perfect, established a general framework for consensus and conflict resolution. What they imply is that sectoral and occupational collective bargaining had reduced unnecessary competition both among and within firms and had provided a blueprint for wage setting that reduced transaction and bargaining costs to a minimum. What was previously the work of a payroll accountant now requires personal involvement and/or a personnel department. Furthermore, they are concerned about the relation between earnings and productivity.

-
- ***The individualization of contracts.*** The philosophy behind recent changes in collective bargaining law is that the labour contract is the result obtained by two equal agents freely negotiating work conditions and wages. In this sense and considering the structure and size of Greek enterprises, the attempt to redefine the locus of collective bargaining and to shift it from the sectoral or occupational level to the individual enterprise will imply the abolition of collective bargaining as such and the individualization of labour contracts.

As the majority of Greek enterprises are small or medium-sized, paternalistic forms of management prevail. This ranges from despotic forms of managerial control to more employee friendly family-type conditions under which compassion is translated into firm loyalty. It is very difficult for these enterprises to impose individualized pay structures as the family-like industrial relations may be destroyed. According to a recent study of Greek medium-sized enterprises (i.e. employing 50–250 employees), only a handful have management systems enabling individual evaluations of work performance.

In an interview on the subject of productivity-linked wages and wages based on length of service, Professor Stournaras of FEIR expressed the view that this might be an opportunity to establish a different pay structure. He was not very clear, however, as to whether he considered such a change to be universally applicable or simply in a small number of very large enterprises.

- ***The termination of collective agreements: what next?*** This is also a topic of concern for the social partners. The end of *metenergeia*, i.e. the continuation of the provisions of a collective agreement for a period after its formal termination, forces the social partners to enter hastily into negotiations. A large number of collective agreements have been terminated or are about to be terminated. Both sides anticipate that entering into negotiations and concluding a collective agreement is a necessary step in maintaining social dialogue and keeping collective bargaining alive. But both sides feel pressure and insecurity. The trade unions think that they are being forced into negotiations at a time when the only question to be answered is how much they are going to lose. Employers' associations, such as the General Federation of Professional Manufacturers and Merchants of Greece (GFPMMG) and National Confederation of Hellenic Commerce (NCHC), are trying to keep a balance between extreme demands for wage reductions stemming from part of their membership and the need to keep the collective bargaining process intact.

Mr Konstantinos Maggas, Head of the General Directorate of Labour in the Greek Ministry of Labour, evaluated the legislative transformation of collective bargaining framework, thus: "The outcome of the reforms was a major drawback in terms of collective regulation and unionism." In his opinion, this was achieved in two steps. The first was to weaken the intermediate level agreements (sectoral/occupational) by promoting plant-level unionism and abolishing mediation and arbitration mechanisms. This seriously damaged the coverage of these agreements and led to increasing numbers of workers being covered only by the national agreement on the minimum wage. The second step was to abolish the national agreement itself by having the minimum wage set directly by the State, through a government decree. In such a regime, the role and scope of unions are seriously curtailed".

According to Mr Maggas the major reforms were concerned with wage-setting mechanisms. The relaxation of legislation on employment protection (reducing severance pay and lengthening the probation period from two months to one year) was only secondary. It is worth remembering that Mr. Maggas has,

in the authors' view, anticipated the troika's plan of dismantling collective bargaining structure and procedures.

On the other hand, Ms Anna Stratinaki seems to believe in the success of a defensive strategy: "Most of the bargaining with the troika focused on the attempt to avoid the worst case scenario, i.e. the complete abolition of collective arrangements. As such we succeeded in postponing instead of abolishing the mandatory extension of collective agreements and tenure-based wage increases. We also maintained the sectoral/occupational wages for a period after the expiration of the agreements (μετενέργεια)."

Overall, as she put it, individual contracts are still not the predominant form of wage setting. However, a number of sectoral and occupational collective agreements have expired or are about to expire. According to the Labour Inspectorate, individual contracting is spreading rapidly, as collective agreements come to an end.

3.4.3 The reform of the mediation and arbitration institution

One of the most important issues within the framework of the Memoranda legislation is the final settlement of a collective dispute on the determination of pay and terms of work through the arbitration procedure, i.e. the procedure for issuing an arbitration decision with regulatory power as well as the content of such a decision.

Under the Memorandum commitment, Memorandum 1, two new principles are established:

- The principle of symmetry, i.e. both parties have recourse to arbitration;
- The principle of voluntary participation, i.e. it can be agreed jointly by the organizations of employers and employees and not unilaterally as previously established by Law 1876/90 which worked in favour of employees.

These amendments have finally been incorporated into Law 3899/2010, after a first unsuccessful legislative attempt with Law 3863/10. The importance of arbitration for wage setting according to the previous Law can be assessed from the option granted to the Minister of Labour (upon advice of the Supreme Labour Council) to declare as generally compulsory for all employers or enterprises a collective agreement or arbitration decision provided it covers 51 per cent of the workers in the sector or profession affected (paragraph 2 of Law 11 1876/1990).

The changes introduced by Law 3899/2010 are⁴⁵ set out below.

1. Procedures of mediation and arbitration:

- Employers have been granted the unilateral right to appeal the mediator's proposal, provided they have attended and participated in the mediation procedure. Under the previous legislative regime (Law 1876/90, Article 16) the trade unions could unilaterally accept the arbitration decision, provided they had accepted the mediator's proposal and the employers had rejected it (principle of equal treatment of parties).
- The content of the arbitration decision is limited to the determination of basic daily wages and/or basic wage payments. (By contrast, Law 1876/90, stipulated that arbitration decisions covered the same ground as collective agreements and that these decisions could therefore determine total pay and working conditions.) All other issues (benefits, other provisions, institutional arrangements) fall within the jurisdiction of collective agreements, the negotiations for which may be conducted simultaneously.

⁴⁵ See also E. Patra (2012).

-
- To issue mediation proposals and arbitration decisions, the general economic conditions and the specific conditions affecting competition and production in the areas where the collective disputes occur must be investigated and documented. The mediators or arbitrators have the right to conduct any investigation into working conditions with the assistance of experts of their choice.
 - Any dispute on the validity of arbitration decisions is to be investigated exclusively by the Court of First Instance. The related actions are raised by the parties participating in the collective dispute. The court is obliged to set a date within 45 days of the filing of the action. An appeal shall be filed within 15 days and the hearing of the appeal must be set within 30 days after filing. The judgment is mandatory for all the parties bound by the decision.
 - For cases of unilateral action and if requested by one party, the Law institutes three-member arbitration (as opposed to the one-person arbitration provided by Article 16 para. 3 of Law 1876/90).

3.4.4 The reform of individual labour contracts

These legislative interventions strengthen what the relevant literature calls “internal flexibility” and “external flexibility”, the former referring to flexibility in work and the latter to flexibility of the labour agreement. As has already been noted in the first part of this chapter, the main goal of the legislative interventions in collective labour law is to impose flexibility in the determination of wages.

Individual labour laws promote flexibility by regulating the terms of employment (facilitating lay-offs and hiring and reducing the costs thereof), the content of work (flexible working) and the organization of working time (working time arrangement, calculation of working time on an annual basis, limiting overtime pay). The fields in which these laws introduce new rules or rearrangements are described below.

1. Special forms of employment

With respect to special forms of employment – work in the forms of provision of services, contracting for specified work, piece rate payment (contracting out), teleworking, homeworking – the previous legal provisions (embodied in Law 2639/98) established strict formal prerequisites for the recognition of such arrangements, such as the obligation of the employer to disclose them within 15 days to the Labour Inspectorate. If the employer did not comply with the formal prerequisites, a presumption of dependency was raised, i.e. it was considered that these forms of employment concealed what is referred to as “dependent work”⁴⁶ which entitled the employee to certain rights.

Now under Law 3846/10, these forms of employment can be considered to conceal dependent work as long as work is provided in person, solely or principally to the same employer for nine consecutive months. The removal of formal prerequisites makes the contracting of such forms of employment easier and more flexible, and also has the practical effect of shifting the burden of proof as to whether or not employment is dependent work from the employer to the employee. Thus if the duration of employment is less than nine months or has been provided intermittently (i.e. with breaks in the contractual period), it does not create a “presumption of dependency.”

⁴⁶ According to Eurofound, “The concept of 'economically dependent workers' refers to those workers who do not correspond to the traditional definition of 'employee'— essentially because they do not have an employment contract as a dependent employee – but who are economically dependent on a single employer for their source of income. The debate focuses on emerging employment arrangements which are midway between self-employment and dependent employment. 'Economically dependent workers' have some characteristics of both in that: they are formally self-employed (they usually have a sort of service contract with the employer); and they depend on a single employer for their income (or large part of it).”

Furthermore, Law 3846/10 regulates teleworking⁴⁷ in detail. It covers the method of establishing the contract, the operational framework for the contract, and the option to convert normal work to teleworking (obliging the employer to deliver to the employee all the information for executing the job within eight days, setting explicit time limits and response times for the employee under a tele-readiness agreement, assumption by the employer of telecommunication costs as well as the costs of technical support, maintenance and repair).

In the case of conversion from regular work to teleworking, a three-month adaptation period is determined during which either party can terminate the teleworking arrangement and the employee can return to his/her previous work position.

2. *Part-time employment*⁴⁸

Laws 3846/10 and 3899/10 introduced a detailed arrangement for part-time contracts in order to facilitate an increase in their numbers⁴⁹ and strengthen the managerial right to increase working time beyond agreed time schedules. Finally, they introduce voluntary part-time work in the *stricto sensu* public sector.

The new institutional framework defines the notions of “part-time worker” and “comparable full-time worker”⁵⁰ with equivalent work profiles (tasks, conditions, execution of work, etc.). Part-time workers may not be treated adversely vis-à-vis full-time workers but a disparity may be permitted if there are objective reasons justifying it (such as a variation in working hours). It is now permissible to transform full-time to part-time work if the employee who applies for the change has completed one year of employment in the enterprise and the number of employees exceeds 20.

The employee retains the right to return to full employment, but the employer may refuse to grant this by invoking the “economic needs of the firm”. The principle of equal treatment in remuneration of part-time workers is maintained. Nevertheless, the pay increment (in the hourly rate) of 10 per cent for those working more part-time employment hours than originally agreed (Article 17 of Law 3899/2010) as well as the increase of the hourly wage by 7.5 per cent for those working less than four hours per day (as originally provided by Law 2639/98) are abolished. Also important is the clause obliging part-time employees to work beyond the part-time hours if they are able to do so; refusal would be contrary to the principle of good faith. Additional work can be refused only when it occurs in 'a normal way' (i.e. when it is the employer's systematic practice).

The most important reform in working time flexibility is the provision of Law 3846/10 granting employers the unilateral prerogative to convert full-time to part-time jobs. In particular, when the firm faces a retrenchment it can modify its employees' working schedules to a smaller number of working days per week (at full-time hours). This prerogative has to be used as an alternative to lay-offs. Pay decreases proportionally. Initially, the maximum duration for this conversion was six months per year but it was extended to nine months by Law 3899/10.

Moreover, Law 3986/11 (Article 37), following Laws 2639/98 and 3846/10 which made it possible for workers in the wider public sector to be employed under part-time arrangements, extended this option to workers in the *stricto sensu* public sector. According

⁴⁷ Nevertheless, the detailed regulation of teleworking by the recent law does not solve the difficult and practical issue of characterizing the teleworker's work relation as dependent work resulting from the worker's non-personal presence and the employer's limited ability to control/monitor his employee.

⁴⁸ Part-time employment is work performed on a daily, weekly or monthly basis for a fixed or indefinite time period which has a time schedule with fewer hours than the typical time schedule. A typical time schedule may be determined through collective agreements or state legislation. In practice, any employment with a working day of less than six hours is considered part-time work.

⁴⁹ Part-time work does not appeal to both firms and employees. See chapter 2.

⁵⁰ A “comparable full-time employee” is one who works a typical time schedule and performs the same or similar tasks under the same conditions.

to Article 37, an employee's working hours may, on request, be cut by 50 per cent with a corresponding reduction in salary for a period of up to five years.

3. *Fixed-term contracts; trial work periods*

As regards the employment status of workers on fixed-term contracts, Laws 3896/10 and 3899/10 extended the legal duration of these contracts to three years, up from the two years previously established by Presidential Decree 180/2004. Furthermore, Article 17 of Law 3899/10 states that in the first 12 months work contracts of indefinite duration are considered test contracts that can be terminated without notice and without compensation.

At this point it should be noted that this provision extends the period for which employment is considered subject to a test period from the two months allowed under the previous legislative regime to 12 months. During this period the employer can terminate an employment contract of indefinite duration without forewarning and without severance pay.

In essence, an irregular form of one-year fixed-term work is thus established.

4. *Temporary employment (employment through temporary employment agencies – agency workers)*

Laws 3845/10, 3846/10 and 3899/10 attempt to readjust legal provisions on temporary employment agencies and the status of temporary workers. In Greece, the “lending” of workers was regulated by pre-Memorandum Law 2956/2001. Among other matters, the Law determined the work of temporary employment agencies or TEAs (mediation to help people find jobs, evaluation of human resources, etc.); defined the rights of temporary workers (which included the right to a written employment contract for a fixed or indefinite period between the TEA and the employee), the amount of remuneration for the employee (which could not be lower than that prescribed by the sectoral, occupational or company collective agreements applicable to personnel of indirect employers and in any event not lower than that provided for by the current NGCA).

The most significant readjustment concerns the extension of the maximum duration of employment with the indirect employer. Under Law 2956/01, the duration of employment could not be more than eight months, renewable for another eight months. In the event of continued employment for more than two months after the expiry of the contract, the contract was considered to have been automatically converted to a contract of indefinite duration between the employee and the indirect employer. Law 3646/10 extends the duration of employment to 12 months with a maximum limit of 18 months. After that period, the employee's contract is rescinded and he/she is replaced by another employee.

Furthermore, Law 3846/10 states that a 45-day period must elapse after the end of the contract before a new contract can be concluded between the same worker and the same indirect employer in order for it not to be deemed a permanent contract.

Article 68 of Law 3863/10 obliges the State, public entities and local authorities outsourcing security or cleaning services from contracting companies to gather information from them on the number of their workers, their working days and hours, the collective labour agreement applicable to these employees, the level of earnings legally set for them, etc. Failure to provide this information constitutes cause for exclusion from the contract. If the terms of the contract provided for by Law 3863/10 are violated, the contract is to be terminated. Finally, if the contractor is found, by the monitoring mechanisms of the Labour Inspectorate, to be systematically breaking labour law, the penalty is a three-year exclusion from public tenders.

5. *Contracts to acquire work experience*

The original Memorandum Law (Law 3845/10) carried provisions to enable unemployed persons up to 24 years of age to be hired under fixed-term “contracts to acquire work experience” lasting 12 months. Their gross earnings would amount to 80 per

cent of the minimum basic salary or basic wage as defined in each case by the NGCA. When the contract ends, employment can be continued under regular contracts and the employees are given the additional possibility to participate in the programmes of the Greek Manpower Employment Organization (GMEO).

Law 3863/10 set minimum wages and salaries lower than those provided for by the NGCA with respect to workers under 25 years of age under their first employment contracts, people aged 15–18 under apprenticeship contracts, and those aged 18–25 years under two-year fixed-term contracts for new work experience. This regulation was abolished by Cabinet Act No. 6/29–2–2012. The new arrangement calls for a 32 per cent reduction in the minimum wage rate determined by the NGCA for all employees below 25 years of age, irrespective of the length of time they have worked.

6. Arrangement of work time

The previous regulations on the arrangement of work time gave rise to implementation difficulties mainly because unilateral enforcement was prohibited. Enforcement had to be subject to an agreement between the employee and the employer, i.e. a voluntary arrangement.

The new legal framework established by Law 3896/11 resulted in the following:

Overtime premiums fell to 20 per cent for excess working time,⁵¹ 40 per cent for the first 120 annual hours of overtime work and 60 per cent for more than 120 hours. These premiums were at 30 per cent, 75 per cent and 100 per cent respectively (Law 3385/2005).

The right of the sectoral trade union or the respective federation of employees to be involved in the negotiations on work time in enterprises without trade unions, work councils, associations of persons, or which employ fewer than 20 employees is abolished. Recourse to mediation and arbitration procedures is also eliminated. It should be noted that a subsequent arrangement under Article 37, Law 4024/11 specifically provides that work time can be regulated by a collective agreement reached by an association of persons within the enterprise. To establish the agreement, the acquiescence of only three-fifths of the enterprise's employees would suffice, regardless of the total number of employees working in the enterprise. Such an agreement would have unlimited duration.

In enterprises requiring contractual work of up to 40 hours per week, employment for two hours a day in excess of eight hours is allowed for a period of time (a period of increased workload), provided these extra hours are either deducted from the hours of another period (a period of reduced workload) or granted as days off (daily rest). The time periods of increased and reduced employment are expanded from four months to six months within a 12-month period (reference year). Additionally, the law allows company agreements that state that up to 256 hours of work during a calendar year may be allocated according to workloads.

7. Redundancy of wage earners (L.3846/10)

Under the older legal provisions (Law 3198/1955, Legislative Decree 206/74) the employer was not allowed to declare wage earners temporarily redundant for more than three months because of a drop in the enterprise's economic activity. Furthermore, during this period such wage earners were entitled to be paid 50 per cent of the average regular wages during the preceding two months under a full-time employment regime.

Under the new provisions of Law 3846/10, the duration of redundancy can also not exceed three months a year, but these months can be continuous or discontinuous. This means that an employee may find himself/herself declared redundant many times in the calendar year though the total period may not exceed three months. After this three-month

⁵¹ Excess working time is an extension of the working week of up to 5 to 8 hours per employee. It is defined by the employer and the employee has to concur with this definition.

period has been exhausted, an interval of at least three months must pass before an employee can be made redundant again.

8. Individual and collective lay-offs – compensation (Law 3846/10)

The main changes to the previous legislative regime (Laws 2112/20 and 3198/55) governing individual and collective lay-offs weaken the framework protecting employees against dismissal and facilitate lay-offs. These changes are described below:

The notice period for lay-offs of salaried employees is drastically reduced. In the case of lay-off with notice, the compensation is reduced to half of what it would have been if the employee had been laid-off without written notice.⁵²

The new law establishes a system of compensation paid in instalments. When the compensation for termination of the contract exceeds the amount of two monthly salaries (previously six), the employer is obliged to pay the equivalent of two monthly salaries at the time of lay-off. The balance is to be paid in bimonthly instalments, each one of which cannot be less than two monthly salaries. The first instalment shall be paid the day after two months have elapsed since the lay-off.

As mentioned earlier, the termination of the work contract during the expanded “trial period” gives the employer the right to terminate the work contract without notice and without severance pay, unless otherwise agreed between the parties.

It sets up a self-insurance measure for laid-off workers aged 55–64, and obliges the employer to contribute to its costs, effectively acting as a disincentive for laying off. It also determines a maximum lay-off limit of up to 10 per cent for workers nearing retirement, which also acts as a disincentive for firing this category of workers.

In effect, the individually or collectively laid-off worker in the above age category has the right within two months of being laid off to apply for self-insurance in which the employer is obliged to participate. The employer’s share in self-insurance contributions is set at 50 per cent of the self-insurance costs for laid-off employees aged 55–60 years for up to three years, and at 80 per cent of self-insurance costs for employees aged 60–64 years for up to three years.

The limits set by Law 2874/2000 on collective lay-offs are upwardly revised.

4. Results of the reforms: Preliminary evidence

The Greek economy is currently in the fifth year of economic recession and in the third year since Memorandum I was ratified and implemented. In terms of the macroeconomic results achieved in comparison to the results predicted, the difference could not have been greater. Although it was debated at a time whether the policy prescribed was wrong or its implementation inadequate, it is now more than clear that a wide-range policy restructuring is required in the near future.

The depth of the recession, as well as its length, has resulted in a dead-end situation. The rate of enterprise bankruptcies is rising steadily as consumer demand drops because of the constantly falling disposable income. Harsh wage cuts in both public and private sectors, severe reductions in pension levels, highly increased taxation on income and housing, rising prices for electricity and fuel, and higher VAT rates, plus cuts in public spending on health and education, have transformed Greece society into a state characterized by mass poverty. Private and public investment is very low, credit to firms

⁵² For example, in order to lay off an employee with 20 years of work under the previous legislative regime, a 16-month notice period was required compared to the current six-month notice. Compensation for lay-off without notice would have amounted to 16 monthly wages while now it is equivalent to 8 monthly wages.

and consumers is rare, and deposit savings of households are steadily decreasing at an accelerating rate.

As the once thriving middle class is impoverished, social polarization increases, while extreme poverty mounts. Suicide rates have multiplied, depression is widespread, and the number of homeless is rising constantly, as are the lines of hungry people waiting at soup kitchens run by the Church and voluntary organizations.

In a situation like this, which has been described by a worker from a voluntary organization as a “humanitarian crisis”,⁵³ labour market deregulation contributes to the problem rather than to solving it. Though it is still early to make a detailed evaluation of the effects of the recent legislative changes on the labour market, the authors maintain that it is the extent and not the direction of the impact that remains to be estimated. This paper will contribute a few, scattered pieces of evidence and then present the views of the persons interviewed on these questions.

The Labour Inspectorate Body (LIB) is the authority responsible for supervising compliance with labour regulations in the Greek labour market. Its main duties include inspections of workplaces, resolution of labour disputes and the administration of labour contracts.

According to its Annual Report for 2011, both numbers of inspections and labour disputes have only modestly increased over the last two years. This mostly reflects the operational limits of the Labour Inspectorate Body rather than the real turbulence in the labour market. Interestingly, the number of fines imposed and the amount of money received by workers after the resolution of disputes increased in 2010 but dropped in 2011.

Nevertheless, the salient part of the report has to do with impact of the institutional reforms on the labour market. As expected, part of the employment adjustment process is taking place through working time arrangements, i.e. cutting working hours instead of decreasing employment. Law 3846/2010 granted employers the prerogative unilaterally to transform full-time into part-time jobs for a period of six months. This was eventually extended to nine months by Law 3899/2010. According to the LIB report, this institutional reform resulted in a substantial increase in the conversion of full-time to part-time contracts. The total number of conversions (lowering either working days per week/month or working hours per day), which was 16,461 in 2009, jumped to 26,253 in 2010 and soared to 58,962 in 2011.

Another recent institutional reform was the encouragement of decentralized collective agreements; these allowed companies and workers to agree on wages lower than those set by sectoral or occupational agreements. Initially introduced by Law 3899/2010 at the end of 2010, the reform had no substantial results. According to the LIB report, a total of 163 enterprise-level agreements were signed in 2011. However, the second version of the Law, 4024/2011 at the end of 2011, which introduced more flexible worker representation schemes, had a stronger impact on decentralized collective bargaining, leading to 270 enterprise-level agreements in the first four months of 2012 (preliminary data) alone. Wage cuts under these agreements have ranged from 18 to 30 per cent, according to the estimates of the General Confederation of Greek Workers (GCGW).

Table 8 summarizes the main statistics reported by the Greek Labour Inspectorate (SEPE).

⁵³ Doctors of the World is an organization providing medicine and health services in developing economies in crisis.

Table 8. SEPE inspections: main statistics, 2009–2012

	2009	2010	2011	2012
Inspections				
Total number of inspections	28 082	30 965	31 515	30 227
Number of prosecutions	3 475	3 585	4 003	3 262
Number of fines	5 679	7 165	3 738	5 770
Amount imposed in fines (euros)	10 885 952	13 144 900	10 937 418	21 452 613
Labour disputes				
Total number of cases	20 550	20 555	21 345	21 520
Number resolved	10 039	9 435	9 843	10 125
Number canceled	4 036	4 531	4 944	5 111
Number unresolved/sent to court	6 475	6 589	6 558	6 286
Money received by workers in resolved cases (euros)	17 524 702	20 699 232	19 875 087	20.259.925

Collective bargaining structures and procedures have been greatly affected by the modifications in collective labour law adopted in 2012. The marked drop in the number of sectoral or occupational collective bargaining agreements contrasted with the rapid rise in the number of terminated or terminating sectoral agreements. According to the latest review of the state of collective agreements of the *Bulletin of Labour Legislation* (DEN), of the total of 272 occupational or sectoral collective agreements, 233 had been terminated by May 2013 and only 33 (12% of the total) had been renewed. A few collected agreements in the broad public sector have been replaced by Minister's Decree in 2011 (Law 4024/11).

According to a recent study⁵⁴ the dominant features of collective bargaining in Greece after 2011 have been “the rapid decentralization of collective bargaining at the enterprise level with the simultaneous reduction of the degree that the Greek labour market is covered by collective agreements” (p. 3). At the same time, the study notes the marginalization of the role played by OMED in industrial disputes.

Table 9 reports on the number of collective agreements concluded by bargaining at the sectoral or occupational level and at the enterprise level.

Table 9. Collective agreements concluded by bargaining, 2010–2012

Year	At enterprise level	At sectoral or occupational level, with national coverage
2010	238	67
2011	179	28
2012	976	2

Source: Ch. Ioannou, K. Papadimitriou. *Collective bargaining in Greece in 2011 and 2012: Tendencies, disruption and prospects – synopsis*, 2013 (Organization for Mediation and Arbitration (OMED)).

Most of the collective agreements in 2012 were reached through the newly established associations of persons (Law 4024/2011), which can be formed with the participation of at least five employees. Agreements concluded by associations of persons amounted to 72.6 per cent of all agreements at the enterprise level, compared to 17.4 per cent for agreements obtained by trade unions. The remaining 9.9 per cent were agreed with local sectoral and occupational trade unions.

⁵⁴ Ch. Ioannou and K. Papadimitriou, *Collective Bargaining in Greece in 2011 and 2012: Tendencies, Disruption and Prospects – Synopsis*, 2013, OMED – Organization for Mediation and Arbitration.

The difference in the bargaining procedures of, and results obtained by, associations of persons and enterprise trade unions is clearly reflected in the wage concessions achieved. According to Ioannou and Papadimitriou (2013, p. 9), two-thirds of all agreements concluded with associations of persons have reduced wages to the minimum wage of the General National Collective Agreement as amended (this cut the minimum wage by 22%). Around 33 per cent of the agreements reached at the enterprise level by trade unions have managed to retain previous wage levels.

The evidence from the LIB suggests that wage reductions resulting from individual agreements between employers and employees far exceed reductions obtained by collective agreements at the enterprise level (both by trade unions and by associations of persons). Individual agreements resulted in 22.2 per cent cuts (unweighted; 22.9 per cent weighted), while collective agreements obtained average cuts of 18.8 per cent (17.4 per cent weighted).⁵⁵ This evidence supports the general conclusion of Ioannou and Papadimitriou on the changes imposed on the bargaining structure and procedures by the new legal framework.

One further conclusion from this evidence is the central role played by the national minimum wage. Not only did this wage set the minimum for labour remuneration, but it also provided a yardstick for deviations from the minimum. As the minimum wage has been cut by 22 per cent, the whole structure of wages in the private sector is reduced by a similar percentage.

One cannot possibly understand the rapidity of the proliferation of associations of persons at the firm level. Trade unions at this level have usually found it difficult to establish themselves. Most individual employers have been hostile to the idea of having in-firm trade unions. Furthermore, the vast number of very small firms has had a negative impact on the creation of firm-specific trade unions. The trade union leadership has also not advocated the development of such unions, for fear of losing control of sectoral and occupational trade unions. As a result, apart from the General National Collective Agreement, only sectoral or occupational bargaining procedures have produced results, an effect heightened by the extension of their coverage to firms not participating in the relevant employers' associations. This provided the preconditions for impersonal negotiations, sidestepping the personal relationship between the employer and the employee which characterizes small and medium-sized enterprises.

It was this strong personal relationship between the employer and the employee and the exchange of atypical favours and concessions on a number of work issues, from extensions of the work schedule to constant reallocation of work tasks that provided small and medium-sized firms with a necessary element of internal flexibility and contributed significantly to their economic survival. The relegation of the wage issue to a negotiating procedure *outside* the firm in which neither the employer nor the employee were active participants cleared the ground for the development of a more paternalistic management of labour relations.

Bringing back wage negotiation to within the firm under this paternalistic management structure signified a drastic transition in labour relations. What is happening now is a *shift from paternalistic management to authoritarian labour relations*. Management has undisputed power, curtailed only by external factors, i.e. demand for the firm's output, the structure of the competition and the limited availability of finance.

Paternalistic forms of management are partly maintained. In some cases, employers *unofficially* increase (i.e., without reporting true levels of remuneration to avoid paying the

⁵⁵ The LIB bases its findings on firms that have notified it of wage reductions, as they ought to do. The number of firms which reported new wage levels totalled 75,277 firms employing 355,397 persons. This is equivalent to about 10 per cent of all firms; the percentage of employees covered is higher. A simple calculation indicates that the average firm determining wages by collective agreement has 118.4 employees, while the average firm setting wages through individual agreement has a staff of 3.5.

related social security contributions) wages, taking into consideration living conditions and specific needs.

However, whether the above-described transition will become a permanent feature of the Greek wage-setting process is too early to forecast. There are forces in favour of the establishment of an authoritarian regime, which would mean a return to the conditions of pre-1974 Greece, before the restoration of democracy. These forces can be identified among some business interests and in political parties. The current Government is keen to interfere in the resolution of industrial conflicts in favour of specific business interests. In fact, the management of labour has been left to individual employers on the one hand and the state machinery on the other. A framework for social partners to negotiate collectively and to come to common agreements simply does not exist.

On the other hand, one cannot exclude the possibility that associations of persons, mostly created as employers' trade unions, may become the kernel of a new grassroots trade unionism. This could happen if the official trade unions contribute positively in that direction.

A recent study⁵⁶ exploring human resource management macroscopically in Greek enterprises with the use of Labour Force Survey data indicates that some manufacturing sectors are reducing personnel while increasing overtime work. Unpaid overtime hours have increased since 2008, although part of this increase may be attributable to the flexibility of the time arrangements consolidated in Law 3986/2011. Unpaid overtime work seems to have a strong sectoral concentration. In seven out of 23 industrial sectors, 100 per cent of the overtime hours were unpaid.

Part-time working, job rotation and similar measures are resented by employees more strongly in 2011 than before. This is due to the extremely low income earned – well below poverty level – and the unilateral changes made to the terms of labour contracts.

However, some firms attempt to keep qualified personnel on the payroll through rotation schemes. Part-time work has increased among skilled craftsmen and other qualified personnel (professionals and technicians).

Evidence from a different source sheds light on another dimension of the problem. The Greek Manpower Employment Organization (GMEO) has attempted a multifaceted intervention in the labour market. One of their most ambitious programmes subsidizes employers' social security contributions in order to preserve jobs. The scale of the programme is enormous. It involves direct subsidies to 200 000 employees at a total cost of nearly 1 million euros. The only provision it makes is that the firm has to keep one additional worker employed for each subsidized employee (a total of 400 000 jobs had been preserved at one point). The programme started in January 2011. However, only 10 per cent of the target had been met by December 2011 and the employers were starting to lose interest.

Though GMEO's job creation and job preservation schemes have been extremely generous and their terms and conditions increasingly relaxed, implementation of all programmes is doing badly. Entrepreneurs avoid taking on any obligations anyway when they can and their attitude to labour market programmes is the same, particularly in a situation of falling demand and an uncertain future.

Overall, the massive reforms of Greek labour law that took place in the last two-and-a-half years have brought about a serious deterioration in employment conditions by any reasonable measure. At the same time, they have failed to deliver any positive results in terms of employment creation. It is not only the trade unions that are openly expressing their agony. It seems that the employers' organizations are also caught in a "lose-lose" situation. They do understand that the economic and social situation in Greece has become unbearable and they anticipate the possibility of harsh social conflict. They also understand

⁵⁶ A. Dedoussopoulos (2012).

that wage cuts make things even worse for businesses as a whole. But, they are reluctant to suggest more moderate wage reductions as they fear losing members, who are entitled to opt out of collective agreements. They are caught in a quandary. If they go along with the myopic demands for severe wage cuts, they contribute to a deeper recession and will end up losing members anyway, this time to bankruptcies.

5. The role of social partners

In discussions of the country's economic prospects and the state of labour relations with social partners, frustration, disappointment and an acknowledgement of their practical inability to contribute to a necessary strategy of economic reconstruction are evident. Employers' associations are consumed by a vital dilemma: all have publically taken positions in favour of autonomous negotiations and against general wage cuts. They all agree that consumer demand and competitiveness has been and will be in the future the main driving force of economic recovery and employment growth.⁵⁷ However, as their members can legally opt out of associations if they disagree with the terms of collective bargaining agreements, they are very reluctant to seriously push for a change in policies.

In fact, some employers' associations at the national (third) level seem to accept the fact that they do not have to negotiate wages, i.e. setting the national minimum wage. This was explicitly stated by the representative of the Hellenic Federation of Enterprises (SEV) in a recent interview with the authors of this paper. His view was that the social partners have to negotiate on a new basis, signing a "new form of contract", in which issues other than the wage rate will be determined. However, other employers' associations indicate concern about the present state and the future of labour relations (mainly ESSE and GSEVEE).

One can draw a line dividing the two opposing conceptions along the size of the firms they represent. Relatively large firms, represented by SEV, the Hellenic Retail Business Association (SELPE)⁵⁸ and SETE (Association of Greek Touristic Business)⁵⁹ have favoured wage cuts and the deregulation of the labour market, while the National Confederation of Hellenic Commerce (ESEE) and the Hellenic Confederation of Professionals, Craftsmen & Merchants (GSEVEE) have been traditionally reluctant to cut wages.

Two examples of differing strategies have been developed by employers' associations in recent months. The first is the national collective agreement for the trade sector that was signed by ESEE and GSEVEE, the two main associations. The second is the National General Collective Agreement concluded in May 2013.

GSEVEE and ESEE attempted to revive social dialogue after the June 2012 elections, but they failed, as other social partners reacted negatively. As a result, the two associations negotiated a national sectoral collective agreement with the Greek Federation of Private Employees (OIYE); this was signed on 27 July 2012. The agreement provided for a moderate average wage reduction of 6.7 per cent, thus returning to the 2009 wage level.

SELPE had been invited to participate in the negotiations, but it preferred to sign a separate sectoral collective agreement and then to terminate it unilaterally. It thus left wage fixing to enterprise level agreements.

The National General Collective Agreement of May 2013 is indicative of the state of social dialogue and collective bargaining in Greece. It is an agreement that does not refer

⁵⁷ See National Confederation of Hellenic Commerce, *Annual Review 2012*, p. 194.

⁵⁸ The Hellenic Retail Business Association represents the organized retail trade, chain stores, malls and Greek multinational companies.

⁵⁹ SETE was given the status of national social partner in 2013. HRBA participates in sectoral negotiations only.

to labour remuneration (as the determination of the minimum wage has been left to the Government) and its only target has been to rescue the marriage allowance, which ended with the termination of the previous NGCA in March 2013. The General Confederation of Labour took the initiative on the negotiation of the Agreement and its lead was followed by all other social partners. When an agreement was reached, the Hellenic Federation of Enterprises (SEV) refused to sign it, though it has instructed its members to continue paying the marriage allowance.

SEV questioned the value of the signed agreement on the grounds that it lacked legal substance and substantial content. SEV did not want to be part of one more “lost opportunity”, as its wage setting mechanism is a given and wants to push forward a new form of collective agreement of a broader scope focused on issues of competitiveness. According to SEV, the General Confederation of Labour was only pressing the issue of wages set by the General National Agreement which to him should not be viewed as an “existential question” for trade unionism.

In fact, the GSEE appears to have been weakened by the implementation of the Laws on collective bargaining. So far, GSEE does not seem to have a clear strategy to overcome the current situation.

The question of competitiveness has been the main theme in SEV’s agenda. SEV argues that wage reductions did not improve competitiveness. SEV appears skeptical about the possible sources of growth or even of recovery of the Greek economy, given the state of consumption demand, investment,⁶⁰ government consumption and the slow pace of export recovery. He said that the Greek economy needed a radical treatment, i.e. “all measures had to be taken simultaneously” and not gradually as had been done so far. He believes that if the targets of the policy had been clarified and the different interventions applied simultaneously, it would have made a difference. But gradual implementation of the policy has been confusing and ineffective –

6. Additional remarks

One of the main arguments raised against the imposition of minimum wages has been that such a policy advocates the emergence of a black labour market.⁶¹ The evidence collected through the LIB inspections suggests that unrecorded labour has increased, though the minimum wage has been reduced by 22 per cent, i.e. at a level well below the poverty line. The percentage of undeclared labour rose from 25 per cent in 2010 to 36.2 per cent in the inspected enterprises.⁶² Undeclared labour among Greek natives climbed from 22.6 per cent (2010) to 31 per cent in 2012. Undeclared labour among immigrant workers is even higher (46.9 per cent in 2012 compared to 31.5 per cent in 2010).

Undeclared labour poses one of the many threats faced by the social security system. High unemployment rates, reduced wages and the growing percentage of elders in population are also setting conditions for a total breakdown in the near future. The 2012 PSI (Private Sector Involvement) has contributed to the now inherent instability of the

⁶⁰ Investment in private sector has fallen by a further 20 per cent in the first quarter of 2013, according to sources in the Foundation for Economic & Industrial Research (IOBE).

⁶¹ The other main argument is that the minimum wage reduces employment and increases unemployment. The authors are not concerned with this argument here, as the empirical evidence does not seem to support it. See, among others, D. Card and A.B. Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, 1995, Princeton Un. Press.

⁶² There is a cloud over the inspections performed by the LIB in recent years. The average size of inspected enterprises in 2012 was 2.2 employees per enterprise (4.1 in 2010), which raises questions on the methods of inspection in use. See LIB, press release 12th March 2013, Table 4.1. It is interesting to note that while employment levels in the LIB fell by 20 per cent, the number of inspections per employee rose by 20.7 per cent, indicating that workloads have risen sharply. See LIB above, Table 8.

Greek social security system, as a haircut has been imposed on social security funds held in the Bank of Greece.

The structure of unemployment reveals an additional future threat. Though the youth unemployment rate is at record levels (almost 60 per cent in the age cohort 15–24), the age composition of unemployment is weighted towards the middle-aged. Table 10 indicates the changes in the age structure of the unemployed over the period 2007c to 2012c.

Table 10. Age structure of the unemployed, percentage of total, 2007 and 2012

Age group	2007c	2012c
15–24	20.4	14.5
25–34	35.8	34.9
35–49	31.7	35.9
50–64	13.5	14.7
	100.0	100.0

In fact, though the rate of unemployment is much higher among the youth, their share in total unemployment is a little lower than that of the oldest cohort in the age ladder. The share in unemployment of persons in the age cohort 35–49 increased by 4.3 percentage points between 2007 and 2012. This evolution poses two significant questions. First, there is the question of the present, as less than 20 per cent of the unemployed currently receive an unemployment benefit, which, in any case, is already too low to cover subsistence needs. Furthermore, official estimates raise the number of families with no member in work to 400 000. Increasing segments of the urban population face serious problems of subsistence. In addition, welfare state institutions, such as education, health and welfare services, are underfunded, posing additional threats to the social welfare. The increasing activation of humanitarian organizations and the proliferation of forms of social solidarity attempt to bridge the gap, but the problems are far from being effectively resolved.

The second question refers to a next-decade problem. The current structure of unemployment indicates that the probability of re-employment for a large section of the labour force is very low. This means that in the near future the Greek economy must cope with a large permanently impoverished segment (more than 20 per cent of the total population) which will never meet preconditions for eligibility for pension. Or, it will make further demands on social security, bringing pensions to very low levels, unless substantial new resources are directed to pension funds.

Youth unemployment attracts the interest of public opinion and policy-making. A focus on it to the exclusion of other problems is not merely an erroneous conception of the reality of the unemployment structure. It provides a rationale for further deregulation of the labour market, the extension of in-firm training programmes as a substitute for paid employment, and further cuts in wages to below minimum standards.

Yet, the implications of youth unemployment are very important. The impact of unemployment spells and the duration of these spells are found to be negative on both employment and career prospects. In addition, negative repercussions have been observed in a number of areas of personal and social life (the postponement of independence from the family, drug abuse, violence and increasing racism, leading to political support of Golden Dawn, a neo-Nazi party). Brain drain has also taken its toll, though statistical quantification is not available. There are reports that numerous young persons, holding a university or post-graduate degree especially in medicine, civil engineering and the sciences, have migrated to Germany, the Netherlands and northern Europe. Brain drain

may become a serious obstacle in any attempt towards a productive re-orientation of the Greek economy.

One should note finally that the number of persons in employment but receiving wages only after an interval of between three to six months is steadily increasing. Largely this practice stems out the enterprises' inability to find short-term credit, but there are cases of deliberate postponement. About 55.8 per cent of the labour disputes recorded by the LIB relates to refusal by the employer to pay for work performed in the past. On the whole, remuneration issues make up 75 per cent of all labour disputes, and disputes over the legality of the termination of the labour contract add another 15.4 per cent, with disputes over the time dimension of work (overtime working, setting time schedules, etc.) accounting for a small percentage (3 per cent).

References

- Berdekli, C. 2013. “Labour market flexibility in Greece”, Ph.D. thesis (Panteion University).
- Dedoussopoulos, A. 2000. *Theories of unemployment*, Typothit (in Greek).
- . 2005. “Structural change and trade unions”, in *Labour and politics: Trade unions and organised interests in Greece* (Sakis Karageorgas Foundation) (in Greek).
- . 2005b. “A critical assessment of employment policy in Greece”, Labour (URI UHER, Panteion University).
- . 2010. “The extent of precarious work in the public sector” (Panteion University) (in Greek).
- . 2011. “Comments on the Kretsos – Koukiadaki Report”, CERCRID Conference, *What labour law and social protection in Europe in Crisis?* (Lyon).
- . 2012. “The state of the Greek labour market under crisis”, part of an on-going research project on strategic human resources management (Hay Group, OMAS, EEDE).
- et al. 1997. *Social preconditions of employment and unemployment*, (Panteion University and the Ministry for Development).
- ; Lampropoulou, M. 2012. “Misreading the crisis, misspecifying the policy”, paper presented at the 22nd World Congress, International Political Science Association, Madrid.
- EC DG for Economic and Financial Affairs. 2010. “The Economic Adjustment Programme of Greece”, Occasional Paper No. 61.
- EC. *Employment in Europe 2009*.
- Geanakoplos, J. 2011. “American debt and Greek debt”, graduation speech at the University of Athens Economics and Business School, Cowles Foundation, Discussion Paper No. 1837 (Yale University).
- IMF. *World Economic Outlook 2012*.
- Janssen, R. 2010. “Greece and the IMF: Who exactly is being saved?” (CEPR).
- Korliras, P.; Monogios, Y. 2012. “An analysis of the manageability of the Greek public debt”, Bulletin, KEPE.
- Kretsos, E.; Koukiadaki. 2011. “Report on Greece”, CERCRID conference, *What labour law and social protection in Europe in crisis?* (Lyon).
- Lamo, A. et al. 2007. “The cyclicity of consumption, wages and employment of the public sector in the euro area”, European Central Bank Working Paper 757.
- Lapavitsas, C. et al. 2011. “Breaking up? A route out of the eurozone crisis”, RMF Occasional Report No. 3 (SOAS).
- Laskos, C.; Tsakalotos, E. 2011. *Without return: From Keynes to Thatcher* (in Greek).
- Malliaropoulos, D. 2010. “How much did competitiveness of the Greek economy decline since EMU entry?”, in *Economy and Markets*, Vol. 5.4 (Eurobank Research)
- Manolopoulos, J. 2011. *Greece’s odious debt: the looting of the Hellenic republic by the euro, the political elite and the investment community* (New York and New Delhi, Anthem Press).
- OECD. *Employment Outlook 2009*.

—. *Government at a Glance 2011*.

Papatheodorou; Dafermos, Y. 2010. “Facets of poverty and deprivation among working people in Greece and Attica” (The Greek Association for Social Policy).

Patra, E. 2012. “Social dialogue and collective bargaining in times of crisis: The case of Greece”, DIALOGUE WP No. 38 (Geneva, ILO).

Piancastelli, M. 2001. “Measuring the tax effort of developed and developing countries – Cross country panel data analysis 1985/95” (IPEA).

Roumeliotis, P. 2012. “The unknown background of Greece’s appeal to IMF” (in Greek).

Varoufakis, G. <http://yanisvaroufakis.eu/>

WEF. *Global Competitiveness Report, 2008–9 and 2011–12*.