GREECE: PRODUCTIVE JOBS FOR GREECE

The aim of the Studies on Growth with Equity series is to show how strong and well-designed employment, labour and social protection measures are central—in combination with supportive macroeconomic policy—to building sustainable, job-rich and equitable growth.

After six years of recession, the Greek economy is showing some signs of recovery. Yet, unemployment has reached unprecedented levels, the risk of poverty and social exclusion continues to increase and enterprise investment is too weak to lead to a sustainable employment recovery.

Based on an in-depth analysis of the present situation, the report identifies emergency measures to address the most pressing needs of vulnerable groups, notably youth and jobless households. It also shows that a comprehensive strategy, involving action at the European level, would contribute to placing the Greek economy on a sustainable growth path. This encompasses, inter alia, major changes in the credit system, policies to boost productive investment and small business development, effective labour market programmes and social protection, improved school-to-work transitions and social dialogue. The report quantifies the employment effects of these policies and highlights the benefits of achieving economic and budget deficit targets in the medium term.
STUDIES ON GROWTH WITH EQUITY

GREECE
PRODUCTIVE JOBS FOR GREECE

INTERNATIONAL LABOUR ORGANIZATION
RESEARCH DEPARTMENT
FOREWORD

In order to achieve a sustainable recovery, macroeconomic and employment goals need to be pursued in parallel. This was highlighted by 51 European governments, employers’ and workers’ representatives in the Oslo Declaration adopted by the ILO’s 9th European Regional Conference in April 2013, which stated that “structural reform and competitiveness, on the one hand, and stimulus packages, investment in the real economy, quality jobs, increased credit for enterprises, on the other, should not be competing paradigms. It is in our common interest to elaborate sustainable approaches in order to promote jobs, growth and social justice”. To that end, the ILO has been analysing the situation in a number of crisis-hit European countries, including Greece, with a view to presenting evidence-based policy options for growth with quality jobs.

The ILO report Productive Jobs for Greece analyses the challenges faced by Greece in the prolonged crisis situation. The report notes the first signs of economic recovery in some areas, while drawing attention to the underlying causes of the crisis and the magnitude of its social consequences. Indeed, the structural challenges of the Greek economy still remain and need to be addressed through more profound initiatives than hitherto taken. The overarching goal is to fight high unemployment, while addressing the needs of the most vulnerable. The report finds that pursuing this goal through well-designed policies and institutions, as well as social dialogue, will contribute to boost economic growth and facilitate the achievement of macroeconomic stability in the medium term. These issues go to the very centre of the conditions needed to achieve a sustainable European currency.

I hope the report, its findings and the discussions and debate it stimulates will provide useful inputs to the national and European debate on employment and social issues.

Guy Ryder
ILO Director-General
ACKNOWLEDGEMENTS

Authors of the report

This report has been prepared by Santo Milasi, Clemente Pignatti and Johanna Silvander of the ILO Research Department. The authors are grateful for excellent research assistance provided by Christina Andreou-Kalofouti and Yi Qu.

The study has been coordinated by Steven Tobin under the supervision of the Deputy Director of the ILO Research Department, Duncan Campbell, and the Director of the ILO Research Department, Raymond Torres, with guidance from James Howard, Senior Adviser to the ILO Director-General.

The team of researchers is also thankful to Florence Bonnet of the ILO Research Department, Massimiliano La Marca of the Social Protection Department and Katerina Tsotroudi of the International Labour Standards Department for important contributions to earlier versions of the report.

A preliminary version of the report was shared with the Ministry of Labour, Social Security and Welfare of Greece as well as the Greek Employers’ and Workers’ organizations, namely the Greek General Confederation of Labour (GSEE), the Hellenic Federation of Enterprises (SEV), the Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE), the National Confederation of Hellenic Commerce (ESEE), and the Association of Greek Tourism Enterprises (SETE). The report benefited greatly from the wealth of comments received from these Greek tripartite partner organizations. The main findings of the preliminary report were also discussed with other national and international partners, notably the American Hellenic Chamber of Commerce, the Manpower Group, EU Task Force Greece and the International Monetary Fund (IMF) office in Athens.
Detailed comments to the draft report were provided by colleagues from various Greek partner organizations, including Costas Kanellopoulos, Evangelia Papapetrou, Isaac Sabethai, Evagelia Vourvachaki and Pinelopi Zioutou of the Bank of Greece; Fotini Thomaidou and Aggelos Tsakanikas of the Foundation for Economic and Industrial Research (IOBE); Stamatis Vardaros and Kotsonopoulos Loudovikos of the IME/GSEVEE; and Christos Ioannou of the Office of the Greek Ombudsman.

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<td>ABI</td>
<td>Associazione Bancaria Italiana (Italian Banking Association)</td>
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<td>ADEDY</td>
<td>Greek Civil Servants’ Union</td>
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<td>AKAGE</td>
<td>Insurance Fund for Generations Solidarity</td>
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<tr>
<td>ANIA</td>
<td>Associazione Nazionale fra le Imprese Assicuratrici (National Association of Insurance Companies)</td>
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<tr>
<td>AVC/CSC</td>
<td>Algemeen Christelijk Vakverbond/Confédération des Syndicats Chrétiens (Confederation of Christian Trade Unions)</td>
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<tr>
<td>BRIICS</td>
<td>Brazil, Russia, Indonesia, India, China and South Africa</td>
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<td>CBA</td>
<td>Collective bargaining agreement</td>
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<tr>
<td>CEACR</td>
<td>ILO Committee of Experts on the Application of Conventions and Recommendations</td>
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<tr>
<td>CEPR</td>
<td>Centre for Economic Policy Research</td>
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<tr>
<td>CEPYME</td>
<td>Confederación Española de la Pequeña y Mediana Empresa (Spanish Confederation for Small and Medium Enterprises)</td>
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<tr>
<td>CGIL</td>
<td>Confederazione Generale Italiana del Lavoro (General Confederation of Italian Workers)</td>
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<tr>
<td>CICOPA</td>
<td>International Organisation of Industrial, Artisanal and Service Producers’ Cooperative</td>
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<tr>
<td>CISL</td>
<td>Confederazione Italiana Sindacati Lavoratori (Italian Confederation of Workers’ Trade Unions)</td>
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<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
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<tr>
<td>EC</td>
<td>European Commission</td>
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<tr>
<td>ECB</td>
<td>European Central Bank</td>
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<tr>
<td>ECI</td>
<td>Economic Complexity Index</td>
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<td>EEC</td>
<td>European Economic Community</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>EIRO</td>
<td>European Industrial Relations Observatory</td>
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<td>EKAS</td>
<td>Pensioner’s Social Solidarity Allowance</td>
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<td>EL.STAT.</td>
<td>Hellenic Statistical Authority</td>
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<tr>
<td>EMU</td>
<td>Economic and Monetary Union</td>
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<td>EPL</td>
<td>Employment protection legislation</td>
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<td>EPLex</td>
<td>ILO Employment Protection Legislation Database</td>
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<td>ESEE</td>
<td>National Confederation of Hellenic Commerce</td>
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<td>ESRI</td>
<td>Economic and Social Research Institute</td>
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<tr>
<td>ETAA</td>
<td>Insurance Fund for Independent Professionals</td>
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<td>ETEA</td>
<td>Unified Auxiliary Insurance Fund</td>
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<td>ETEAN</td>
<td>Hellenic Fund for Entrepreneurship and Development S.A.</td>
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<td>ETUI</td>
<td>European Trade Union Institute</td>
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<td>Acronym</td>
<td>Description</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FGB</td>
<td>Fondazione Giacomo Brodolini</td>
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<tr>
<td>FOND-ICO</td>
<td>Fund-of-Funds of Official Credit Institute</td>
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<td>GENOP-DEI</td>
<td>General Federation of Employees of the National Electric Power Corporation of Greece</td>
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<td>GDP</td>
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<td>GSEE</td>
<td>Greek General Confederation of Labour</td>
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<td>GSEVEE</td>
<td>Hellenic Confederation of Professionals, Craftsmen and Merchants</td>
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<tr>
<td>HIVA</td>
<td>Research Institute for Work and Society, Catholic University of Leuven</td>
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<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
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<tr>
<td>ICTWSS</td>
<td>Database on institutional characteristics of trade unions, wage setting, state intervention and social pacts</td>
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<tr>
<td>IILS</td>
<td>International Institute for Labour Studies</td>
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<tr>
<td>IKA-ETAM</td>
<td>Social Insurance Institute—General Employees’ Fund of Greece</td>
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<tr>
<td>ILC</td>
<td>International Labour Conference</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>ISCED</td>
<td>International Standard Classification of Education</td>
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<tr>
<td>ISER</td>
<td>Institute for Social and Economic Research</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>IZA</td>
<td>Institut zur Zukunft der Arbeit (Institute for the Study of Labor)</td>
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<tr>
<td>KEAO</td>
<td>Social Security Contributions Collection Centre of Greece</td>
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<tr>
<td>KELA</td>
<td>Kansaneläkelaitos (Social Insurance Institution of Finland)</td>
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<tr>
<td>MARF</td>
<td>Mercado Alternativo de Renta Fija (The Alternative Bond Market)</td>
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<tr>
<td>MSEPC</td>
<td>Memorandum of Understanding on Specific Economic Policy Conditionality</td>
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<tr>
<td>MSME</td>
<td>Micro, small and medium enterprise</td>
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<tr>
<td>MVA</td>
<td>Manufacturing value added</td>
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<tr>
<td>NAIRU</td>
<td>Non-accelerating inflation rate of unemployment</td>
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<tr>
<td>NGCA</td>
<td>National General Collective Agreement</td>
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<tr>
<td>NRP</td>
<td>National Reform Programme</td>
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<tr>
<td>OAED</td>
<td>Manpower Employment Organization</td>
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<tr>
<td>OAEK</td>
<td>Social Security Organization for the Self-employed</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OAK</td>
<td>Workers’ Housing Organization</td>
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<tr>
<td>OGA</td>
<td>Agricultural Insurance Organization</td>
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<td>OKE</td>
<td>Economic and Social Council of Greece</td>
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<td>OMED</td>
<td>Greek Mediation and Arbitration Service</td>
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<tr>
<td>OSEO</td>
<td>Société Anonyme Publique, France</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>PES</td>
<td>Public Employment Services</td>
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<td>PESC</td>
<td>Prefectural economic and social committee</td>
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<td>PMR</td>
<td>Product market regulation</td>
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<td>PPE</td>
<td>Prime pour l’emploi (employment bonus)</td>
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<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
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<tr>
<td>REER</td>
<td>Real Effective Exchange Rate</td>
</tr>
<tr>
<td>RSA</td>
<td>Revenue de Solidarité Active (Active Solidarity Income in France)</td>
</tr>
<tr>
<td>RSI</td>
<td>Rendimento Social de Inserção (Social Integration Income in Portugal)</td>
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<tr>
<td>R&amp;D</td>
<td>Research and development</td>
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<tr>
<td>SETE</td>
<td>Association of Greek Tourism Enterprises</td>
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<tr>
<td>SEV</td>
<td>Hellenic Federation of Enterprises</td>
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<tr>
<td>SLC</td>
<td>Supreme Labour Council</td>
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<tr>
<td>SME</td>
<td>Small and medium-sized enterprise</td>
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<tr>
<td>TEMPME</td>
<td>Credit Guarantee Fund for Small and Very Small Enterprises S.A</td>
</tr>
<tr>
<td>TMU</td>
<td>Technical Memorandum of Understanding</td>
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<tr>
<td>TUKUSETO</td>
<td>Tulo- ja kustannuskehityksen selvitystoimikunta (Cost and Income Developments Review Commission of Finland)</td>
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<tr>
<td>UIL</td>
<td>Unione Italiana del Lavoro (Italian Labour Union)</td>
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<tr>
<td>UGL</td>
<td>Unione Generale del Lavoro (General Labour Union of Italy)</td>
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<tr>
<td>ULC</td>
<td>Unit Labour Cost</td>
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<tr>
<td>ULC-REER</td>
<td>Unit Labour Cost - Real Effective Exchange Rate</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>UNCTADStat</td>
<td>UNCTAD Statistical Database</td>
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<td>UNIDO</td>
<td>United Nations Industrial Development Organization</td>
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<tr>
<td>VAT</td>
<td>Value-added tax</td>
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<td>WHO</td>
<td>World Health Organization</td>
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EXECUTIVE SUMMARY AND KEY POLICY OPTIONS

Main policy options arising from the report

The report finds that a comprehensive strategy is needed to boost job creation, tackle the most pressing impacts of the crisis and develop new sources of growth. The strategy includes both emergency measures and more sustained action:

Emergency measures

- Introduce major emergency programmes building on existing measures, including: (i) an activation guarantee to all young jobseekers and groups most in need; and (ii) nurturing “social economy” enterprises as avenues for job creation.
- Improve access to credit for small businesses and, to the extent possible, mobilize the European Investment Bank to that effect.
- Review the pace and policy mix of fiscal consolidation so as not to undermine recovery efforts while making room to fund vital emergency programmes. This can be complemented by leveraging further the primary budget position and front-loading European Structural Funds.

Sustained action

- Promote growth and improve competitiveness by broadening the economic base and building on existing strengths through: (i) programmes to facilitate sustainable enterprise expansion and improved functioning of enterprise finance; (ii) boosting the tourism potential and its linkages with agri-food; and (iii) fostering growth-enhancing investments, with more co-financing from the European Investment Bank.
- Tackle undeclared work and working poverty through: (i) a broader tax base and improved incentives for low-paid work; (ii) shifting the tax burden away from labour, small firms and consumption of basic needs, towards other bases, such as property; and (iii) reinforce institutional tax capacity.
- Review the social protection system and its ability to deliver income security, by: (i) enhancing tracking systems so as to improve targeting and boost coverage; (ii) linking income support to employment measures; and (iii) reinforcing institutional capacity to deliver, implement and evaluate programmes.
- Enhance human capital by: (i) designing skills programmes in partnership with firms, workers and education providers; (ii) leveraging further apprenticeships and work-related experience for youth; and (iii) reinforcing public employment services and active labour market programmes.
- Address fragmentation of collective bargaining and gaps in coverage, notably by: (i) enhancing social dialogue at various levels; (ii) achieving agreements in key sectors such as tourism while adapting to local realities; and (iii) monitoring derogation from collective agreements.
- Rebuild social dialogue to: (i) ensure that the strategy is balanced; (ii) provide regular monitoring of wages, prices and working conditions; (iii) enable wages and labour incomes to grow as much as productivity permits while fostering enterprise growth; and (iv) act as key partner for ILO technical advice.
After six years of recession, the Greek economy is showing signs of recovery...

The Greek economy may be on the verge of recovery. Economic activity stabilized during the second quarter of 2014, compared with a contraction of 4.4 per cent per year, on average, between 2008 and 2013. In addition, in 2013 the government budget (excluding interest payments and bank resolution and recapitalization costs) was in surplus for the first time since Greece entered the Economic and Monetary Union in 2001. More fundamentally, the unemployment rate has declined slightly in recent months as a result of net job creation.

The economic recovery has mainly been driven by export gains, particularly towards countries outside the European Union (EU). Indeed, exports increased in real terms by 1.4 per cent per year between 2009 and 2013. Exports outside the euro area now represent around 70 per cent of total exports (up from 56 per cent in 2007). There are also encouraging signs that private consumption and private investment may be stabilizing.

These new trends cannot mask a recession of unprecedented proportion. In 2014, the Greek economy is close to 25 per cent smaller than it was in 2008. Assuming that the economy will grow by 2 per cent per year – a rate in line with the EU average in the decade leading up to the crisis – it would take Greece 13 years just to get back to its pre-crisis position.

Moreover, there are a number of important challenges to sustaining the recent positive developments. In particular, the scope for recovering through exports has become more limited as a result of the economic slowdown in the euro area and elsewhere. Greece’s export base is not sufficiently diversified, affecting the ability of the Greek economy to take full advantage of the dynamism of emerging economies. In any case, exports still represent 30 per cent of the economy – the lowest among the euro-area countries. To consolidate the economic recovery and diversify the export base, it is crucial to raise productive investment. Indeed, at around 12 per cent of GDP, investment is nearly 6 percentage points lower than in the EU and is insufficient to sustain future productivity gains.
... but a return to pre-crisis employment levels could take many years unless additional actions are taken.

The depth and duration of the recession have resulted in a severe deterioration of labour market and social conditions. One in four jobs that existed before the crisis have been lost. As a result, the unemployment rate stood at 27.9 per cent in the first quarter of 2014 – up from 7.2 per cent in the third quarter of 2008.

According to preliminary figures from national sources, however, the unemployment rate fell modestly in the second quarter of 2014, to reach 26.6 per cent. Yet, assuming that employment grows at 1.3 per cent per year – equal to the average employment growth in the decade before the recession – Greece would not return to pre-crisis employment levels until 2034.

The severity of Greece’s labour market distress is also reflected in the duration of unemployment. More than 70 per cent of the unemployed have been without a job for more than one year, and almost half for more than two years, which raises important issues, notably in terms of skills deterioration and social exclusion. Of particular concern in this respect is youth unemployment which, at 56.7 per cent in the first quarter of 2014, ranks as the highest among the EU – up from 21.3 per cent in the third quarter of 2008. Moreover, 20.6 per cent of Greek youths aged between 15 and 24 were not in education, employment or training in 2013 – up from 11.7 per cent in 2008 and the third highest rate across the EU-28, where the average is around 13 per cent.

Many Greeks have left the labour market. In the first quarter of 2014, the participation rate for individuals aged 15 and over was 51.9 per cent, down from 53.5 per cent in 2008 and the second lowest in the EU-28 after Italy. Participation rates are particularly low for women and youth. And the number of emigrants increased by 30 per cent between 2010 and 2012, with highly educated youth among those most likely to leave the country.

The at-risk-of-poverty rate increased from just above 20 per cent in 2008 to over 44 per cent in 2013 (when the poverty line defined as the 60 per cent of
median income is kept anchored to 2008 income levels). Income inequalities have also widened.

*Therefore, a comprehensive recovery strategy is called for, which includes, first, additional emergency employment measures funded by the primary budget surplus...*

During the crisis period, the fiscal consolidation that took place focused on social protection, which accounted for nearly one-fifth of cuts in public expenditure. The Government, however, has taken recent steps towards addressing the most acute social problems. These measures include, for example, an ad hoc social dividend in 2013, funded by a higher than expected primary surplus, and community work programmes for the long-term unemployed. There is also a plan to introduce a minimum guaranteed income scheme, currently in its pilot phase.

Significant as they are, these recent efforts need to be complemented with additional emergency labour market programmes. The following could be envisaged:

- *Introducing emergency support measures such as an activation guarantee:* There is scope for allocating a more substantial share of the primary balance to emergency social measures and programmes to promote labour market reintegration. For instance, the 2014 primary surplus is estimated to be close to €2.7 billion – nearly double the 2013 level – giving scope to deliver a broader range of support. An option that could be considered is an activation guarantee, i.e. a guarantee to give all youth jobseekers and those most disadvantaged, the opportunity to work, train or engage in some form of activation measure. Other available funding, such as that from the European Social Fund, could also be leveraged to support these objectives.

- *Improving targeting and introducing labour market linkages:* Better targeting of social protection, i.e. based on need, enhances its poverty-reducing effects and optimizes government spending. Ensuring that there are appropriate linkages to the labour market is also of critical
importance, given the high levels of long-term unemployment and risk of labour market exclusion. Currently, of those registered with the Manpower Employment Organization (OAED) only about 10 per cent receive unemployment benefits. In this respect, the Danish system, which combines active and passive labour market policies and optimizes targeting through intensified activation measures as the risk of long-term unemployment increases, is an interesting example. The role of public employment services is important in this regard, as professional career counsellors can, among other things, discuss individualized employment plans with their clients.

• *Sustaining the social economy to meet employment and social targets:* Supporting social enterprises can offer avenues for job creation and maintenance while at the same time complementing public efforts to address the social needs of the population. Indeed, the potential role of the social economy is still largely untapped in Greece, as the legal and regulatory framework is being adjusted and the support system is developing. The ILO has started collaborating with the Greek General Confederation of Workers to provide workers interested in keeping their workplaces in operation with the technical background they will need. For instance, many otherwise viable social enterprises are failing because of cash flow problems. Some pilot programmes could be envisaged to complement these efforts, e.g. by providing technical training or financial support to promising social enterprises.

...second, reinforced social protection, complemented by efforts to strengthen the institutional capacity and develop a broader tax base...

While emergency measures are of critical importance to provide urgent support in the short term, a comprehensive overview of the social protection system could enhance longer-term objectives. Broader reforms could focus on the structural weaknesses of the Greek social protection system that pre-date the crisis, with increased emphasis on improving the institutional set-up for the delivery and assessment of employment and income support. The following measures could be considered:
• **Improving the income support assessment system:** Periodic assessments should be strengthened to ensure that benefits are adequate, which would entail setting up tracking systems and linkages between various databases (social security, tax and work declarations). An important complement to this is the reinforcement of social security institutions, tax collection and the labour inspectorate. For instance, unifying the collection of social contributions would enhance effectiveness, and it would have the added benefit of supporting the fight against undeclared work, as was the case in the Republic of Korea.

• **Guaranteeing minimum income while fostering labour market inclusion:** Ensuring a minimum level of income security should be the starting point of a comprehensive social protection system. However, linking income support to labour market measures, such as training, is also crucial to avoid benefit dependency and to foster the long-term financial sustainability of the entire social protection system. For instance, France introduced in 2009 the Revenu de Solidarité Active to target the unemployed and working poor. Income support in this scheme is conditional on involvement in active job searching.

• **Reinforcing capacity to deliver employment and income support as well as to monitor and evaluate outcomes:** It is crucial to ensure that the OAED is adequately resourced. This should be complemented by measures to improve the accountability and transparency of public employment services. In this regard, greater attention could be given to improving the evaluation of programmes and interventions. This would boost the efficiency of programme delivery, based on a better understanding of trade-offs, what policy interventions work and under what circumstances. As a minimum, policy interventions must incorporate outcome variables that can be checked against pre-established targets.

The current business climate is characterized by relatively high under-reporting rates which, when coupled with a relatively high share of undeclared work in some sectors, have undermined the collection of tax revenues and social security contributions. As a consequence, Greece risks being trapped in a vicious cycle, where low tax revenues induce higher corporate and labour taxation, which in turn pushes firms and individuals to exit the formal eco-
nomy. This further reduces tax revenues, which compromises the funding of the social protection system and the ability of the Government to stimulate investment and economic activity, which reduces yet again the incentives of firms and individuals to contribute to the formal economy, thereby lowering tax revenues and leading to potentially higher taxation of firms, and so on.

The Greek Government has recently taken a number of actions to strengthen the tax collection system through mandatory declarations and penalties in an effort to enlarge the tax base and reduce informality. In fact, tax receipts from personal income taxes only represent roughly 15 per cent of total tax revenues compared to 25 per cent across OECD countries. And while a clearer legislative environment (e.g. definitions, fines) has been established for the Labour Inspectorate, the deterrence mechanisms could be complemented with measures that provide incentives to formalize. Consideration could therefore be given to enlarging the tax base and ensuring that incentives to work are in place, notably for low-income earners:

• **Improving work incentives and promoting labour market participation through the tax system:** A well-designed and targeted working income supplement and refundable tax credit for low-income individuals is one of the best means of increasing the attractiveness to work and of alleviating poverty. For instance, since 2007, the Flemish Government in Belgium has implemented an in-work tax credit, the Jobkorting, with the aim of fostering labour market participation and making working financially viable. Under the scheme, every worker who earns between €5,500 and €21,000 per year is entitled to receive a yearly tax credit of €125. After reaching the €21,000 threshold, the credit begins to phase out and each additional euro earned reduces the credit by 10 cents. In Canada, individuals and families can apply for advance payments (up to 50 per cent of the expected amount) of the Working Income Tax Benefit.

• **Improving the overall design of the tax system with a view to achieving a better balance between growth and equity objectives:** Fiscal consolidation efforts have so far heavily relied on increasing consumption taxes given the low tax base. In fact, taxes on goods and services have persistently accounted for almost 40 per cent of total tax revenue in recent years,
which has important distributonal consequences. This is due in part to the fact that while taxes on personal income remain high, they continue to represent a small portion of tax revenues. At a minimum, higher VAT rates should be applied in limited cases and counterbalanced by tax rebates for the most vulnerable. In addition, Greece needs to shift the burden of taxation towards revenue sources considered less detrimental to economic growth, such as taxation on property. The latter would require greater efforts to assess property values in Greece.

... third, stronger foundations of growth and competitiveness ...

Efforts to restore macroeconomic competitiveness in Greece have focused on reducing unit labour costs – mostly achieved through wage cuts, including the minimum wage. In fact, between 2010 and 2013, nominal wages declined by over 17 per cent, and Greece is the only EU country where minimum wages were reduced during the crisis. However, this has done little to restore the fundamental sources of external competitiveness. This is due to the fact that the wage gains in the pre-crisis period were concentrated in the non-tradable sector but much of the competitiveness imbalance in Greece relates to structural weaknesses of the productive base.

The predominance of small-scale entrepreneurial activities is a case in point. Over 96 per cent of enterprises have fewer than 10 employees and employ more than 57 per cent of the total labour force – the highest share in the EU. For many of these firms the opportunities to exploit economies of scale, undertake long-term investments, create decent work opportunities and compete in international markets is limited.

More generally, recent measures to foster the creation of new businesses could be complemented with a sustainable growth strategy to encourage investment in the real economy, notably in potentially dynamic sectors, thereby improving access to credit for small firms and leveraging human capital. Greece has already established cooperation with several international partners in an effort to improve various aspects of the economy and the labour market. The ILO stands ready to provide technical support to
Greece in jointly identified areas, in close collaboration with the European Commission’s Directorate General for Employment, Social Affairs and Inclusion (DG EMPL).

... which entails supporting productive investment, especially for SMEs ...

The new investment and growth strategy for the period 2014 to 2020 – which focuses on fostering innovation, reducing the fragmentation of research and development (R&D) activities and spurring investment in sectors where Greece has a comparative advantage – is an important recent initiative. Further measures may be considered to encourage productive investment in high-value added sectors of the economy:

• **Introducing new instruments to spur innovation, especially among SMEs:** Tax credits on R&D wages may incentivize innovation among young firms, which often register losses in the early stages of development. Italy introduced a tax credit for companies that outsource incremental R&D investment to universities or research centres recognized by the EU. An intervention like this may prove effective at fostering Greek investment in R&D as well as promoting research collaboration between firms and research institutions.

• **Nurturing high-value added sectors:** Supporting firms, especially in their early stages, through dedicated support programmes – such as mentoring, incubators and coaching programmes – could help to bridge the information gap between SMEs and international markets and in this way help SMEs seize investment opportunities. For instance, the Gazellensprong programme implemented in the Flanders region in Belgium targets high-potential firms that have at least part of their activities outside the region. Firms are carefully selected and provided with intensive guidance and support in a number of areas, ranging from management to finance. A similar programme (Peaks in the Delta) implemented in the Netherlands provides grants, training and specialized help to selected SMEs, those regarded as the best performers in their specific sector. Finally, support mechanisms could also encourage more formalization among firms and their employees which would, in turn, sustain productivity and inno-
vation. For instance, with a view to lowering informality among small firms, the French Government introduced in 2007 the Micro-business Management Centre, which provides small firms and micro-enterprises with training and basic services (e.g. advice on financial regulations and economic data). Interestingly, membership to the centre allows firms to receive financial advantages.

- **Leveraging the role of the tourism sector further:** Greece has a strong comparative advantage in tourism and the potential of this could be exploited further. Fostering the acquisition of skills through sector-specific vocational training and relevant practical experience may help to improve the quality of tourism services while limiting informal recruitment of non-qualified workers. Intensifying marketing targeted at high-income visitors may prove effective in increasing tourism profitability, which in turn could foster investment in the whole sector. Finally, strengthening the inter-linkages between tourism and the rest of the economy could provide a series of opportunities for a number of related sectors. For instance, the agri-food sector could benefit widely from integrating its product commercialization within the tourism industry. Within this context, social dialogue between Greek institutions and tourism industry representatives will play a fundamental role.

- **Fostering investment in renewable energy through infrastructure investment would help enhance industrial capacity:** Within this context, the benefits of expanding investment in renewable energies infrastructure are twofold. First, this would significantly help Greece to reduce its notable energy dependence on imported sources, which currently represent around 70 per cent of total energy consumption. Second, and more importantly, this would help insulate firms from rising energy prices and free financial resources for investment. And while the Greek Government has already taken important steps to increase energy production capacity from natural resources, further incentivizing investment in sustainable energy sources would produce a series of positive externalities, especially in terms of growth and job creation.
A number of measures have already been implemented by the Government to restore credit to SMEs, but new sources of funding are needed. In this regard, additional measures to promote alternative non-bank financing may be considered:

- **Promoting co-funding mechanisms:** Strengthening the mechanism of co-funding among various entities may help to foster risk-sharing and, in turn, spur investment. In this regard, Greece could further leverage funds from the European Investment Bank (EIB). In fact, although EIB funds have recently helped to alleviate SMEs’ financial gaps and support the building up of basic infrastructure in the transport and energy sectors, total resources invested so far by the EIB in Greece have been modest and often lower than those directed to other countries, such as Austria, Portugal and France. This is mostly due to the limited involvement of public and private investors in matching EIB funding (EIB funding usually covers only part of the total financing need). In order to overcome this problem, direct public loans and EIB funds could be combined with government credit guarantees with a view to limiting the risk for private investors and encouraging their participation in investment projects. Within this context, it may be important to support the creation of a unique public financial institution with the mandate of providing investment capital to SMEs while promoting the participation of private institutions in their credit products. For instance, Spain created in 2013 a public fund (FOND-ICO Global) with the aim of attracting new resources by co-financing projects with the private sector. Investors would have to provide between 30 per cent and 70 per cent of the resources needed.

- **Enlarging the set of available financing instruments:** Promoting the expansion of a wider range of financing instruments, including equity financing, venture capital and hybrid instruments, may be relevant for more mature and well-established firms that are willing to invest in innovation. For instance, the French public entity responsible for facilitating
SMEs’ access to long-term financing (OSEO) launched the Development Contract, which allows firms to take long-term loans with facilitated conditions to cover intangible expenses. In order to be eligible, firms are encouraged to obtain bank funding or an increase in equity from existing or new shareholders that is at least twice as large as the OSEO loan. Spain has promoted the creation of an alternative bond market for SMEs (Mercado Alternativo de Renta Fija, MARF) while easing the admission requirements to regulated and alternative markets.

... balanced labour market reforms ...

To spur innovation, it is crucial that Greece increases its leveraging of the highly qualified human capital that exists in the country, while also limiting significant emigration flows of highly educated individuals. At the same time, the right set of labour market institutions needs to be in place to encourage the hiring of new workers, boost job quality and secure labour market transitions. Recent efforts to address these issues are welcome, but other policies may have exacerbated the challenge. There are a number of examples of balanced reforms that could be considered:

- Optimizing collaboration between firms and research institutions: Although Greece has already taken some steps in this direction, further efforts to create a more stable interface between public research and the business world would help to close the gap between the supply of and demand for innovation. This may prove particularly relevant for SMEs, which often lack of the necessary critical mass to effectively undertake in-house innovation. For instance, since 2009, Cyprus has implemented Industry Liaison Offices (mediation centres for research and innovation). This collaboration mechanism is based on three elements: a coordination centre; intermediary offices operating within associations of enterprises; and intermediary offices established within the research centres. This system helps to identify SMEs’ innovation needs and translate them into research products. Interestingly, the Government finances the mechanism of collaboration – neither the SMEs nor the research organizations are directly funded.
• **Promoting the acquisition of practical skills among youth**: Apprenticeships represent one way to improve school-to-work transitions and the provision of appropriate skills for the Greek labour market. Indeed, it is of paramount importance to develop apprenticeship frameworks through effective social dialogue and based on skills needs, i.e. those in demand. For example, the national apprenticeship programme in Finland enables students to obtain national vocational qualifications through apprenticeship training, which consists of 70–80% on-the-job training coupled with classroom teaching. The use of individual study plans and the close involvement of social partners result in a system with high success rates: 71% of participants are employed one year after completion of the training. These experiences can provide important input in the efforts already under way to develop large-scale training and apprenticeship programmes.

To further optimize the efficiency of these interventions, they could be complemented by measures to improve youth employability and their capacity to create high-impact entrepreneurial activities. For instance, the Austrian Entrepreneur’s Skills Certificate aims to develop entrepreneurial skills among youth in secondary education through a series of courses covering general know-how and practical issues. In the United Kingdom, the Higher Apprenticeship Fund targets highly qualified individuals. Interestingly, qualifications needed to participate in the programme are set by the employers. Participants have been reported having better employment opportunities than non-participating individuals with the same university degree.

• **Promoting the correct use of non-standard employment**: The marginal segment of the labour market can play an important “buffer” role for the economy, but it is important that the types of contracts adopted in this segment are not misused (e.g. for fiscal reasons) and that workers are able to move to more regular jobs in a relatively easy way. Several reforms of employment protection legislation have been introduced to ease the regulation of non-standard employment, in order to sustain job creation during the crisis, but they have had a number of unintended consequences. In particular, the reforms did not favour the creation of new fixed-term
jobs; they only facilitated the transformation of full-time contracts into part-time or intermittent contracts. Moreover, empirical evidence shows that during recent years there has been an increase in the share of involuntary temporary and part-time employees, and that it is more likely that these workers move to unemployment or inactivity than to standard employment. As such, in Greece it could be useful (i) to establish the need to specify a reason for the initial stipulation of a fixed-term contract (as in most EU countries, including Italy and Spain) and (ii) to combat job polarization by introducing uniform calculation of severance payments for permanent and temporary employees (as in Austria). Moreover, policy efforts are needed to focus on making the recourse to part-time employment a transitory step towards full-time re-employment, rather than a precursor of unemployment. For instance, training schemes could be implemented for workers temporarily employed on a part-time basis, such as in Germany.

- **Addressing economically dependent self-employment:** Economically dependent self-employment refers to those employment situations in which workers, although formally self-employed, are economically dependent on a single employer for their source of income and therefore their activities very much resemble those of dependent employees but they do not enjoy the same benefits. In order to limit these employment situations, policy initiatives could include: (i) introducing a clearer definition of the phenomenon in legislation, as was recently done in Portugal; (ii) increasing the resources available to the Labour Inspectorate; and (iii) designing labour inspections in an inclusive way, in order to limit the imposition of fines and instead increase the incentives to formalize undeclared work.

- **Monitoring the system for collective dismissals:** The legislation on collective dismissals has recently been changed in Greece; in particular, a higher threshold for its applicability has been introduced. However, other parts of the legislation have remained unchanged. In January 2014, the Supreme Labour Council put renewed emphasis on the need to involve public authorities in cases in which the parties (i.e. workers and employers) fail to reach an agreement. Given the higher recourse to collective dismissals during times of economic downturn and in view of the recent changes,
it is important that the relevant legislation is monitored in Greece and that best practices from other EU countries are taken into account.

... and a new approach to fiscal consolidation so as to support job-rich recovery.

As noted, some of the above policies will have budgetary implications. However, in view of the new financial situation and the many benefits that can be expected, it is worth considering a new path for the fiscal consolidation strategy. This means changing the pace of deficit reduction and adopting a different mix of fiscal measures, with a broader tax base – covering incomes other than work – meaning that a stronger emphasis on job-rich programmes is possible. In addition, in view of the urgency of the situation, resources from European Structural Funds could be front-loaded. Finally, it is surprising that the European Investment Bank (EIB) has not been mobilized to a greater extent to support the strengthening of Greece’s productive capacity. Over the period 2009 to 2013, the EIB invested less in Greece than in a number of low-unemployment EU countries of equivalent size, and the country received only a fraction of what had been invested outside the EU.

Success with the strategy entails revitalizing social dialogue and collective bargaining ...

Social dialogue provides the institutional means to jointly agree on economic and social issues. It helps address points of conflict and facilitates responses to crisis situations that enable durable and balanced solutions. Social dialogue platforms in Greece are characteristically highly institutionalized. Their status is based on law or, in the case of the main national social dialogue institution, Economic and Social Council of Greece (OKE), on the Constitution. Despite this, however, tripartite dialogue has faced multiple challenges in practice, and tripartite collaboration has been particularly scarce in the crisis years. Indeed, the Government adopted central reforms, including those affecting collective bargaining, with little or no consultation with the social partners. The situation led to social instability, demonstrated through frequent strikes and sometimes even violent incidents.
Similarly, the collective bargaining system in Greece underwent major changes during the crisis period, yet many of these changes were introduced on a temporary basis, covering only the financial assistance programme period. The direction of the reforms was towards increased decentralization of collective bargaining, bringing negotiations closer to the enterprise level and thereby improving wage flexibility. Characteristic of the collective bargaining reforms was the move to give labour market partners only a minor role in consultations, which has often led to discontent in the labour market and in wider society. Moreover, the National General Collective Agreement (NGCA), which previously had set minimum wages and working conditions at the basic level, was left with regulating working conditions only. Minimum wages were instead set by law, which in 2012 entailed a reduction in the basic pay of low-skilled workers above and below 25 years of age by 22 per cent and 32 per cent, respectively.

With priority given to enterprise-level agreements and the temporary limitation of extensions to collective bargaining agreements, sectoral-occupational agreements started to decline rapidly. Enterprise agreements gained increasing popularity up to 2012, but fewer were negotiated in 2013, although the number was still above that in 2010. This was likely to have resulted from the fact that fewer sectoral-occupational agreements were in force, which allowed companies to follow basic working conditions established by law and the NGCA directly, without the need to negotiate an enterprise agreement. Indeed, in the Greek business environment, with micro and small enterprises in a significant majority, incentives for collective bargaining at the enterprise level seem to be few. The reduced number of higher-level agreements, coupled with limitations on the duration of agreements and on their extension, led to an important decrease in the number of workers covered by collective agreements during the crisis, with estimates of private sector coverage as low as 10 per cent.

In this context, social dialogue and collective bargaining could represent important means – rather than obstacles – to sustain the recovery. A number of different policy initiatives could be considered:
• *Analysing current structures, committing to improved social dialogue and facilitating practical work by institutions:* With a view to improving the ability of social dialogue to form the basis for decision-making with more sustainable results, it will be necessary to analyse the existing social dialogue mechanisms in detail. Particular focus should be placed on the facilitation of practical functioning of social dialogue – possibly with specific requirements related to deviation from tripartite decisions and improved procedures for sharing of documents with tripartite bodies. Other countries, for example Italy, the Netherlands and Portugal, have successfully used social dialogue mechanisms to agree on difficult economic and social issues during the crisis and have designed tripartite responses to alleviate some of the crisis’ consequences.

• *Ensuring autonomy and appropriate representation of labour market parties:* The collective bargaining system chosen for a country very much depends on the structure of the country’s economy and enterprises. For instance, a particular range of safeguard mechanisms is often opted for when designing governance mechanisms for an economy dominated by small enterprises. The employers’ and workers’ organizations in a country are best placed to choose the type of system that will produce the optimal outcome in the particular context. Therefore, it is important to ensure the autonomy and effective representation of both employers and unions in collective bargaining negotiations at all levels, so that both parties’ voices are heard equally. In essence, this means that where appropriate negotiation structures are not yet in place – this will often be at the level of small enterprises – structures at a higher level, such as industry or occupation, should be used to guarantee effective representation for both parties.

In the longer term, social partners may consider developing particular strategies with a view to improving representation and negotiation capacities at local levels. Trade unions and employers’ organizations in various countries have developed tailored campaigns and services for SMEs and their workers in the new economic and social situation in an effort to represent their members more effectively at various levels.
• **Addressing risks of fragmentation of collective bargaining and gaps in coverage:** Further, to address the concerns related to the fragmentation and downgrading of working conditions, ways should be sought to mitigate gaps in coverage. These could include securing collective bargaining agreements at appropriate levels and ensuring coordination among different levels, as applicable. If negotiators are well trained and resourced – i.e., are both informed of wider economic and social developments and connected with the enterprise and worker reality on the ground – they will be able to negotiate collective agreements that respond to the various challenges appropriately. Inspiration can be sought in this process from other countries. For example, Italy has been able to successfully combine harmonized base conditions at the national level with necessary adaptation at the local level, maintaining second-level bargaining in certain industries as appropriate. Further, in Germany, social partners have initiated sector-level monitoring of derogation from collective bargaining agreements, leading to more professionalized bargaining practices. Extensions are widely used as a safeguard mechanism in EU Member States, but with differing frequencies and mechanisms.

• **Initiating dialogue on the optimal arbitration system.** The Greek Council of State recently issued a decision affecting the mechanism for mediation and arbitration in Greece. Tripartite dialogue on what this mechanism should look like – in light of this latest decision from the Council of State and the recommendations of the ILO supervisory bodies – should be initiated, particularly to reflect on how this mechanism will be situated within a new comprehensive employment strategy in support of a new production model in Greece.

... and enabling wage growth in line with productivity gains.

Wages have declined in Greece more than in any other European country during the crisis period. Indeed, wages have borne the bulk of the adjustment burden – prices only started decreasing much later and at a slower pace. Although wage growth overtook productivity growth prior to the crisis, wages were not the principal sources of productivity gaps that appeared during this period. Furthermore, earnings losses have seriously challenged
internal demand – aggravating the depth and duration of the recession. With due consideration to the fact that the principal barriers to job creation lie behind the weak internal demand, and also the lack of competitiveness of the business environment in Greece, a rebalancing in the area of wages would be important to ensure macroeconomic stabilization and speed up the recovery. In this respect, a sustainable recovery of wage levels would strengthen the positive macroeconomic and financial improvements that have recently emerged and translate them into better living conditions for the population. Therefore, the recent stabilization of wage levels registered at the beginning of 2014 is a positive sign.

In the future, it will be important to improve the knowledge base used in both tripartite social dialogue and collective bargaining, to enable more negotiations to be based on facts:

• Establishing regular monitoring and analysis of wages and working conditions in a tripartite setting: Both tripartite social dialogue and collective bargaining would benefit greatly from more detailed labour market monitoring, including monitoring of wages, working conditions and price developments through a tripartite body. This would allow for more informed and evidence-based decision-making. This body could also analyse developments in other markets of relevance to Greece, such as its principal trading partners. The same structure could also come to support the future minimum-wage setting mechanism, becoming an important component, to ensure that wages grow appropriately in line with productivity and price developments, thereby avoiding a race to the bottom in wages when costs of living do not adjust. Tripartite bodies of this kind – monitoring and analysing developments in wages, prices and competition – exist in Austria and Finland, for example.
CHAPTER 1
ECONOMIC AND LABOUR MARKET CONDITIONS

INTRODUCTION

While the macroeconomic situation in Greece has recovered somewhat since the end of 2011, including the attainment of a primary budget surplus, the country continues to struggle from the deepest recession in its modern history. In particular, GDP growth remains negative in the first half of 2014 and the outlook is uncertain as labour market conditions have yet to show any significant signs of improvement. In fact, in 2013, unemployment reached a historic peak of more than 27 per cent – the highest value in the European Union (EU) that year. And although preliminary figures from national estimates point towards a slight reduction in the unemployment rate in the second quarter of 2014, the length of the recession coupled with weak job creation has led to a number of social challenges: living standards have deteriorated and one-third of the population is at risk of poverty and social exclusion.

The aim of this chapter is to assess the recent developments in macroeconomic, labour market and social indicators and to gain a better understanding of the magnitude of these challenges. In particular, section A reviews the trends in aggregate demand, while section B analyses the labour market situation. Section C then examines the major social challenges and section D concludes the chapter and introduces the remainder of the report.
The Greek economy has declined by almost 25 per cent since the start of the financial crisis ...

The impact of the economic downturn on the Greek economy has been dramatic despite enduring the first phase of the global financial and economic crisis comparably well, in relation to many EU Member States (figure 1.1). In fact, the decline in GDP in 2009 was somewhat delayed in Greece and the contraction comparably milder. The peculiarity of the Greek case emerged when the sovereign debt crisis erupted (see also Chapter 2). Indeed, when a number of euro area countries were recovering (albeit temporarily) in 2010, GDP growth in Greece was trending downwards at an accelerating pace, bottoming out at –9 per cent per annum at the end of 2010. Since then, macroeconomic indicators have performed substantially worse than in any other EU Member State. However, the severity of the quarterly GDP growth decline has slowed since late 2011, with a milder contraction of internal demand and gross capital formation combined with modest export growth, both in real terms and as a share of GDP. As of the second quarter of 2014, GDP fell only 0.3 per cent on a yearly basis – thereby reducing the gap with the rest of the euro area. Yet, compared with the beginning of the crisis in 2009, economic activity has fallen by almost 25 per cent.

... and although public finances are on the mend, debt levels remain elevated and improvements have come at the cost of social measures.

Recently, improved macroeconomic performance has been accompanied by an improvement in the state of public finances. In particular, the primary balance – excluding bank resolution and recapitalization costs – reached positive territory in 2013, at 0.8 per cent of GDP, for the first time since Greece’s entry into the Economic and Monetary Union (EMU) in 2001.
(figure 1.2). Indeed, the Greek Government, following its commitments with the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF), embarked on a comprehensive programme of financial assistance conditioned to a tight fiscal consolidation process. As a result, public debt – which increased from 107 per cent of GDP in 2007 to 170 per cent in 2011 – declined to 157 per cent of GDP in 2012. This has resulted in reduced interest rates on sovereign bonds, which had reached levels close to default risk in the midst of the sovereign debt crisis.

Yet, public debt continued to rise in 2013, due to costs associated with restructuring the banking sector. In fact, debt stood at 175 per cent of GDP in 2013 – an almost 18 percentage point increase compared with
2012. Moreover, the improvement in public finances is partially a result of significant cuts in a number of social areas. For instance, social protection expenditure decreased by 17 per cent between 2010 and 2012, while health-care expenses declined by 20 per cent over the same period. This has led to a number of acute social challenges, notably an increase in the risk of poverty and inadequate social protection coverage in key areas (see section C of this chapter and, for a more detailed examination of the Greek social protection system, Chapter 4).

1 The Agreement between Greece and the EC, the ECB and the IMF includes a Letter of Intent, a Memorandum of Economic and Financial Policies, and a Technical Memorandum of Understanding (TMU). The TMU details understandings regarding the definitions of the indicators subject to quantitative targets and describes methods to be used in assessing program performance and information requirements for monitoring purposes.
Modest gains in exports in recent years have supported GDP growth, principally as a result of markets outside the EU...

Exports increased by 5.6 per cent in real terms between 2009 and 2013, and with GDP continuing to contract, exports as a share of GDP have grown by almost 10 percentage points over this period, reaching 29.1 per cent of GDP in 2013. The recent gains are due primarily to improvements in non-euro area markets. In 2007, non-euro area markets were already important to Greece, accounting for 56 per cent of all exports, a relatively high figure in comparison with other countries (figure 1.3). As demand from other euro area countries weakened over the course of the crisis, the importance of these other markets grew significantly. In fact, in Greece,

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2 Between 2009 and 2013, imports fell by almost 30 per cent. As a result, the external balance deficit in Greece reduced from 11.5 per cent of GDP in 2009 to 2.6 per cent in 2013.
the value of exports to non-euro area countries increased by 64 per cent between 2007 and 2013, with China and Turkey accounting for a growing share of this trade.³ Although this trend has been common across many EU Member States, the magnitude of the increase in the share of exports to non-euro area countries has been considerably more pronounced in Greece than elsewhere in Europe.

... but exports remain comparably low and increasingly narrow in focus.

Despite these improvements, exports as a share of GDP in Greece were at just under 30 per cent in 2013, remaining among the lowest levels in the euro area. Only France had a smaller share of exports, with the average among the EU-17 standing at 45.9 per cent in 2013.⁴ Moreover, the

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³ Between 2007 and 2013, the share of exports to Turkey more than tripled – going from 3.8 per cent to 11.8 per cent. For China, the share increased from 0.6 per cent to 1.4 per cent over the same period.

⁴ In the EU-27 exports as a share of GDP were at 44.9 per cent in 2013.
export base is increasingly concentrated in lower-valued added products, i.e. there has been a shift away from manufacturing and towards mineral fuels and raw materials. For instance, exports of machinery fell from 12 per cent to 8 per cent of total exports between 2007 and 2012, while exports of other manufactured goods declined more than 11 percentage points, from 31 per cent to 20 per cent of total exports during the same period. In contrast, the share of exports of mineral fuels more than doubled, going from 16 per cent of total exports in 2007 to 38 per cent in 2012 (figure 1.4). In fact, all other main product categories – except for raw materials – have seen a decrease in their contribution to total exports (see Chapter 2 in this regard).

As a result, in terms of its product base, around 90 per cent of total export growth between 2007 and 2013 was due to growth in exports of mineral fuels, mostly directed to emerging industrial economies. While this industry is economically important, it has a relatively low labour intensity. For instance, employment in the manufacturing of coke and refined petroleum (used as a proxy for employment related to the export of mineral fuels) actually fell by 22 per cent between 2008 and 2012 and represented only 0.1 per cent of total employment in 2012 – thus affecting the overall employment situation only marginally during this period. This raises questions regarding the level of sophistication and diversification of the economic base, and the changes that are needed in order to improve aggregate productivity level and foster quality job creation in Greece (see Chapter 2 for a detailed discussion on these issues).

5 According to the UNIDO definition, emerging industrial economies are those countries which satisfy at least one of the following criteria: (i) have adjusted manufacturing value added (MVA) per capita of at least 1,000 international dollars; (ii) have a share of 0.5 per cent or more in world MVA; (iii) have GDP per capita (PPP) above 10,000 international dollars.
B LABOUR MARKET PERFORMANCE

Job losses have been relatively widespread, both in terms of sectoral activity and employment type.

Between 2008 and 2013, employment fell by almost 21 per cent, with job losses even accelerating in the last two years of the period. In particular, over the first three years of the crisis, i.e. between 2008 and 2011, job losses totalled 10.2 per cent, equivalent to 3.4 per cent per annum on average. Even though the fall in GDP slowed as of 2011, the employment situation deteriorated at a faster pace between 2011 and 2013, with employment falling by 11.6 per cent in total, equivalent to 5.8 per cent per annum.

Although employment has declined across all economic activities, most of the job losses occurred in three main sectors: construction, manufacturing and retail trade. Overall, job losses in these three sectors accounted for around two-thirds of total employment destruction between late 2008 and 2013. Following the general shrinking of the public sector in recent years, job cuts in public administration, education and health together accounted for another 10 per cent of the total employment contraction. As such, examining job losses by occupation type shows that the bulk of employment losses has been concentrated in medium-skilled areas. In particular, between 2008 and 2013, the number of both clerical workers and plant and machine operators were reduced by more than 30 per cent. Over the same period, the number of craft workers dropped by 46 per cent, mainly as a consequence of the crisis in the construction and manufacturing sectors (figure 1.5).

With respect to employment status, dependent employment began to contract in 2009, turning negative in the first quarter of the year. Since then, it has fallen by over 22 per cent (up to the last quarter of 2013,
### Change in employment by occupational category and workforce skill level (percentages)

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*Figures next to the labels represent the share of each occupation in total employment in 2013. Source: ILO Research Department based on Eurostat.*

The number of self-employed persons with employees – albeit only accounting for 10 per cent of total employment – has also fallen considerably. Between the first quarter of 2009 and the same period of 2014, it declined by 42 per cent. The number of own-account self-employed workers also fell, but less so, and it began to recover, albeit slowly, in mid-2011. As a result, the share of own-account self-employed workers in total employment has increased – from 20 per cent in the first quarter of 2009 to 25 per cent in the same quarter of 2014.
Although job losses have slowed since the beginning of 2013, there has been little improvement in overall employment levels ...

After reaching a negative peak in the first quarter of 2013, the contraction in total employment has begun to slightly shrink – this is particularly the case for temporary employment. After an annual drop of approximately 25 per cent in the second quarter of 2012, the fall in temporary employment has considerably slowed; the number of temporary jobs increased by 0.9 per cent in the third quarter of 2013, before decreasing again in the following quarters (figure 1.7). Similarly, permanent employment – after falling by almost 20 per cent between the first quarter of 2008 and 2013 – has remained relatively stable since the second quarter of 2013. In terms of full-time versus part-time, the former have borne the brunt of employment losses, falling by over 25 per cent between the first quarter of 2008 and the
same period of 2014. Conversely, part-time jobs have actually increased, especially after late 2011. In fact, between the last quarter of 2011 and the first quarter 2014, part-time employment increased by almost 15 per cent – and by 22 per cent since the first quarter of 2008.6

Overall, despite slowing job losses and some indications of positive job creation in certain areas (e.g. employment has increased by around 15 per cent in the information and communication sector since the last quarter of 2011), employment continues to decline. Since the third quarter of 2008, more than one million jobs have been lost and employment has fallen by almost 22 per cent (as of the last quarter of 2013; see also box 1.1 for the latest data on the employment rate and other key labour market indicators).

6 However, the share of involuntary part-time workers increased from 60 per cent in 2011 to 68.2 per cent in 2013 (see also Chapter 3).
... and as a result, unemployment remains near its historic peak of 27 per cent...

Between the last quarter of 2007 and the same quarter of 2010, the unemployment rate in Greece increased by more than 6 percentage points – going from 8.1 per cent to 14.2 per cent.\(^7\) Since that time, the unemployment rate has continued to rise, but at a considerably faster pace, nearly doubling since 2010 and reaching a peak at 27.6 per cent in the last quarter of 2013 – the highest unemployment rate among European countries and nearly three times the EU-28 average of 10.6 per cent (figure 1.8).\(^8\) The extent of the rise in unemployment since 2008 has been similar for men and women, though the level among the latter group remains significantly higher. Indeed, in the last quarter of 2013 the unemployment rate among women stood at 31.7 per cent, up from 12.3 per cent in 2007, while for men it was 24 per cent, up from 5.2 per cent in 2007.

\(^7\) See IILS (2012) for a description of the labour market trends in the first years of the recession.

\(^8\) Figures for the first two quarters of 2014 are available, but are not fully comparable with previous quarterly data due to a break in the series (see box 1.1). These figures indicate an unemployment rate slightly below 28 per cent, but still the highest in the EU. The unemployment rate in the EU-18 was 11.8 per cent in the last quarter of 2013.
Greek labour market figures as of the first quarter of 2014 are not fully comparable with data for previous quarters because of a break in the time series due to a different population base. Although the levels of most of the indicators in the first quarter of 2014 only slightly vary with respect to the previous quarter, these figures have not been included in the main analysis of this report as they could distort the representation and, in turn, the evaluation of labour market indicators over time. Data for the second quarter of 2014 (not in the table) show that the employment rate for people aged 20–64 is at 53.3 per cent against 69.3 per cent across the EU-28. This suggests that Greece is far from reaching the national target set in the Europe 2020 strategy of 70 per cent of the population aged 20–64 to be employed by 2020.

More concerning has been the steep increase in unemployment among youth. While this is not uncommon in other European countries, in Greece the rate has surged by 36 percentage points to reach 57 per cent in the last quarter of 2013 – also the highest among EU countries. Individuals across the education spectrum have been affected by the job losses. As such, in Greece, the unemployment rates have more or less doubled in each of the education categories: among highly educated individuals it increased by...
Figure 1.9  Long-term unemployment rate  
(Percentages)

Panel A. Long-term unemployment (12 months or more) in selected European countries 
(as a % of total unemployment)

Panel B. Share of total unemployment by unemployment duration

Greece: Productive jobs for Greece

Source: ILO Research Department based on Eurostat.
15 percentage points, reaching more than 20 per cent in the last quarter of 2013. Meanwhile for individuals with low and medium levels of educational attainment, the rates surged by more than 22 percentage points, reaching 29.6 per cent and 31.3 per cent, respectively, in the last quarter of 2013.

... with more than 70 per cent of jobseekers out of work for more than one year ...

Greece has historically had high levels of long-term unemployment, for instance, it was nearly 50 per cent of unemployment in 2007. Nonetheless, the share of jobseekers unemployed for more than one year reached more than 70 per cent in last quarter of 2013 (figure 1.9, panel A). Moreover, given the length of the downturn, the rise in long-term unemployment has been accompanied by an increase in the severity of unemployment duration, with nearly one in two unemployed workers having been without a job for more than two years and one in five without a job for four years or more (figure 1.9, panel B). This too is considerably higher than for the EU-28 as a whole, where the number of people unemployed for over two years has on average slightly increased since the onset of the crisis, reaching 29 per cent of total unemployed in the last quarter of 2013.

This generates important issues in terms of both skills deterioration and social exclusion. Meanwhile, such a high level of long-term unemployment puts further pressure on the social security system, which only recently extended income support measures more effectively for those in long-term unemployment (see Chapter 4).

... coupled with high levels of discouraged workers and increased incidence of labour market inactivity, especially among youth.

To some degree, the unemployment figures discussed above understate the extent of labour market distress, namely because they do not take into account the increase in the number of discouraged and inactive individuals. In fact, the number of discouraged workers9 almost tripled between 2007

9 According to the OECD definition: discouraged workers are persons who are not seeking employment because they believe that there is no work available, but who nevertheless would like to have work.
and 2012 (the most recent available figures). Meanwhile, the participation rate, which was already low in Greece before the crisis with respect to other EU countries,\(^{10}\) has further declined. In the first quarter of 2014, the participation rate for the population aged 15 and over in Greece was 51.9 per cent; among the rest of the EU-28 countries only Italy has a lower rate (see also table 1.1). The participation rate was higher among men, at 60.5 per cent – the fifth lowest rate among the EU-28 – against a comparatively low 43.9 per cent among women – the third lowest rate in the EU-28. At the same time, the participation rate among youth (aged 15–24) was at 27.6 per cent, the third lowest rate after Bulgaria and Italy. Figures are even lower for youth with less than secondary educational attainment, whose participation rate was only 12.4 per cent in the first quarter of 2014 (ten countries in the EU-28 show lower participation rates for low-educated youth).

\(^{10}\) The participation rate for the whole population in Greece in 2007 was 53.4 per cent, the seventh lowest rate among EU-28 countries. The participation rate among men was significantly higher, at 64.8 per cent, against 42.5 per cent among women, in 2007 – the third lowest rate in the EU-28. In the same year, the youth participation rate was 31.1, the fifth lowest among EU-28 countries, and 21.5 per cent for youth with lower than secondary education attainment.
C SOCIAL CHALLENGES

As a result of the prolonged job market recession, poverty and social exclusion are on the rise...

The depth and duration of the labour market crisis in Greece have translated into a significant fall in median income. In fact, between 2007 and 2013, the median disposable income in Greece dropped from €10,200 to €8,371 (−17.9 per cent), whereas in the EU-27 as a whole it increased by 11.3 per cent over the same period. As a result, the at-risk-of-poverty income threshold in Greece – defined as income below 60 per cent of the median income – also dropped, from €6,120 in 2007 to €5,023 in 2013. Importantly, the share of people with income below this new threshold level increased, giving Greece one of the highest at-risk-of-poverty rates in the EU. Indeed, 23.1 per cent of the population were at risk of poverty in 2013 – the highest value since the 1990s – against an EU-27 average of 16.6 per cent. Moreover, the at-risk-of-poverty rate varies considerably across individual characteristics, particularly by age, level of education and employment status:

- **Age**: The extent of the increase in the at-risk-of-poverty rate has been relatively similar across individuals of prime working age. For instance, the risk of poverty rate for people aged 25–54 increased from 17.9 per cent in 2007 to 23.4 per cent in 2013. Similarly, the same share for people aged 55–64 increased by around 5 percentage points over the same period, reaching 21 per cent in 2013. However, young persons aged 18–24 years have experienced a disproportionate rise in the at-risk-of-poverty rate, which reached 34.1 per cent in 2013, up from 24.3 per cent in 2007.

- **Educational level**: The at-risk-of-poverty rates among people with low and medium levels of educational attainment have both increased by over 8

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11 The median disposable income also increased in the EU-17 by 12.1 per cent between 2007 and 2012.
12 The at-risk-of-poverty rate applies to persons with an equivalized disposable income below the risk-of-poverty threshold, which is set at 60 per cent of the national median equivalized disposable income (after social transfers).
13 The at-risk-of-poverty rate in the EU-17 was 17 per cent in 2012.
percentage points since 2007, reaching 36.4 per cent and 24.5 per cent, respectively, in 2013. The same indicator for highly educated individuals was 9.5 per cent in 2013, up by only 1.8 percentage points since 2007.  

- **Employment status:** The at-risk-of-poverty rate has increased by less than one percentage point for employed people, reaching 13 per cent in 2013. However, a large difference between employees and self-employed individuals is observed: the at-risk-of-poverty rate for the former was 9.2 per cent in 2013, against 20.3 per cent for the latter in the same year. Not surprisingly, the at-risk-of-poverty rate increased considerably among unemployed – from 35.9 per cent in 2007 to 46.5 per cent in 2013. The rate for inactive individuals has shown a similar increase, going from 27 per cent in 2007 to 32.5 per cent in 2013 (see Chapter 4 in this regard).  

If the broader concept of risk of poverty and social exclusion is considered, the share of the total population living in such conditions reached 35.7 per cent in 2013 – increasing by more than 6 percentage points since the beginning of the recession. Once again, the disaggregation of poverty and social exclusion data according to individuals’ characteristics suggests that certain groups have been more affected than others (figure 1.10):  

- **Age:** Young persons aged 18–24 years have experienced the sharpest rise in the risk of poverty and social exclusion, i.e. a 15 percentage points increase since 2007, reaching 50.7 per cent of the youth population in 2013. The share of individuals in the middle of the age distribution (aged 25–54) at risk of poverty and social exclusion was 36.9 per cent in 2013, up from 26.1 per cent in 2007 (among people aged 55 and over, it stood at approximately 29 per cent in 2013).  

- **Educational level:** People in the middle of the educational distribution, i.e. those with upper secondary education, have been most affected, with the risk of poverty and social exclusion increasing by 13.4 percentage points since 2007.
points – going from 24.4 per cent to 38.4 per cent between 2007 and 2013. This increased by around 5 percentage points, up to 41.1 per cent in 2013, among those with lower secondary education and 6 percentage points, up to 18.5 per cent in 2013, for those that have acquired a tertiary degree.

• **Employment status:** While the risk of poverty and social exclusion has increased by only 2 percentage points for employed people, going from 18.5 to 20.2 per cent between 2007 and 2013, it has increased by 13 percentage points for unemployed during the same time, reaching 67.8 per cent in 2013, and by 11 percentage points for inactive individuals, up to 50.1 per cent in 2013.
Along with poverty, income inequality has also widened, especially after 2010. The Gini coefficient of disposable income – a proxy for the level of inequality across the entire income distribution – was 34.4 in 2013, up from 32.9 in 2010. The Gini coefficient was 30.5 for the EU-27 as a whole in 2013.\textsuperscript{15} Meanwhile, the share of income of the richest 20 per cent of the population was around 6.6 times higher than that of the poorest 20 per cent in 2013 – up from 5.9 times in 2008.

... while a growing share of the population considers leaving the country.

As a result of the economic crisis, an increasing share of the population is leaving Greece. Indeed, the number of people who left the country between 2010 and 2012 increased by almost 30 per cent – rising from 119,985 to 154,435.\textsuperscript{16} This represented the fourth highest increase among European countries, after Portugal, Italy and Hungary. Regarding the destination countries, the share of workers moving to other EU-27 countries increased by 50 per cent, representing almost two-thirds of total emigration flows from Greece in 2012. Moreover, it is noteworthy that around one-third of the people who left Greece in 2012 were between 24 and 35 years old. Although there is little available evidence, emigration of skilled individuals seems to be a sizeable phenomenon in Greece. Indeed, survey evidence\textsuperscript{17} suggests that highly educated young individuals are the people most likely to leave the country: around 90 per cent of almost 1,000 surveyed Greek emigrants held a university degree, mostly in technical subjects, such as engineering, IT and mathematics. This evidence is particularly worrying as a highly educated and skilled workforce is paramount for increasing the level of productivity in Greece – as discussed in more detail in Chapter 2.

\textsuperscript{15} The Gini coefficient was 30.4 in the EU-17 in 2012.

\textsuperscript{16} Annual emigration flows from Eurostat.

\textsuperscript{17} Survey data referred to in the text are from the preliminary results of a study conducted by the European University Institute, Trinity College Dublin, the Elcano Royal Institute in Madrid and the Technical University of Lisbon on European migration from the crisis-hit nations of Europe’s south and Ireland.
The worst phase of the crisis – at least in terms of GDP contraction – appears to have passed. Some modest improvements have taken place on a number of fronts, but the challenge now and going forward is to maintain – and even enhance – this momentum and ensure that the gains in growth lead to job creation and that measures are put in place to avoid a social crisis. To achieve this, policy-makers must address a number of structural issues that were present before the crisis. For example, efforts are needed to improve productivity, stimulate investment and facilitate firm creation, while at the same time promoting a diversified economic base. These conditions are necessary to create an environment that will be conducive to quality job creation. These issues are discussed in more detail in Chapter 2. Of equally pressing concern is the state of the institutional framework and the need to boost more balanced types of employment creation (see Chapter 3).

Perhaps most urgently, now that some order has been restored to public finances and that economic growth prospects are improving, considerable emphasis needs to be placed on how to stop social conditions from eroding further – these issues are discussed in more detail in Chapter 4. Finally, Chapter 5 discusses issues and reforms in collective bargaining, highlighting the role of social dialogue in undertaking and achieving the reforms necessary to promote growth and job creation.
REFERENCES


CHAPTER 2
COMPETITIVENESS, INVESTMENT AND FIRM DYNAMISM

INTRODUCTION

As Chapter 1 highlighted, some modest improvements have been made with respect to macroeconomic and fiscal conditions in Greece since late 2013. However, signs of investment recovery have not yet appeared and productivity remains stagnant, while the modest improvements in external competitiveness have not sufficiently supported growth. This poses serious challenges to Greece’s long-term economic prospects insofar as the reductions in labour costs have proven ineffective in increasing the country’s competitiveness and encouraging export-led growth. Therefore, the current challenge is to improve the productive capacity of the economy, which requires the fostering of broader economic diversification and the leveraging of existing capabilities.

This chapter is organized as follows. Section A describes the source of the macroeconomic imbalances that pre-date the current situation and section B highlights the recent dynamics in unit labour cost, productivity and export performances with a view to identifying ways to improve external competitiveness and deepening the understanding of the main constraints to growth. Section C focuses on how the size, composition and dynamics of firms have affected their performance over the crisis period, and examines their barriers to growth and investment. Section D concludes with a number of policy considerations to promote a more productive, competitive and innovative business environment in order to improve the long-term growth prospects of the country and stimulate job creation.
A PRE-CRISIS MACROECONOMIC IMBALANCES

Strong economic growth in the pre-crisis period was driven mainly by consumption...

Labour productivity in Greece has historically been lower than in most other European countries. In the late 1990s, productivity in Greece – as measured by the GDP per hour worked at constant prices – was almost half that observed in Germany and France and around one-third lower than in the United Kingdom, Italy and Spain. Subsequently, productivity in Greece grew significantly, and started converging with that of other European economies. Between 2001 and 2007 the overall labour productivity of the Greek economy increased by over 15 per cent; growing at an average rate of 3 per cent per year – higher than in Germany (11.5 per cent) and well above the rates in countries similarly affected by the crisis, such as Italy (1 per cent) and Spain (4 per cent). Only Eastern European economies showed larger productivity gains than Greece over the same period (figure 2.1, panel A), although they had very low productivity levels in 2001.

However, the relatively fast convergence in productivity was mostly driven by consumption (figure 2.1, panel B). In particular, between 2001 and 2007, private consumption accounted for approximately two-thirds of total GDP growth in Greece. Investment also played a considerable role, i.e. accounted for an additional third, but was rather volatile, with high investment occurring only in a few years (e.g. 2003 and 2007 alone accounted for nearly 70 per cent of investment over the period 2001–2007), largely concentrated in construction. In fact, real estate investment doubled over this period, reaching 48.2 per cent of total investment in 2007. Conversely, investment in manufacturing increased by 10 per cent over the same period and accounted for less than 4 per cent of total investment in 2007. Similarly, investment in technology-intensive sectors such as ICT rose only marginally, representing only 2.5 per cent of total investment in 2007.
Figure 2.1 GDP growth and its decomposition in the pre-crisis period

Panel A. Level and growth of productivity, 2001 – 2007 (percentage)

Panel B. Contributions to GDP annual growth rate by main component (percentage)

Note: The growth rate of each expenditure item is weighted by the share of such expenditure in total GDP. A positive (negative) contribution of exports, consumption and investment implies a positive (negative) growth of such expenditure. A positive contribution of imports to GDP indicates a decline in imports. Calculations do not include changes in inventories.

Source: ILO Research Department based on the Conference Board (panel A) and Eurostat (panel B).
... mostly supported by large capital inflows ...

During the 1980s and part of the 1990s, the inflow of foreign capital into Greece was relatively modest and the accumulation of a large public debt in those years was partially offset by a growing budget surplus in the private sector. However, this trend reversed in the late 1990s. The fall in interest rates after the creation of the euro area in 1999\(^\text{18}\) facilitated private consumption via access to credit. In this way, the private sector surplus accumulated in the previous decade swiftly turned to deficit, reaching almost 8 per cent of GDP in 2007. Meanwhile, the government deficit, after contracting in the years preceding Greece’s entry to the euro area in 2001, continued to grow, reaching 6 per cent of GDP in 2007. As a result, external financing grew by 9 percentage points, from 7 per cent of GDP in 1999 to 16 per cent in 2007.

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\(^{18}\) Greece officially entered the euro area in 2001, two years later than most of the other main euro area countries. However, access to low interest rates had been possible since 1999, when external financing reached 7 per cent of GDP, from 2.5 per cent in the previous year.
... until the crisis hit and large imbalances had to be adjusted.

With the onset of the financial and economic crisis, interest rates sharply rose and yields on Greek government bonds widened with respect to other European countries. In particular, interest rates for government bonds with ten years of maturity increased from 4.3 per cent in January 2007 – a value just above that registered in Germany at the time – to almost 10 per cent in early 2010.\(^{19}\) As a consequence, Greece committed to the Economic Adjustment Programme supported by the EC, the ECB and the IMF in order to lower the pressure from the financial market on its public debt (box 2.1).\(^{20}\) Greece then underwent a fairly strict fiscal and macroeconomic adjustment process. Real fiscal spending, excluding interest payments, fell by almost 20 per cent after the onset of the crisis, while VAT and income taxes increased by around 5 per cent. This led to an improved primary balance despite the collapse in GDP, although the debt to GDP ratio climbed to over 175 per cent in 2013 (see also Chapter 1).

Meanwhile, the private sector started reducing consumption, and imports fell by more than 29 per cent between 2009 and 2013, leading to a considerable reduction in the current account deficit – from 15 per cent of GDP in 2007 to less than 1 per cent in 2013. Yet, this improvement and the fall in net borrowing have not been sufficient to reduce the deficit in the net international investment position, which reached 108 per cent of GDP in 2013.

More importantly, gross fixed capital formation fell by almost 15 percentage points, from 26.8 per cent of GDP in 2007 to 11.9 per cent of GDP of 2013. This represents the steepest drop among EU Member States: the fall in investment as a share of GDP has been 12 per cent in Spain, 7 per cent in Portugal, 4 per cent in the United Kingdom and Italy, 2 per cent in France and 1 per cent in Germany (figure 2.3, panel B). As in other European countries, the biggest fall has been registered for investment in construction, which dropped by almost 12 per cent between 2010 and 2013, contributing to over two-thirds of the overall fall in gross fixed capital formation over this period.

\(^{19}\) Eventually, interest rates on government bonds with ten years of maturity reached almost 30 per cent between January and July 2012.

\(^{20}\) For a more detailed description of the events leading to the crisis as well as of the objectives and the structure of the policy response package, see IMF (2013).
Greece committed to an EC Stability Programme (December 2009) and then to a wider-ranging Economic Adjustment Programme with the IMF, the EC and the ECB (May 2010) with associated financing of €110 billion. The latter programme was then replaced (March 2012) by a Second Economic Adjustment Programme for Greece of €164.5 billion in response to significant adverse developments in the Greek economy and over-optimistic forecasts of its adjustment trajectory (IMF, 2013).

The Adjustment Programmes relied on three pillars: (i) consolidation of the primary balance as a percentage of GDP to be achieved by 2014 and identification of expenditure cuts and revenue increases to reduce the debt to GDP ratio; (ii) implementation of “structural reforms” to facilitate internal devaluation and increase competitiveness in the labour and product markets; and (iii) enhancing financial stability by providing capital to banks that need it.

The fourth EC review published in April 2014\(^{21}\) acknowledges the improvements achieved by Greece with respect to the previous review in July 2013. In fact, Greece had reached a primary surplus (net of banking restricting expenditure) in 2013, so exceeding its fiscal target set in the adjustment programme for the year. Better than expected fiscal performances will allow the Greek Government to provide temporary support to the most vulnerable groups in society in 2014 (see Chapter 4). The value of resources set aside by law for this purpose should be around €500 million.

Within this context, Greek authorities have committed to achieve the 2015 primary surplus target (3 per cent of GDP) set in the Second Adjustment Programme. Reforms are expected in a number of key areas, including revenue administration, taxation, public financial management, privatization, public administration, health care, pensions, social welfare, education, and implementation of specific laws to address the issue of non-performing loans.

In summary, large capital inflows in the pre-crisis period were mostly channelled to supporting private and public consumption and investment in housing rather than to productivity-enhancing sectors. The onset of the crisis revealed that this growth strategy was unsustainable. Moving forward, however, the consolidation of public finances and an amelioration of the current account balance will not be enough to place the economy on a stable path. Rather, improving productivity, diversifying the export

Figure 2.3  Investment trends in select countries

Panel A. Change in gross fixed capital formation as a share of GDP (percentages)

Greece  Portugal  Spain  Italy  EU-17  United Kingdom  Germany  France

-10  -9  -8  -7  -6  -5  -4  -3  -2  -1  0

2007 – 2010
2010 – 2013

Panel B. Contribution to change in gross fixed capital formation by asset type, 2010 – 2013 (percentages)

Greece  Euro area  EU-28

Construction
Transport
Machinery and equipment
Intangible fixed assets
Total fixed assets

Source: ILO Research Department based on Eurostat.
base and enhancing the quality of the business environment will be central complements to fostering improvements in Greece’s competitiveness. With that in mind, the following section assesses the determinants of competitiveness in Greece by analysing trends in labour costs and productivity and also export performance.
B PRODUCTIVITY, COMPETITIVENESS AND EXTERNAL DEMAND

The unit labour cost has significantly declined since 2010, mostly due to wage contraction ...

One of the objectives of the Economic Adjustment Programmes undertaken by Greece was restoring international competitiveness to promote sustainable long-term growth. In this regard, reducing unit labour cost (ULC) has been a key policy intervention. In fact, divergences in ULC between Greece and other developed countries, which emerged during the early 2000s, were seen as one of the main drivers of international competitiveness differentials. In particular, rigid labour markets and wage increases – in excess of productivity growth – were regarded as the main causes of rising ULC during this time. In fact, between 2001 and 2008, labour compensation per hour worked increased by 5.3 per cent per year, while productivity – measured as GDP per hour worked at constant prices – rose by 3.3 per cent per year over the same period (figure 2.4). As a result, ULC increased at an average rate of 2 per cent per year over this period.

As the crisis erupted, labour compensation continued to increase until 2009 despite the falling productivity – wages typically respond slowly to changes in the performance of firms. As a consequence, ULC increased by 11.7 per cent in 2009. Since then, a series of reforms – ranging from minimum wage setting to changes in employment protection and collective bargaining legislation (see later chapters for more details) – were implemented with the aim of facilitating the adjustment process. As a result, between 2010 and 2013, ULC cumulatively fell by more than 13 per cent, with wages dropping by 17 per cent.

22 See for example IMF (2013).
... but cost-based competitiveness has been hampered by nominal exchange rates, whereas real wage growth has been stagnant ...

The simple ULC index for Greece has been often compared with those of other euro area economies to demonstrate the loss of competitiveness of the Greek economy since 2001. However, because of a series of shortcomings, relying solely on the ULC as an indicator of national competitiveness might be misleading. As an alternative, the ULC-based relative effective exchange rate (ULC-REER) may be better for identifying the reasons behind the loss of cost-related competitiveness in Greece. Indeed, unlike the simple ULC, the ULC-REER takes into account the effect of exchange fluctuations vis-à-vis other trade partners both within and outside the euro area (box 2.2). This is particularly relevant for Greece, given that around 70 per cent of its exports are directed to countries outside the euro area (see also Chapter 1).
The decomposition of the ULC-REER reveals that the main reason behind cost competitiveness losses in the pre-crisis period was the nominal appreciation of the euro vis-à-vis other trading partners’ currencies – which contributed to raising the ULC-REER by approximately 12 per cent in the case of Greece (figure 2.5). This process was not uncommon to other euro area Member States. Conversely, other factors have contributed little to explaining competitiveness losses in Greece. In fact, inflation differentials in Greece – as measured by the ratio of domestic and trading partners’ GDP deflators – have had little impact on ULC-REER since 1999. This was mainly due to the geographical composition of Greek trade patterns. In fact, Greece, despite showing a not negligible inflation differential – in the order of 1.2 per cent – with respect to the euro area average, traded heavily with countries outside the euro area, where the inflation level was generally higher than the domestic rate.\(^{23}\) In contrast, inflation differentials contributed to ULC-

\(^{23}\) For instance, between 1999 and 2009, the CPI inflation in Greece grew on average by 3.1 per cent per year (1.5 per cent in Germany), while this increased on average by 26 per cent per year in Turkey, 19 per cent in Romania, and 6 per cent in Bulgaria. Moreover, average annual inflation in other important trading partners such as Cyprus and US has been quite in line with the one observed in Greece.
GREECE: PRODUCTIVE JOBS FOR GREECE

REER appreciations in Portugal and Spain, whose trade was comparatively more integrated with low-inflation countries within the euro area.

More importantly, the relative increase in ULC in Greece has had little effect on ULC-REER dynamics. In fact, despite ULC having increased more in Greece than in other countries, such as Germany, Austria and Spain, its impact on ULC-REER appreciation vis-à-vis Greece’s trade partners was rather small and broadly in line with that observed in other euro area countries.

The finding that labour costs have not driven competitiveness losses in Greece is further corroborated by the fact that the increase in ULC was due largely to wage developments in the non-tradable sector. For instance, between 2001 and 2007, compensation of employees in public administration and public utilities increased on average by 13 per cent per year and 11.4 per cent per year, respectively. Meanwhile compensation of employees in construction grew by 19 per cent per year over the same period. Conversely, compensation of employees in the manufacturing sector – a proxy for wages in the tradable sector – grew by around 7 per cent per year between 2001 and 2007. These wage developments are broadly consistent with the trends described above, which highlighted the importance of domestic consumption to economic growth. In this way, rising ULCs for the total economy may be regarded as a consequence of surging current account imbalances in Greece in the pre-crisis period and not as the main cause of competitiveness losses per se. Granted wages grew faster than productivity, but cutting wages will not in and of itself restore external competitiveness.

... suggesting that factors other than wages, notably low productivity, explain Greece’s competitiveness gap with respect to other euro area countries ...

Analysis based on traditional cost-based indicators has proven to be unable to fully explain the causes underlying the external competitiveness gap between Greece and the other euro area countries. This is supported by a growing wealth of evidence showing that the traditional cross-country relationship between export competitiveness and labour costs has signifi-
The recent discussion on competitiveness has focused on the unit labour cost (ULC). ULC measures the average cost of labour per unit of output and is calculated as the ratio between total labour cost and real output. It is a convenient macroeconomic indicator of the link between productivity and the cost of labour in producing an output. It is, however, an unreliable indicator of national competitiveness for several reasons. In particular, ULC does not capture countries’ different economic specializations and export diversity, or the different patterns in the international demand for these goods and services. Moreover, the ULC captures trends in national competitiveness only under the implicit assumption that exchange rates do not have to be taken into account, since all variables are in the same currency in these countries. However, trade to non-euro area countries represents a non-negligible share of total trade and has, in fact, increased during recent years, especially in Greece – as seen in Chapter 1.

Given these limitations in the use of ULC, the real effective exchange rate (REER) is often taken as an alternative measure of the overall international competitiveness of an economy. The REER is a summary measure of the changes in the exchange rates of a country vis-à-vis its trading partners, adjusted for price differentials across these countries. In particular, a decrease (increase) in the REER leads ceteris paribus to an improvement (deterioration) of the country’s international competitiveness position. An REER index is mainly defined by three components: (i) the range of foreign countries covered; (ii) their relative weights; and (iii) the price indices to be compared. The price indices may represent traded and non-traded goods and services (CPI-based REER), other price indices (such as GDP deflator, export unit value or producer price index) or unit labour costs (ULC-based REER). Depending on the price index chosen, the REER will present a different measurement of the international competitiveness of a country; the results obtained can also substantially differ for the different price indices. In this report, the ULC-REER is used. Unlike the simple ULC, the ULC-REER takes into account both intra- and extra-euro area trade as well as the different trading specializations of euro area Member States.

However, limitations also apply to the use of ULC-REER to measure competitiveness. Indeed, data on labour productivity and labour compensation are not always perfectly comparable across countries. Moreover, ULC also ignores other costs of production, such as intermediate goods, non-labour takes and capital costs. Finally, the incomplete coverage of the tradable sector in the calculation of the ULC-based REER may represent a serious limitation in those countries where trade in raw materials, semi-finished products and services represents a large proportion of total trade.

In addition to this, it is important to consider firm-level factors of competitiveness, such as size, organization, technological capacity and the support offered by the business environment. Indeed, research published by the ECB concludes that ULC is a useful indicator of competitiveness, but that it should be complemented by more structural and company- and sector-level indicators. In the same vein, the ECB research warns against the failure to take into account these more micro-level indicators, as there is a risk that a rigid interpretation of the aggregate indicators could lead to a policy prescription which “might lose sight of the ultimate goal of sustainable growth”.

26 ECB (2013).
cantly weakened in recent years.27 In fact, the increasing trade integration of emerging economies – which have traditionally had a significant competitive advantage in terms of production costs – has reshaped the concept of external competition into a purely cost-based one. In particular, countries such as Greece whose exports were mainly in low- and medium-technology sectors – where competition from emerging markets first intensified – have been affected the most.

With a common monetary policy and wages that have already bottomed out, a downward price competition with emerging countries is hardly a viable strategy for fostering long-term competitiveness in Greece, which instead has the capabilities, as well as the knowledge base and the infrastructure, to improve its potential. Therefore, the debate on Greece’s drivers for international competitiveness needs to shift away from cost/price factors and focus instead on aspects related to sectoral productivity as well as export quality and diversification, both in terms of product and market orientation. This is especially important given that productivity has recently been on a downward trend and since 2009 Greece has experienced a sharp fall in productivity, principally as a result of output falling faster than employment during the first wave of the crisis (figure 2.6). However, since 2012 the losses have begun to slow, but only because GDP recovered while employment losses continued and even accelerated – as discussed in Chapter 1.

From a sectoral perspective, services accounted for more than 60 per cent of total productivity losses between 2008 and 2013, while mining and utilities and the construction sector contributed another 8 per cent each. In terms of the factors underlying recent productivity trends, there are significant differences between sectors especially among some of the dominant pre-crisis sectors. For instance, the productivity gains in construction in recent years are simply due to the fact that employment fell faster than gross value added. In contrast, the recent rise in productivity in manufacturing came from a real improvement in value added against a falling level of employment in the sector.

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27 See di Mauro et al. (2008); European Commission (2010); ECB (2013).
... and exports remain rather stagnant and concentrated in low-technology sectors ...

After bottoming out at 15 per cent of GDP, by 2013 the current account deficit in Greece stabilized at around 1 per cent of GDP. In the case of Greece, the reduction in the trade deficit was largely due to the significant decline in imports, which was in turn driven by the fall in output and a reduction in domestic demand: between 2008 and 2013 imports fell by more than 43 per cent in real terms. On the other hand, after having decreased in 2009, exports increased by 5.6 per cent in the years up to 2013. Over the same period, most euro area countries showed stronger export growth. In particular, exports increased by 30 per cent in Germany, 26 per cent in Spain, 21 per cent in Italy, 19 per cent in France and 14 per cent in Ireland.
This raises questions about the competitiveness of Greek exports, which, as previously explained, do not uniquely depend of cost/price factors. First, Greek exports typically embody low to medium levels of technology. In fact, the share of medium- and high-technology manufactured goods exported by Greece remained among the lowest across OECD countries – around 35 per cent of total manufactured goods exported in 2009 against an average 65 per cent among OECD countries (figure 2.7, panel A). This has important implications in terms of competitiveness pressures originating from emerging economies. For instance, many Eastern European countries show a higher technology intensity in their exports than Greece. This is particularly relevant insofar as competition from these neighbouring countries may further limit Greek export expansion in surrounding markets.

The second additional concern regarding competitiveness is Greece’s low level of export diversification. In fact, the growth of exports between 2008 and 2013 principally consisted of increased exports of fuels and lubricants, while exports of capital goods and transport equipment actually decreased, despite starting from a low base (figure 2.7, panel B). As a result, exports of fuels and lubricants – mostly refined oil – represented around 39 per cent of total exports in 2013, while exports of capital goods and transport equipment accounted for only 5 per cent and 1.9 per cent, respectively. This is an important consideration, as exports with a bigger scope for diversification and higher technological content are crucial for strengthening competitiveness and promoting long-term growth (see also box 2.3).
Figure 2.7  Greek export quality in a comparative perspective

Panel A. Share of high- and medium-high-technology exports out of total exports (%, 2009)

Panel B. Contribution to export growth by type of product (percentage of total export growth)

Note: Figures next to the labels in panel B refer to the percentage share of the product in total exports in 2013. Export figures in panel A refer to the manufacturing sector. Figures in panel A for BRIICs refer to the group of countries including Brazil, the Russian Federation, India, Indonesia, China and South Africa.
Source: ILO Research Department based on OECD (panel A) and UN Comtrade (panel B).
Box 2.3  Economic complexity and sustained growth

The low technology content of Greek exports is directly related to the low level of sophistication of the productive system. The economic complexity index (ECI), which measures the level of sophistication of exports, indicates a very low level of diversification of exports and a limited productive capacity. This is true even when comparing Greece with countries with similar levels of GDP per capita, such as Ireland, Italy and Spain.

Figure 2.8 Economic complexity index in selected economies*

The empirical literature on trade and competitiveness recognizes that the quality of exported products and economic performance are positively related. In particular, evidence shows that countries that produce and export what rich countries do – typically sophisticated products – have the potential to grow faster than countries that produce and export other goods: “countries become what they produce” (see Hausmann et al., 2007). Sustaining growth and development entails a structural transformation of production and the accumulation of capabilities that will allow a greater variety of production and increased productivity.

* Prepared by Giorgio Presidente of the ILO Research Department.
Source: The Observatory of Economic Complexity.
Recent literature on product sophistication\(^{28}\) and economic complexity\(^{29}\) provides building blocks for the understanding of how economies can grow by producing increasingly more complex goods, which in turn requires more capabilities. According to the empirical evidence, the set of capabilities existent in a country – defined as the set of productive factors, such as physical and human capital, land, infrastructure and institutions – determines the “sophistication” or “economic complexity” of the goods produced. Complex products are those that require capabilities that few countries have and are therefore less ubiquitous. Capabilities are developed by focusing production on goods that require a set of capabilities similar to that which already exists in a country. Identifying potential products that are similar to ones already being produced may serve as a guide for industrial policy, with a view to promoting feasible opportunities of export growth. For instance, in Greece, analysis of the product space shows that very few sectors are linked to the production chain for refined oil – the main exported product in Greece. This suggests that the economy as a whole may benefit little from the growth of exports of this product. In contrast, products related to health and food production are numerous and highly interconnected, suggesting that supporting these sectors may have greater returns in terms of productivity, export performance and capabilities development.

Moving forward, efforts are needed to foster the productivity and innovation of firms, with a view to developing higher quality products. But this means shifting away from the traditional economic base of Greece. In fact, in 2012 around 25 per cent of new companies in Greece were in sectors that were typical of the pre-crisis period, i.e. restaurants, catering and retail outlets – firms that are generally low-value added, with limited growth opportunities and are cyclical in nature. In this respect, firm structure and dynamics are an important determinant of the country’s ability to grow, innovate, adapt to market needs and integrate into the global value chain – key issues discussed in more detail in the next section.

\(^{28}\) Hausmann et al. (2007).
\(^{29}\) Hidalgo and Hausmann (2009); Hidalgo et al. (2007).
C FIRM STRUCTURE AND BARRIERS TO GROWTH

Greece has the highest share of micro-enterprises in the EU, providing more than half of total employment...

Greece has the highest share of micro-enterprises – defined as those enterprises with fewer than 10 employees – among European countries. Indeed, in 2012, micro-enterprises represented around 96.4 per cent of the total number of enterprises, against an EU-27 average of 92 per cent and values of 89 per cent in the United Kingdom and 82 per cent in Germany. Conversely, small enterprises – employing between 10 and 50 workers – represented 2.9 per cent of total enterprises in the same year, against an EU average of 6.2 per cent; medium enterprises – from 50 to 250 workers – were 0.6 per cent of the total; and large enterprises – with more than 250 employees – were less than 0.1 per cent.³⁰

These micro-enterprises accounted for 57.6 per cent of the workforce in 2012 – the highest among EU Member States (figure 2.9).³¹ The remaining part of the workforce employed in enterprises in Greece is equally distributed between small, medium and large firms. These shares are relatively consistent with those observed across Europe, with the exception of the latter, i.e. the percentage of workers employed in large enterprises in Greece at just under 15 per cent is significantly lower than in most other European countries. For instance, in 2012, this share was 33 per cent in the EU-27, reaching more than 40 per cent in the United Kingdom.

... with the recession strongly impacting these firms and accounting for the bulk of job losses.

During the economic downturn, the total number of enterprises fell by 37 per cent between 2008 and 2013. This represents a more pronounced drop than in other EU countries – even when the depth of the recession is taken into account. For example, the total number of enterprises fell by 15 per cent in Spain, 16 per cent in Ireland and 9.7 per cent in Portugal.³²

³⁰ European Commission (2013a).
³¹ Micro firms contributed around 30 per cent of total value added whereas large firms – although they represented only a marginal share of total enterprises – accounted for around 37 per cent of total value added in 2012.
³² European Commission (2013a).
The sharp reduction in the number of firms in Greece can be partially explained by the higher incidence of micro-enterprises, whose existence is naturally more sensitive to business cycle fluctuations and credit contractions. Indeed, between 2008 and 2012, the number of large enterprises in Greece decreased by only 12 per cent.

Other indicators of business dynamics have also deteriorated during the recession. For example, the survival rate for enterprises after one year – defined as the share of new enterprises that are still operating 12 months after their constitution – was relatively high with respect to the rest of the EU before the recession (81 per cent in 2007). However, it rapidly fell to 66 per cent in 2010, compared with 81 per cent in Italy and 73 per cent in France.\footnote{Ibid.}
Given the firm structure in Greece, it is therefore not surprising that micro-enterprises accounted for more than half of all employment losses (with medium-sized firms contributing another 30 per cent). Despite employment losses slowing in 2011, including in micro-enterprises, they picked up pace again in 2012, with notable losses among firms with fewer than ten employees (figure 2.10).

**Firms in Greece are currently confronted by a number of challenges in operating and expanding their business ...**

Product market regulation (PMR) – as determined by the rules governing access to markets, competition and the general business environment – has historically been high in Greece. Since the early 2000s, many developed countries have made considerable steps to lower their barriers to entry for firms. Greece, however, started to gradually loosen its strict PMR only after the onset of the crisis. A first set of measures was aimed at promoting business creation and investment. In particular, Law 3853/2010 created the legal framework for one-stop-shops for commercial enterprises, reducing the number of administrative steps needed to start a business. Similarly, Law 3894/2010 introduced a fast track for large investments in order to simplify the procedures for approval and licensing of large-scale investments. Additionally, Law 4072/2012 introduced a new form of enterprise with a minimum capital requirement of €1 and allowed companies to publish all financial information electronically. Another set of measures aimed at increasing competition in strategically important product markets. In particular, Law 3887/2010 removed licensing restrictions on road transportation capacity and abolished administratively fixed prices. Similarly, Law 3872/2010 lifted the restriction on non-European flagged cruise ships using Greek ports as homeports for their cruises. Finally, other measures eased the regulation of different sectors, including retail markets, professional services and medicines. 34 As a result, the strictness of PMR – as measured by the PMR indicator – was halved between 2008 and 2013 and started converging with that observed in other European countries (figure 2.11).

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34 These interventions include Law 3959/2011 on competition, Law 4177 on opening hours of retail stores, Law 3919/2011 on the liberalization of professional services, Law 4052/2012 on generic drugs in the health-care sector and Law 4001/2011 on energy policies. Refer to European Commission (2014) for a detailed description of the reforms as well as a preliminary assessment of their effects.
The tax wedge on labour – defined as the percentage of total labour cost paid in income taxes and social security contributions – for a single worker with average income was 41.5 per cent in 2013 in Greece, against an average of 35.9 per cent across OECD countries. In particular, social security contributions paid by employers account for 21.5 per cent of total labour cost compared to an average of 14.2 per cent among OECD countries. As a result, in 2014, the Greek Government reduced employers’ and employees’ social security contributions by 2.9 percentage points and 1 percentage point, respectively.  

Note: Micro-enterprises employ 0–9, small enterprises 10–49, medium-sized enterprises 50–249 and large enterprises of more than 250 employees.


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35 Law 4254 adopted on 30 March 2014 on measures to support the economy in the framework of Law 4046 of 2012. According to provisional calculations, the contribution of this measure to the fall of total economy ULC is 0.7 percentage points in 2014 and 0.6 percentage points in 2015 (1.05 percentage points and 0.9 percentage points, respectively, to the fall of the business sector ULC).
The current average corporate tax rate in Greece stands at 26 per cent (as of 2013), one of the highest rates among OECD countries, up from 20 per cent in 2012.\textsuperscript{36,37} In addition, corporate income tax for companies keeping simplified account books is progressive, with profit income above €50,000 taxed at a 33 per cent rate. The recent rise in corporate taxation was due to the fact that tax receipts from corporate income decreased over the crisis period, mostly as a result of the shrinking tax base due to declining business activity. In fact, tax revenues from corporate income in 2012 were half their pre-crisis level and their contribution to total tax receipts decreased from 7.3 per cent in 2009 to 3 per cent in 2012.

\textsuperscript{36} This follows several years of reductions, during which the corporate tax rate fell from 35 per cent in 2005.

\textsuperscript{37} 11 countries out of the main 33 OECD countries have higher corporate tax rates. These include Italy, Portugal, France and Belgium.
... and access to credit remains limited, especially for SMEs.

Since the beginning of the financial assistance programme, Greece has devoted a large amount of public resources to the recapitalization of the banking sector with a view to maintaining financial stability. In 2012 alone, approximately €7 billion was spent on bank recapitalization measures. Nonetheless, the financial situation of the banks remains difficult in many respects. In particular, the share of non-performing loans is extremely high, at roughly 40 per cent of total loans at the end of 2013. In fact, the recent stress test conducted by the Bank of Greece in late 2013 estimated the capital needs of the banking sector at €6.4 billion (in the baseline scenario – over €9 billion in the adverse scenario). As a result, the amount of credit...
flowing to firms remains suppressed. Credit to firms decreased throughout 2013 – by around 6 per cent – and continued shrinking in the first months of 2014. In fact, in July 2014, credit to non-financial corporations was 4.8 per cent lower than in the same period of the previous year.\(^{38}\)

Correspondingly, interest rates for loans up to €0.25 million – those which are generally demanded by small and medium-sized enterprises (SMEs) – are extremely high and have only recently marginally decreased, from 7.5 per cent in 2012 to 7.1 per cent in 2013. As a result, Greek SMEs have persistently faced unfavourable credit conditions with respect to their European counterparts. Indeed, one-third of Greek SMEs report “access to finance” as their most pressing problem, against an EU average of 15 per cent. Moreover, around two-thirds of Greek SMEs reported that access to finance had deteriorated in 2013 with respect to the previous year.\(^{39}\)

\(^{39}\) European Commission (2013b).
This chapter has shown that the falling unit labour costs since 2010 have not led to stronger competitiveness performance. Instead, the analysis suggests that Greece's weak external competitiveness was mostly due to stagnant productivity stemming from weak investment and low-value added exports, which were accompanied by a highly fragmented productive structure dominated by micro-enterprises with limited capacity to grow. A further erosion of wages, therefore, will only weaken internal demand with important, negative, ancillary effects on social conditions. Instead, what is needed is a series of cross-cutting policies to improve the competitiveness of the business environment and to increase the productive capacity of the country. Importantly, the Government has started to make important strides in this area but more consideration could be given to promoting investment in the real economy, improving access to credit for SMEs and leveraging the human capital present in the country. Meanwhile, the recent measures to foster the creation of new businesses need to be complemented by support programmes aimed at steering entrepreneurship towards strategic sectors.

Efforts to improve the business environment are urgently needed ...

Interventions implemented during the crisis to reduce administrative procedures have helped to improve the overall business climate, notably as regards to starting a business (see box 2.4). Additional initiatives to support active firms could be considered as a complement to those already undertaken. For instance, in 2007 the French Government introduced the Micro-business Management Centre, which provides small firms and micro-enterprises with training and basic services (e.g. advice on financial regulations and economic data) benchmarked to the relevant sector of activity. Interestingly, membership of the centre allows firms to receive financial advantages. Some of these additional support mechanisms, e.g. training programmes, could help to encourage more formalization among firms and their employees.
Greece currently ranks 36th out of 189 economies in terms of how easy it is to start a business. This represents a significant improvement since 2013, when Greece ranked 147th. This improvement was possible thanks to the introduction of a simpler form of limited liability company and the removal of the minimum capital requirement for such companies. In particular, starting a business in Greece now requires five different procedures across the national, regional and local levels, against 11 procedures in Spain, nine in Germany, six in the United Kingdom and five in France. Moreover, the average duration of the entire process is 11 days, compared with 15 in Germany, 13 in the United Kingdom and seven in France.


However, more substantially, what is needed is a tax regime that balances issues of competitiveness and revenues. Currently, the business climate is characterized by relatively high under-reporting rates which by some estimates account for a significant share of forgone tax receipts. This, coupled with a relatively high share of undeclared work in some sectors (see Chapter 3), has undermined the collection of tax revenues and social security contributions. As a consequence, Greece risks being trapped in a vicious cycle, where low tax revenues induce higher corporate and labour taxation, which in turn pushes firms to exit the formal economy, hire uninsured workers and/or downsize their business activity. This further reduces tax revenues, leading to potentially higher taxation of firms and so on. The Greek Government has recently taken a number of actions to strengthen the tax collection system through mandatory declarations and penalties in an effort to enlarge the tax base and reduce informality. However, the mechanism of deterrence could be complemented with measures that provide incentives to formalize coupled with effective tax reform (see section D of Chapter 4). Indeed, a comprehensive strategy to sustain productivity and innovation will require measures to promote the shift from the informal sector to the

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40 Artavanis et al. (2012) estimate that evaded taxable income for the self-employed was €28 billion in 2009. The authors find that on average the true income of self-employed is 1.92 times their reported income. Leventi et al. (2013) estimate that the average rate of income under-reporting in 2009 was at 12.2 per cent, resulting in a shortfall in tax receipts of 29.7 per cent. These results broadly match the estimates for the overall size of the informal economy in Greece whose magnitude is estimated to be around 30 per cent of GDP (Schneider, 2011).
formal sector. This shift will have additional positive effects on the taxation system, social security and collective bargaining while also helping to facilitate the transition towards high value-added sectors.

... which could be complemented by measures to foster innovation and productive investment ...

Encouraging productive investment represents one of the main starting points to both sustain the recovery and promote productive transformations. The new investment and growth strategy for the period 2014 to 2020 – which focuses on fostering innovation, reducing the fragmentation of R&D activities and spurring investment in sectors where Greece has a comparative advantage – is a welcome initiative. Importantly, these measures have been complemented by the introduction of tax incentives and grants ranging from 15 to 55 per cent of the total qualified innovation related expenses.\(^{41}\) However, given the limited resources available,\(^{42}\) a key challenge for Greece is to improve the design of its fiscal incentives in order to maximize their effectiveness. For instance:

- In Italy a tax credit has been introduced on a trial basis for companies that outsource R&D to universities or research centres recognized by the EU. The tax credit is equal to 90 per cent of the additional amount spent on R&D during the year with respect to the average R&D investment by the company in the two previous years. Particular advantages of this intervention are the importance given to incremental increases in investment in R&D – rather than the absolute values – as well as the promotion of research collaboration between firms and research institutions. The system can be particularly favourable for SMEs, as they may lack the organizational and technical capacity to conduct R&D independently.

- Similarly, in France, SMEs with less than eight years of activity and R&D expenditure amounting to at least 15 per cent of their total expenses can benefit from a reduction in their tax and social security contributions for

\(^{41}\) The amount of aid varies according to the size of the company and the geographic area where activities take place.

\(^{42}\) For instance, R&D gross expenditure is expected to increase only marginally in the near future – to 0.69 per cent of GDP by 2020.
highly-skilled jobs in research. In the same vein, Austria, Italy and the Netherlands have tax credits to incentivize employers to provide training to workers. Incentives may apply for training provided either within firms or in external public or private dedicated institutions. These tax credits may incentivize innovation among young firms, which often register losses in the early stages of projects – given that research projects generally pay off in the medium or long term. In New Zealand, the Government has developed a network system to increase innovation and productivity in the agri-food business. While support is given to large companies to maintain their focus on innovation, public institutions promote the proliferation of SMEs, which can link into large companies’ supply chains and collaborate in their research activities. A similar model could be considered by confining tax incentives to large firms, while providing grants to SMEs. In the specific case of Greece, where the business environment is dominated by micro-enterprises, this would also encourage the formation of networks and industrial districts.

... as well as strengthening public–private partnerships ...

Policies to foster firms’ investment in innovation can be complemented with efforts to strengthen the collaboration between academic research and the business environment. In fact, given that 70 per cent of total R&D expenditure is concentrated in the public sector (compared with 30 per cent among OECD countries on average), more could be done to leverage the knowledge of researchers and research centres in the country. Strengthening the collaboration between academics and the corporate sector is crucial to connecting the production of knowledge in Greece to its diffusion and exploitation. Greece has already taken some steps in this direction (box 2.5), but improving efforts to create a more stable interface between public research and the business world may help to close the gap between the supply of and demand for innovation, especially among SMEs.

43 According to the latest available data from the European Research Council, the number of research grants agreed to Greek scientists divided by the total population is similar to that observed in France, Germany and Great Britain.
Recent measures to promote public–private sector collaboration in Greece

Technical cluster – The Corallia Cluster Initiative: The Corallia Cluster Initiative44 was created under the EU Cohesion Policy for the development and support of technological clusters in western Greece. The aim of the cluster is to foster competitiveness and innovation in knowledge-intensive and export-oriented segments of the economy. The initial pilot programme was introduced in 2006, and over the six years that followed, the number of companies in the cluster increased to over 60, up from 13 in 2006. In addition, over 30 universities around the country got involved in the project. The products range from sensor networks and mobile technology, to solar energy equipment and microchips for studying DNA. By March 2012, the cluster had contributed €118 million to export growth. Moreover, following this successful example, the Hellenic Space Technologies and Applications Cluster and the Innovative Gaming Technologies and Creative Content Cluster have recently been created. These initiatives will be further financed under the 2014–2020 EU Cohesion Policy.

Collaboration programme (Συνεργασία): This measure is aimed at improving the competitiveness of Greek firms through collaborative R&D projects in research fields of national priority. The collaboration is implemented through two main actions: (i) small-scale research collaboration with the participation of at least three organizations, one of which is an enterprise, with a duration of 24–36 months and a budget of €0.3 million to €1 million; (ii) large-scale research collaboration with the participation of at least five organizations, two of which are enterprises, with a duration of 36–60 months and a budget of €1 million to €3 million. The direct beneficiaries of this measure are firms, regardless of size, and higher education institutes, research centres and institutes.


... and improve instruments to support SMEs’ access to credit.

Since 2002 the Government has had measures in place to meet SME financing needs, notably through direct public loans and credit guarantees.45 However, resources to these measures were cut by over 50 per cent between 2011 and 2012. Looking forward, one possible policy option to revive credit supply would be to strengthen the mechanism of co-funding among various entities in order to foster risk-sharing. In this regard, a

44 See www.corallia.org/patras-innohub [25 August 2014].
45 The “Credit Guarantee Fund for Small and Very Small Enterprises S.A.” (TEMPME) was constituted in 2002 and it was replaced in 2011 by the “Hellenic Fund for Entrepreneurship and Development S.A.” (ETEAN).
number of countries – including France, Portugal and the United Kingdom – have created a unique public financial institution with the mandate of providing credit to SMEs, while promoting the participation of private institutions in their credit products. Besides providing direct loans and government guarantees, in some countries, such as in Finland and Hungary, interest payments on bank loans taken up for investments in fixed assets are tax deductible.

Within this context, Greece could further leverage funds from the European Investment Bank (EIB). In fact, although EIB funds have helped to alleviate SMEs' financial gaps, especially in recent years, total resources invested by the EIB in Greece remain relatively modest as they have been constrained by low investment from both the public and private sectors (figure 2.13). In order to spur private investors' involvement, direct public loans and EIB/EU funds – which usually cover only part of the total financing need – could be combined with government credit guarantees. This may lower the risk for private investors and encourage their participation in investment projects while minimizing the dispersion of public resources.

At the same time, a wider range of financing instruments could be promoted, including equity financing, venture capital and hybrid instruments – i.e. a mix of debt and equity financing. Although these financing vehicles are unlikely to respond to the needs of micro-enterprises and small firms, they may be relevant for more mature and well-established firms that are willing to invest in innovation. Some policy interventions implemented in other developed countries could serve as examples:

- The creation of second-tier and private equity markets for unlisted securities may represent an efficient alternative to traditional forms of

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46 For instance, the EIB doubled its investment in 2013 with respect to the previous year to €1.47 billion, up from €705 million in 2012. Furthermore, in September 2014, the Greek Government signed with the EIB an agreement to fund up to €315 million of investments in the transport and energy sectors. Funding will be distributed as follows: €300 million to finance the Greek motorway programme; €200 million in support of the Thessaloniki metro; €180 million for improved electricity network; and €135 million for improved electricity transmission.

47 Between 2010 and 2013, Greece received only 2.6 per cent of total funds provided by the EIB over this period. The equivalent shares were 16.8 per cent in Spain, 15 in Italy, 10 in France, 9.3 in Poland and 2.9 in Portugal. Leaving aside the quality of projects proposed to the EIB, this is mostly due to the rule that limits loans from the EIB to 50 per cent of the total cost of a project (generally 33 per cent), while the remaining part must be matched by public or private investors.
financing. For example, in 2013, a public fund (FOND-ICO Global) was launched in Spain with the aim of attracting new resources by co-financing projects with the private sector. Investors would have to provide between 30 per cent and 70 per cent of the resources needed. Other complementary interventions adopted in Spain include the creation of an alternative bond market for SMEs (*Mercado Alternativo de Renta Fija, MARF*), the reduction of admission requirements to regulated and alternative markets and the creation of a start-up co-investment fund.

- In Australia, the federal Government supports a programme (the Venture Capital Limited Partnerships) to attract foreign investment in “high-risk” start-ups and expanding companies with a view to sustaining employment creation. Foreign investors are exempt from capital gains tax on their shares of any profits made by the funds. Interestingly, tax exemptions apply only if investments are held for a minimum of 12 months, the project is “risky” and at least 50 per cent of the employees and assets are to be located in Australia.
• In 2009 the French public entity responsible for facilitating SMEs’ access to long-term financing (OSEO) launched a new instrument (the Development Contract) that allows firms to take long-term loans with facilitated conditions. The OSEO is compensated by a share of the increase in the firms’ turnover following the loans. In order to be eligible, firms must obtain bank funding or an increase in equity from existing or new shareholders that is at least twice as large as the OSEO loan. However, bank loans may be guaranteed by the OSEO. Interestingly, resources from the OSEO can only be used to cover intangible expenses. Between 2009 and 2011, over 1,000 firms were granted loans – 76 per cent were SMEs obtaining finance of less than €1 million. Each €1 of finance provided by the OSEO has generated €5 of private investment, giving a total of €5.5 billion.

This should also be combined with the promotion of high-impact entrepreneurial initiatives ...

The capacity of firms to innovate and undertake productive investment also critically depends on the dynamism and growth potential of the sectors in which they operate. Although the measures discussed above are necessary preconditions to fostering productive investment, they may not be sufficient in themselves to promote a prosperous business environment, as they aim to increase the rate of entrepreneurship regardless of the sector. In fact, the pre-crisis tendency to create ventures in low-value added sectors of the Greek economy has – as discussed above – persisted during the recession. Policy initiatives could attempt to enhance the quality of entrepreneurial activities for specific target groups (e.g. youth and women) who are perceived as facing the highest barriers to entrepreneurship. Examples can be taken from other countries:
In Germany, two federal States have implemented a training programme (Enterprises) aimed at providing youths below the age of 27 with entrepreneurial formation and the guidance needed to start a business. The programme is divided into the following steps, with progress being conditional on the successful completion of each step.

i. **Orientation:** In this phase, participants consider the skills and resources needed to start a generic entrepreneurial activity.

ii. **Planning:** Participants start developing a specific entrepreneurial project and consider possible obstacles and potentials.

iii. **Launch:** The business is launched and participants receive advice on financial and legal responsibilities.

iv. **Consolidation:** Participants acquire the autonomous control of their business, but remain in contact with the training centre for constant advice.

The Austrian Entrepreneur’s Skills Certificate aims to develop entrepreneurial skills among youth through a series of courses covering general know-how and practical issues for entrepreneurs. Originally designed for students who have completed secondary education, the programme has been extended to vocational schools, where trainees benefit from theoretical classes along with apprenticeship training within companies. In this regard, there is also room to further leverage the potential of apprenticeships as a means for youths to gain business related skills to use in their future careers, both as entrepreneurs and employed workers.

Incentivizing programmes that are especially designed for individuals with advanced skills may also be important to support firms’ innovation and competitiveness. For instance, the Higher Apprenticeship Fund in the United Kingdom finances the training of a highly qualified work-
force. Interestingly, the qualifications required to access the programme are set by employers at the local level. Participants in the programme are found to have the highest employability, even higher than for university graduates.

• The effectiveness of apprenticeship programmes could be enhanced by engaging the social partners more in their design. For instance, a pilot co-funding mechanism for apprenticeships is present in the United Kingdom, where the government pays half of the training cost, while the remaining half is covered by the employer. Several options could be considered to deliver such co-funded apprenticeships in Greece, including tax credits which are efficient and administratively less burdensome. Alternatively, employers could finance part of the training costs which would allow employers to influence the content of learning directly with training providers. Finally, public co-funding for innovative apprenticeships projects could also be envisaged, although it may be more burdensome in terms of administrative procedures. A mechanism of this nature, however, would allow the Government to better evaluate the value of projects and employers’ financial commitment.

... along with the provision of targeted assistance to potentially fast-growing firms.

Finally, and in order to spur business creation in high-value added sectors of the economy, it is important to provide firms, especially in their early stages, with dedicated support programmes, such as mentoring, incubators and coaching programmes. For instance, the Collective Actions Support System in Portugal is meant to provide groups of firms belonging to the same industry with sector-relevant business knowledge. The main objective of this scheme is to increase firms’ awareness of risks and opportunities within their relevant industry by providing assistance on a number of issues, including provision of strategic forecasting, analysis of industry-specific competitiveness factors and promotion and coordination of partnerships among firms. In addition, ad hoc instruments such as forums, advice centres or online platforms could help to bridge the information gap between SMEs and the international market with a view to increasing their involve-
ment in global supply chains. For instance, the Gazellensprong programme implemented in the Flanders region in Belgium targets high-potential firms that have at least part of their activity outside the region. Firms are carefully selected and provided with intensive guidance and support in a number of areas, ranging from management to finance. A similar programme (Peaks in the Delta) implemented in the Netherlands provides grants, training and specialised help to selected SMEs, those regarded as the best performers in their specific sector.

While implementing targeted support programmes for fast-growing firms is crucial to foster knowledge spill-overs and boost quality job creation, policy measures also need to be mindful of strategic sectors with high-growth potential. In particular, a number of measures could be considered to enhance the profitability of the tourism industry by enhancing the quality of services provided. This would entail promoting the acquisition of sector-specific skills among the workforce, while re-orienting the marketing strategy towards high value-added services. Moreover, other strategic industries, such as the agri-food sector, could benefit from strengthening the integration of their products into the tourism industry value-chain. At the same time, additional steps are needed to take full advantage of Greece’s potential in energy production from natural resources. Providing further incentives for investments in renewable energy could produce a series of positive externalities in terms of investments and job creation.
REFERENCES


CHAPTER 3
EMPLOYMENT PROTECTION LEGISLATION AND JOB QUALITY

INTRODUCTION

As Chapter 1 has shown, the Greek economy is beginning to emerge from a particularly deep financial and economic crisis. While it is important that the structural weaknesses of the macroeconomic environment are addressed, additional measures are needed in order to achieve sustainable economic growth and promote quality job creation, as highlighted in Chapter 2, notably as regards the institutional set-up. In fact, before the beginning of the recession, the Greek labour market was characterized by a relatively high incidence of self-employment and undeclared work in comparison with other EU countries (section A).

In recent years, the Government has adopted a series of measures aimed at easing employment protection legislation in an attempt to encourage job creation. However, in a context characterized by falling GDP levels and rising unemployment rates, these reforms have had unintended consequences (section B). As a result, a number of further interventions to employment regulation may be needed. In this context it is crucial to ensure that any such changes complement the reforms proposed to stimulate private sector activities (discussed in the previous chapter) and are consistent with the goal of quality employment creation, which has an important role in supporting economic growth and individual well-being (section C).
A EMPLOYMENT COMPOSITION: PRE-CRISIS TRENDS AND ISSUES

The Greek labour market was characterized by a low incidence of non-standard forms of dependent employment ...

In the period preceding the recession, the Greek labour market was characterized by a relatively limited use of temporary and part-time employment in comparison with other EU economies. In particular, temporary employment in 2007 represented only 10.9 per cent of the total dependent labour force. This compared to an EU-17 average of more than 16 per cent.\(^{48}\) Temporary employment was particularly low among youth: only 27 per cent of dependent employees below the age of 25 were employed with a temporary contract in 2007, compared with 50.5 per cent in the EU-17 and 41.3 in the EU-27 (figure 3.1, panel A).

Similarly, Greece was the country with the lowest incidence of part-time employment in the EU: in 2007 only 5.4 per cent of total dependent employment was of a part-time nature – 2.5 per cent of male employment and 9.9 per cent of female employment. This compares with a value of 18.8 per cent in EU-17 at the time, while northern European countries – such as Denmark, Germany, the Netherlands and the United Kingdom – had values in excess of 20 per cent of total dependent employment and above 40 per cent for female employees only (figure 3.1, panel B).\(^{49}\)

... while the incidence of self-employment was higher than in other EU countries.

While temporary and part-time employment was relatively scarce in Greece before the recession, the labour market was characterized by a high incidence of self-employment when compared with other EU economies. Indeed, self-employment represented 28.7 per cent of total employment in 2007 – the highest value in the EU-17 (see also Chapter 2 for a more detailed description of the business environment by firm size).\(^{50}\) In comparison,

\(^{48}\) The value for the EU-27 was equal to 14.1 per cent in 2007.

\(^{49}\) The value for the EU-27 was equal to 17.6 per cent in 2007.

\(^{50}\) This was also the highest among the EU-27 countries (and rose to 31.9 per cent in 2013).
Figure 3.1  Temporary and part-time employment
(percentages)

Panel A. Share of temporary employment out of total dependent employment, 2007

Panel B. Share of part-time employment out of total dependent employment, 2007

Source: ILO Research Department based on Eurostat.
the EU-17 average in 2007 was only 14.5 per cent of total employment. Moreover, in Greece, self-employment was dominated by those working without employees (own-account workers), who represented 72 per cent of total self-employment in 2007 – one of the highest shares in the EU-17 (figure 3.2).

Additionally, a particularly important aspect of self-employment patterns in Greece is the presence of economically dependent self-employed workers. These workers, although formally self-employed, are economically dependent on a single employer for their source of income and therefore their activities very much resemble those of dependent employees. However, economically dependent self-employed workers often do not have access to the same benefits (e.g. social security, pension or unemployment benefits) and legal protection (e.g. hiring and firing procedures) that are typically granted to dependent employees. This can place these workers in a
vulnerable position. In Greece, economically dependent self-employment represented 1.8 per cent of total employment in 2012 – the third highest value in the EU-17 and the EU-27 after Cyprus (2.5 per cent) and Italy (2 per cent).\textsuperscript{51}

In summary, the Greek labour market was characterized by a relatively high share of permanent jobs among total dependent employment on the one hand, and a high share of self-employment that dominated overall employment on the other hand. Against this background, the Government intervened to ease employment protection legislation in order to encourage job creation (and a more balanced employment situation). While this was a welcome initiative, a number of unintended consequences have occurred, which may necessitate further monitoring and perhaps further adjustments to ensure that the reforms are equitable.

\textsuperscript{51} Eurofound (2013).
B EMPLOYMENT PROTECTION LEGISLATION:
RECENT REFORMS AND PRELIMINARY EFFECTS

In an effort to stimulate job creation, recent reforms have eased regulation of both permanent and temporary contracts ...

A number of legislative interventions approved in recent years have profoundly modified the system of employment protection legislation (EPL) in Greece – and further interventions are being prepared. These interventions have generally been aimed at facilitating wage and labour force adjustments and fostering firms’ competitiveness. In this sense, EPL interventions were jointly developed together with reforms to minimum wages and collective bargaining (see Chapter 5 for details). The impact of these reforms has been far reaching. For example, between 2010 and 2013, the OECD index of EPL has shown Greece to have the second highest decrease in the EU for permanent employees – after Portugal – and the highest drop for temporary employees.

The labour market reforms have aimed to increase employment flexibility for permanent employment. First, Law 3863/2010 eased the legislation regulating collective dismissals by raising the thresholds for their definition (see box 3.1 for details). The same law also reduced the notice period for dismissal of workers with at least 28 years of service in the company from 24 months to six months. Moreover, Law 3899/2010 increased the trial period for open-ended contracts from two months to 12 months – termination is possible during this period without notice or severance pay. Finally, the same law reduced from four months to one month the layoff notice period for permanent employees who have been working in the company for between one and two years.

52 In particular, labour market reforms currently under discussion include changes in the legislation of collective dismissals and in the regulation of trade unions’ representation.
53 For EPL of permanent employees, Greece was fifth out of 34 OECD countries in 2010 and 18th out of 34 in 2013. For EPL of temporary employees, Greece was eighth out of 34 countries in 2010 and ninth out of 34 in 2013.
54 Dedoussopoulos et al. (2013).
Most advanced economies and many developing countries provide stricter legislation on collective dismissals than on individual dismissals. This is due to the broader economic and social effects of collective dismissals as well as the lack of a direct connection between a dismissed employee and the reason for the dismissal. In Greece, Law 3863/2010 has restricted the applicability of such legislation by raising the thresholds in the definition of a collective dismissal. In particular, collective dismissals are now defined as those involving more than six employees for enterprises with between 20 and 150 employees, or 5 per cent of the staff (or at least 30 employees) for companies with more than 150 employees. The thresholds were previously four employees in companies with between 20 and 200 employees, and 2–3 per cent of staff (or 30 employees) for enterprises with more than 200 employees.

Other aspects of the legislation, however, remain unchanged. In particular, the law retains an obligation on the employer to consult with workers’ representatives. Consultations should last at least 20 days, during which the parties should discuss ways to avoid the dismissals or to reduce the number of workers affected. If an agreement is reached between the parties, the employer can proceed with the collective dismissal in the next 10 days. In the absence of a mutual agreement, the Prefect of the Ministry of Labour can first extend the consultation period by 20 days. If an agreement is still not reached after this additional period, the competent authority will become responsible for issuing a decision regarding the validity of the dismissal.\(^5^5\) In particular, a recent Decision of the Greek Supreme Labour Council (in January 2014) has put renewed emphasis on the fact that if the parties fail to agree and the issue is therefore referred to the relevant Prefect or to the Minister, the latter can consult the Labour Ministry Commission or seek the opinion of the Supreme Labour Council.\(^5^6\) The relevant authority will examine the dossier containing information of the enterprise, the consultation minutes, the dismissal plan and any other relevant document.\(^5^7\)

Additional legislative interventions were made to facilitate the recourse to temporary employment. In particular, the maximum duration of fixed-term contracts was increased from two to three years in 2011. Moreover, under the old system a temporary contract was considered to have become

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\(^5^5\) ILO Employment Protection Legislation Database (EPLex).
\(^5^6\) ILO (2014).
\(^5^7\) Supreme Labour Council Plenary Decision 22 January 2014 regarding the ‘Determination of the content of the dossiers, submitted to the SLC by employers, in order for a safe and documented opinion to be defined based on that content, during the examination procedure and collective dismissals requests (Law 1387/1983, as in force, and Directive 98/59/EC).
open-ended if employment had continued for at least two months after the contract had expired. The new system replaced this provision with a waiting period of 45 days from the end of the fixed-term contract before a new contract can be concluded without a presumption that an open-ended contract has been formed. In the same vein, the maximum duration of temporary agency employment was extended from 16 months to 18 months. Additionally, Law 3899/2010 increased the maximum period allowed for posting workers from six to nine months in companies with serious economic problems. Finally, in June 2011 a new form of temporary contract was introduced for youths below the age of 25 which reduced costs for the employers. In particular, under this contract youths can be hired for a maximum of two years at a wage 20 per cent below the salary defined by the relevant collective agreement (national or specific level). Moreover, this contract does not require any social contributions from employers.

... and increased the ability of firms to adjust working times ...

The regulation of working time arrangements has also recently been modified with the aim of increasing firms’ flexibility to respond to temporary fluctuations in workloads. In particular, changes in legislation introduced in June 2011 allowed enterprises to increase regular working hours by two hours a day – in excess of eight hours – for a maximum period of six months per year. Compensation for the extra hours can be provided either as a reduction in working hours during periods of reduced workload or as leave days. Changes were also made concerning the parties involved in negotiations on working time. Indeed, associations of workers at the enterprise level were given the right to conclude collective agreements – see Chapter 5 for further details. Moreover, the right of sectoral trade unions or employees’ federations to be involved in working time negotiations at the company level – in cases where there was no other employee representation in the enterprise or in enterprises with fewer than 20 employees – was abolished.

58 Minimum wages have been set by law since 2012. See Chapter 5 for more details.
59 Dedoussopoulos et al. (2013); OECD (2013).
In addition, pay increments initially introduced in 2010 for part-time workers working overtime have now been cancelled. Likewise, increases in hourly wages that were originally provided in the Labour Code (Law 2639/1998) for employees working for less than four hours per day were also cancelled.\textsuperscript{60} Even more importantly, Law 3846/2010 has made it possible for employers to unilaterally transform full-time jobs into part-time ones for a maximum period of six months. However, this option applies only if the firm faces an adverse economic situation and if the measure is adopted in order to avoid layoffs. The time limit for conversion of a full-time contract was extended to nine months by Law 3899/2010, which also redefined the calculation of part-time workers’ pay to ensure that it never exceeds the pay of a full-time worker doing the same job, even with overtime. Finally, Law 3986/2011 has introduced provisions that make it possible for workers in the public sector \textit{sensu stricto} to accept cuts in working hours of up to 50 per cent for a maximum period of five years.\textsuperscript{61}

\textit{... while the role of the Labour Inspectorate has been reinforced in order to tackle undeclared work.}

Meanwhile, a final set of measures focused on increasing the effectiveness of labour inspections. Indeed, evidence suggests that undeclared work in Greece is comparably more diffuse than in other EU countries and that the risk of being detected is perceived to be low.\textsuperscript{62} The objective of strengthening the Labour Inspectorate had already been incorporated in the first Memorandum of Understanding on Specific Economic Policy Conditionality in May 2010, detailing that the Government will complete “the reform to strengthen the Labour Inspectorate, which should be fully resourced with qualified staff and has quantitative targets on the number of controls to be executed”. Later on, the objective of carrying out an independent assessment of the Labour Inspectorate structure and activities was included in the Memorandum signed in March 2012.

\textsuperscript{60} Reductions of overtime premiums were from 30 per cent to 20 per cent for the extension of working time (5–8 hours per week); from 75 per cent to 40 per cent for the first 120 annual hours of overtime work and from 100 per cent to 60 per cent for more than 120 hours. See Dedoussopoulos et al. (2013) for further details.

\textsuperscript{61} Dedoussopoulos et al. (2013).

\textsuperscript{62} European Commission (2007).
Some recent legislative interventions aimed to enhance the role of the Labour Inspectorate. In particular, Law 3762/2009 made it possible for anonymous complaints to be raised to the Labour Inspectorate. To this end, a specific four-digit phone line was instituted. Similarly, Law 3996/2011 expanded the functions of the Labour Inspectorate to new areas and enhanced its powers to impose fines and to exercise investigatory powers. Moreover, the same law introduced a “labour card” to electronically detect working hours, targeting in particular sectors with a higher risk of irregular employment (e.g. hotels). Law 4144/2013 reinforced the capacities of the Labour Inspectorate by increasing cooperation between it and the financial police – the two institutions are now commonly responsible for controlling cases of undeclared work – and introducing a specific fine for enterprises employing unemployment benefits recipients.\(^{63}\) Moreover, in July 2013 the Ministry of Labour implemented a plan for dealing with non-compliance in tourist areas with respect to undeclared work over the summer period. Finally, in August 2013 a ministerial decision specifying the fines to be imposed in cases of undeclared and uninsured employment was published.

\(\text{The reforms had little effect on stimulating temporary employment and seemingly only increased part-time at the expense of full-time employment ...}\)

The easing of EPL for temporary employment was intended to increase employment levels by facilitating firms’ hiring of temporary workers and reducing the cost of firing workers. However, evidence suggests that the easing of EPL for temporary employment has not yet generated a positive employment effect. For instance, the number of temporary employees in Greece decreased by 35.2 per cent between 2010 and 2013, compared with a decrease in the number of permanent employees of 19.6 per cent.\(^{64}\) The same pattern has been recorded among young people, despite the introduction of a new temporary contract for those below the age of 25, as discussed

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\(^{63}\) Koutsogeorgopoulou et al. (2014); ILO (2011, 2012).

\(^{64}\) The decrease in temporary employment can alternatively be explained by the fact that in times of recession, employers might be more willing to cease renewal of a temporary contract if it meant dismissing a permanent employee. Alternatively, the reduced use of temporary contracts can be related to the increased probationary period for permanent contracts, during which the employer can dismiss the worker with no severance payments (Law 3899/2010 discussed above). However, to analyse these would require data on employment flows by contract. This information has started being collected by the Ministry of Labour, Social Security and Welfare as part of the ERGANI programme, but it has not yet been made available for consultation.
above. Indeed, the number of temporary employees below the age of 25 decreased by 52.1 per cent between 2010 and 2013 – going from 51,400 to 24,600 – while the number of young permanent employees decreased by 46.3 per cent. As a result, the share of temporary employment out of total employment among youth in Greece fell during the crisis – going from 30.4 to 27.1 per cent.

While the reforms had little effect on the creation of temporary employment, they favoured the use of part-time and intermittent employment. In particular, the share of full-time contracts among all new employment contracts fell from 67 per cent in 2010 to 53 per cent in 2013. During the same time, the share of new part-time contracts increased from 26 per cent to 37 per cent and the share of new intermittent contracts went from 7 per cent to 9 per cent (figure 3.3). The rise in new part-time employment contracts has also been supported by the institution in 2009 of subsidized Apprenticeship Programmes in Vocational Schools, organized by the Manpower Agency in Greece (OAED).

However, the expansion of reduced working-hour arrangements has also occurred through the transformation of full-time contracts into part-time and intermittent contracts. Indeed, the total number of existing full-time contracts that have been transformed into either part-time or intermittent contracts each year has increased by more than three times – going from 26,253 in 2010 to 84,290 in 2012. The conversion of full-time contracts has increasingly occurred without the consent of the employee. In particular, the share of full-time contracts transformed into intermittent employment relations by unilateral decisions of employers increased from 13 per cent in 2010 to 39 per cent in 2012.

65 The term “intermittent” refers to employment for fewer days per week, fewer weeks per month or fewer months per year (or a combination of these) but with full daily working hours. At the start of employment or during employment, the employer may – with the consent of the worker or unilaterally – determine to introduce job rotation for a maximum period of nine months (article 2 of Law 3846/2010 and article 17 of Law 3899/2010).

66 European Commission (2013). The programme had funded 16,700 apprenticeships up to the end of 2013.

67 Among these contracts, the share of full-time contracts transformed into part-time contracts has decreased – going from 72 to 59 per cent of total transformed contracts between 2009 and 2012. By contrast, the share of full-time contracts transformed into intermittent contracts has increased – from 28 to 41 per cent during the same time.

68 Dedoussopoulos et al. (2013) outline the risk that even when a formal agreement is reached between the employee and the employer regarding the transformation of a full-time contract into a job rotation one, this might occur under the implicit or explicit threat of layoff.
Figure 3.3 Composition of new employment contracts, 2009 – 2013
(percentages)


... which has led to an increase in the share of individuals who would prefer a different employment situation ...

The joint effects of the legislative reforms described above and the economic downturn have been a deterioration in the quality of temporary and part-time employment. Indeed, the share of involuntary temporary employment was already high in 2008, at 82.5 per cent of total temporary employment, and it started increasing with the onset of the recession, reaching 87.7 per cent of total temporary employment in 2013. Together with Portugal and Spain – where the shares of involuntary temporary employment in 2013 were 86.2 per cent and 91.8 per cent, respectively – this represents one of the largest shares across European economies. The EU-27 average was 61.7 per cent in 2013 (table 3.1) and the value for the EU-17 was equal to 60.3 per cent.
Similarly, the share of involuntary part-time employment was considerably higher than the EU-17 and EU-27 averages already before the beginning of the recession and the situation has further aggravated in the recent years. In particular, the share of part-time workers that would rather have a full-time job has increased from 44.1 per cent to 68.2 per cent between 2008 and 2012. In comparison, this share in the EU-27 average reached 29.5 per cent in 2013, up from 25.3 in 2008.\textsuperscript{69} Only Spain and Italy show an incidence of involuntary part-time employment comparable to the one in Greece (table 3.1). Furthermore, it is noteworthy that the rising incidence of involuntary part-time employment, especially after 2010, has been coincidental with the increase in hiring with this type of contract – as discussed above in this section.

\textsuperscript{69} The value for the EU-17 increased from 25.1 per cent in 2008 to 31.2 per cent in 2013.
Finally, the labour market reforms presented above have also increased employment polarization between standard and non-standard (e.g. temporary, part-time) forms of employment. In particular, in the most recent years, non-standard employment has increasingly represented a step towards labour market exclusion (i.e. unemployment or inactivity) rather than a temporary solution with a view to more stable employment. Indeed, the share of part-time employees moving to full-time employment within one year has more than halved – going from 35.4 per cent in 2008 to 15.8 per cent in 2012. During the same period, the share of temporary workers moving to permanent employment decreased from 19 per cent to 17.4 per cent. Conversely, transition from part-time employment to unemployment increased from 3.9 per cent to 9.5 per cent between 2008 and 2012 – the highest level in the EU-17. Similarly, the share of temporary workers moving to unemployment increased from 6.9 per cent to 18.8 per cent between 2008 and 2012.

... while undeclared work still represents a major issue in some industries.

Labour market informality is a major policy concern insofar as undeclared work may have important implications, both for individual workers and for the whole of society. In fact, undeclared workers often lack social security coverage, are not protected by labour rights and do not have access to career advancement. Meanwhile, undeclared work, implying non-compliance with tax and social security legislation, hampers governments’ ability to collect tax revenues. This may create a vicious cycle, where governments need to offset missed revenues by raising the tax wedge on formal work, which in turn leads to higher undeclared work (see also Chapter 2).

Despite recent efforts to strengthen the role of the Labour Inspectorate, as discussed above, undeclared work still constitutes a rather diffuse phenomenon in the Greek labour market. In particular, labour inspections conducted between September 2013 and May 2014 in 14,465 enterprises in all branches of the economy detected 1,646 cases of undeclared employees out of 90,571 employees surveyed – equal to 1.8 per cent.\textsuperscript{70} However,\textsuperscript{70}

this figure does not provide a full assessment of the situation. Undeclared and uninsured work is more likely to occur in industries characterized by seasonal employment, such as tourism and agriculture. Indeed, targeted inspections conducted in May 2014 in sectors characterized by high levels of non-compliance revealed that 23.4 per cent of the workforce was uninsured. The rate is even higher for foreign workers, with 40 per cent of foreign workers employed in these sectors reported as being of undeclared status in 2011.

However, these figures represent an important improvement with respect to the values registered in 2013 – when the share of uninsured work in industries characterized by high non-compliance reached the record value of 38.7 per cent – and these achievements can be related to the measures implemented in 2013 to reinforce the role of labour inspections, as described above.\textsuperscript{71} However, the persistently high rate of undeclared employment in some industries suggests there is a need for a comprehensive policy intervention that complements any sanctions with incentives to promote the formalization process (see Chapter 4).

\textsuperscript{71} Ministry of Finance (2014).
C POLICY CONSIDERATIONS

Reform efforts should focus on leveraging a more correct use of temporary employment ...

As already mentioned in this chapter, the share of temporary employment in Greece is below the EU-17 and EU-27 averages. In particular, temporary employment represents 10 per cent of total dependent employment – against an EU-17 average of 15.3 per cent. This means that the extent of temporary employment in the Greek labour market does not represent a particular issue of concern and efforts to encourage more balanced employment growth were a welcome initiative. However, the analysis of this chapter has shown that the quality of temporary employment (measured, for example, by the share of involuntary temporary employment and the transition rates to permanent employment) is low in comparative terms and has deteriorated during the recession.

Policy initiatives should therefore approach EPL reform not as a debate between more versus less regulation, but rather as a matter of good versus bad regulation. Indeed, balanced labour market reforms must seek to achieve both quality employment creation and adequate income security while reconciling firms’ need of adjustment over the business cycle.

In this regard, a number of interventions could promote a better use of temporary employment. For example, Greek legislation does not establish the need to specify a reason for the initial stipulation of a fixed-term contract, but only for its renewal.72 Introducing in legislation the possibility to hire temporary employees only in specific circumstances may limit the misuse of temporary employment to meet fixed and constant needs of the enterprise. For example, Spanish legislation has recently increased the regulation of fixed-term contracts. It establishes that such contracts can be concluded only: (i) to respond to temporary increases in the workload; (ii) to undertake specific projects or services specifically delimited; or (iii)

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72 Renewals can be justified only for objective reasons. They can be justified on the basis of the nature or form or activity of the employer or the undertaking; or by the special needs of the activity, provided that these needs arise directly or indirectly from the contract in question.
to replace a worker on temporary leave. Additionally, temporary contracts could be linked to the obligation to provide on-the-job training for employees – another issue where Greece compares poorly with the rest of the EU. More flexible legislation could eventually continue to apply to specific sectors, where the seasonal nature of the activities guarantees that fixed-term employees are hired to meet seasonal workloads. This is the case in Italy, where legislation exempts firms in the tourism and agriculture sectors from specifying a reason for the stipulation of a temporary contract.

Another issue outlined in this chapter is the low transition rate between temporary and permanent employment, a problem that is common to many EU countries. A series of policy interventions could be considered to improve job mobility and transition by making the accumulation of severance pay uninterrupted throughout a worker’s career. For instance, a set of measures were implemented in Austria in 2003 to reform the labour market. Among these measures, an important innovation concerned the calculation of severance payments. With the approval of the reform, severance payments for all employees – whether on permanent or temporary contracts – are financed by a fund to which every employer has to allocate every month 1.5 per cent of their employees’ salaries (not taxed). In this way, the gap in severance payments between temporary and permanent employees was reduced and employers had fewer incentives to hire temporary employees in order to enjoy fiscal advantages.

... and enhanced support to workers with reduced hours.

Different measures could be considered in the country to increase the effectiveness of reduced working-hour schemes. For instance, one of the innovations of the German work-sharing system was the implementation of training measures in companies implementing reduced working hours. These were particularly adopted by large companies due to greater organizational capacities – 55 per cent of enterprises with more than 250 employees adopting work-sharing schemes organized training activities – and were

73 The proportion of youths that undertake apprentices is below 1.5 per cent in Greece, compared to an EU-27 average of 3.7 per cent.
jointly funded by public institutions and the enterprises. In the Greek context, on-the-job training of employees in work-sharing arrangements could also facilitate the shift of the workforce from declining economic sectors to more productive ones. However, the functioning of the current training system – the so-called Kentra Epaggelmatikis Katatrisis – has been challenged by administrative obstacles and scarce financing. Moreover, in Germany the Government is committed to refunding employees temporarily employed in work-sharing schemes up to 67 per cent of their foregone income. Employees also maintain full access to social security contributions, sick leave and maternal leave and, eventually, to unemployment benefits.

Addressing economically dependent self-employment requires introducing a clearer definition ...

The phenomenon of economically dependent self-employment is on the rise in most European countries and it represents a particular challenge in Greece, which has the highest share of self-employment in the EU-17. The Greek Government has recently made important steps towards improving the regulation of economically dependent self-employment. In particular, changes in legislation approved in May 2010 shifted the burden of proof from workers in suspected self-employment to employers – who need to prove the contrary. Other interventions have aimed to increase the incentives to transform undeclared work into declared work by improving the efficiency of the business environment (see box 3.2). However, additional changes could aim at linking the presumption of self-employment to some specific characteristics that define the status of economically dependent self-employment. This is what has been done in Portugal, where changes in the Labour Code approved in 2009 have established that self-employed workers are considered wage earners if they meet at least one of the characteristics specified in the legislation. Additionally, in Portugal, Royal Decree 65/2012 has established that persons that are identified in dependent self-employment are eligible for social security protection.

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74 ILO (2013).
76 Characteristics of dependent self-employed workers can be found in article 12.1 of the 2009 Labour Code of Portugal.
Box 3.2 Promoting declared employment by facilitating the obtainment of work permits

As stated earlier in this chapter, the share of undeclared employment in Greece is higher among foreign workers. For these categories of workers, the undeclared status in the labour market is generally connected with the lack of a residence permit. Under Greek legislation, the right to renew a residence permit – and thus to work legally in the country – depends on the ability to provide evidence that the worker has accumulated sufficient insurance (stamps) every year by undertaking a specific number of days of work. In an effort to promote the shift to declared employment, in 2005 the Ministry of the Interior introduced new legislation (Law 3386/2005) that eased the requirements for obtaining the renewal of the work permit. In particular, the new legislation reduced the minimum number of stamps that must be collected. Moreover, the law established an option to purchase up to 20 per cent of the stamps required. Finally, the law abolished the need to provide the written employment contract as part of the application for the work permit.77 Although these measures positively increased the incentives to move to declared employment, there is a risk that the reduction in the number of days required to obtain the work permit has increased the phenomenon of partially undeclared work – a situation in which the worker is officially working part time, but in reality works full time.78

... but there remains scope to reinforce the capacities of the Labour Inspectorate...

Another area for intervention relates to the need for proper enforcement of labour laws in Greece. Indeed, during recent years the Greek Government has conducted major adjustments in the budget of the Labour Inspectorate and these have resulted in a reduction of the economic resources previously available for conducting inspections, especially at the regional level. The ILO Committee of Experts in 2013 drew attention to the need to provide the Greek Labour Inspectorate with sufficient means of action. Resources could, for instance, be devoted to developing a fully operational electronic system that connects the Labour Inspectorate with Ministries and other institutions. At present there is no electronic register of companies at the

77 This final measure applies only for workers in specific sectors, such as construction workers and private nurses.
78 Eurofound (2009).
Ministry of Labour, and labour inspectors cannot access the electronic registers held by the Treasury and the Social Insurance Institution. The result is that labour inspectors usually construct handwritten databases.

Additional resources could also be allocated to increasing the number of inspections, since a high probability of detection of irregular employment is essential for deterring the offence.\(^{79}\) Similarly, there is a need to improve the consistency with which the law is applied at all levels, accompanied by the provision of an integrated information system on workplaces and inspections.\(^{80}\) The reinforcement of the staff – through, for instance, a national training system – would also increase the effectiveness of labour inspection activities. Additionally, the current system does not provide a list that specifies the fine associated with each offence (it simply specifies a range for each fine) – introducing this would simplify procedures and ensure greater uniformity. An Action Plan has been adopted by the Government to reinforce the functioning of the Labour Inspectorate based on ILO findings. The timing of the reform of the Labour Inspectorate is also critical, as the adoption of a single Labour Code, as envisaged by the Government, would reduce labour law complexity and increase its enforceability.\(^{81}\)

... and to introduce complementary incentives to promote labour market inclusion ...

In addition to strengthening the capacities of the Labour Inspectorate, action should be directed towards designing labour inspection in an inclusive way. The current legislation establishes that when non-compliance is discovered in an inspection of an enterprise, the owner (or the legal representative) has five days to prepare a document explaining the reasons of the observed offences. If the explanation is not considered sufficient, the labour inspectors can then impose a fine. The weakness of such a design is that it is solely centred on the deterrent effect of the fine. Instead, the articulation of inspection activities into two steps would help in the detection of cases of irregular employment, such as economically dependent self-employment, and in their transition to regular employment. In a first step, firms would

\(^{79}\) IMF (2013).
\(^{80}\) Koutsogeorgopoulou et al. (2014).
\(^{81}\) Ibid.
receive advice from the labour inspectors about how to identify and regularize any cases of irregular employment. The main objective of this phase is to help employers. This phase would be conducted by labour inspectors through inspections, preventive information campaigns and individual counselling on how to identify irregular employment and the options available to regularize the situation. Only as a second step would sanctions be considered, with fines imposed for any unresolved offences. Deterrence should be explicitly prioritized in order to limit the recourse to fines.

... supported by social protection measures.

As seen in this chapter, non-standard forms of work – i.e. part-time, temporary and self-employment – represent an important share of total employment in Greece. So far, however, few measures have been taken to adapt the social security system to these emerging realities. The reality is that many of these workers, due to limited work intensity, will not acquire sufficient entitlement to social security benefits. This calls for careful consideration of how to improve social protection for these workers. Some welcome initiatives have been recently implemented in this direction. In particular, in 2013 the Government expanded unemployment insurance to self-employed workers, although eligibility requirements remain strict (see chapter 4 for details). However, at the moment the Social Security Organization for the Self-Employed (OAEE) – which covers craft workers, business professionals, hotel owners, drivers and travel agents – is facing major financial problems, as a significant proportion of members’ contributions have not been paid. This affects the insurance coverage for the self-employed, who have often been unable to pay their contributions for several months due to the economic downturn. The ombudsman for social protection provided important opinions in this respect in March 2014 on the basis of petitions from OAEE members who failed to fulfil their contributions.82 Indeed, as also recommended by the ombudsman, it remains important in this situation to reconcile the need to provide coverage for self-employed workers, including access to health care, with the need to maintain the financial stability of the fund.

There have been several policy attempts to facilitate in other countries social security coverage to workers in non-standard jobs:

• Since 2001, France has established a tax credit scheme (*prime pour l’emploi*, PPE) that applies to employed persons with a low income. This includes people earning between 1.3 and 1.4 times the monthly minimum wage. Interestingly, after 2006, the PPE significantly increased for those who work only a part of the year and for part-time workers. While supporting households’ incomes, this type of measure has strengthened the incentive for individuals to return to work and increase their work intensity (see also Chapter 4 for a more detailed description of similar programmes).  

• To address economically dependent self-employment, a few countries, such as Italy and Portugal, have reformed the legislation in order to broaden the coverage of social security schemes to include this group of workers. For instance, in Portugal, unemployment benefits are available to the self-employed who are economically dependent (defined as 80 per cent or more of an individual’s work being the provision of services to, or on behalf of, a single contracting entity). In Italy, measures have been introduced to provide greater protection for freelance workers coordinated by an employer and for “project workers”, in the case of pregnancy, sickness and injury.

In summary, this chapter suggests that the recent labour market reforms – albeit well intended – have aggravated certain aspects of labour market polarization and led to a deterioration in overall employment quality as measured by the incidence of involuntary part-time and temporary employment. This – together with the sharp reduction in employment discussed in Chapter 1 – has increased the importance of the social protection system in sustaining incomes and limiting inequalities. However, fiscal adjust-

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83 Legros (2010).
ment programmes implemented in Greece in recent years have reduced the countercyclical role of social security and have expanded the structural gaps in the Greek system of social protection. This has further aggravated the effects of the crisis on living standards, with a deterioration of the main socioeconomic indicators (e.g. disposable income and poverty rates) that has been much worse than in other European countries. These issues will be discussed in more detail in Chapter 4.
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CHAPTER 4
ECONOMIC SECURITY:
ROLE OF SOCIAL PROTECTION IN TIMES OF CRISIS

INTRODUCTION

The extent of the social impacts of the crisis in Greece has been affected not only by the length of the recession, but also by the direction of reforms, which have, in some cases, increased the risk of poverty. In particular, a number of reductions in social protection, which were made in an effort to return to a budget surplus and rein in government spending, have placed some individuals in a vulnerable situation. For instance, although the unemployment benefit system has acted like an automatic stabilizer, providing much needed support to jobseekers, it has been unable to keep pace with the rise in unemployment and the duration of joblessness. Further, while there have recently been efforts to extend social protection, coverage remains low and many self-employed persons cannot keep up with contributions and are falling out of the system. Emergency measures intended to provide temporary alleviation to vulnerable groups have helped but are insufficient and more comprehensive and structural reforms are progressing at a slow pace.

With this in mind, section A provides an overview of the changes to social protection expenditure in Greece during the crisis compared with those in other European countries. This section also includes a discussion on the social protection institutions and changes carried out in recent years. Section B examines in more detail the composition of those changes, highlighting how they have, in conjunction with the deterioration in labour market conditions, created a number of impending social challenges, notably for certain groups. Against the backdrop of these assessments, section C presents some related policy considerations regarding how best to address these issues going forward.
A FISCAL ADJUSTMENT: OVERVIEW OF PUBLIC EXPENDITURE CHANGES

Before the onset of recession, social protection spending in Greece was in line with the EU average ...

In the lead up to the financial and economic crisis, Greece’s expenditure on social protection as a share of GDP was slightly below the European average: in 2009, social protection spending represented 27.4 per cent of GDP against the EU-17 average of 29.1 per cent (figure 4.1). In terms of composition, the largest component of total social protection expenditures was old-age related spending, which accounted for around 11.3 per cent of GDP, while sickness related benefits represented the second largest, at 8 per cent of GDP.

... but cuts in social protection have been at the centre of fiscal consolidation efforts ...

Greek public debt was already high during the initial phase of the crisis, for instance, in 2009 it was 129 per cent of GDP against an EU-17 average of 80 per cent. As a result, the comparably high stock of debt limited the Government’s ability to finance countercyclical public spending when the crisis hit – a situation that was exacerbated by the fall in government revenues. In an effort to keep government spending in line with falling revenues, Greece underwent a deep process of fiscal consolidation, driven principally by a reduction in public expenditure, which fell by 17 per cent between 2010 and 2012. Importantly, nearly one-fifth of the cuts in public expenditure that took place over this period was accounted for by reductions in social protection expenditure – which decreased by almost 8 per cent between 2010 and 2012 (figure 4.2, panel A). In contrast, social protection increased on average across European countries – by 9 per cent in the EU-27 over the same period. In fact, among all EU-27 countries, only Hungary, Ireland, Latvia and Lithuania saw spending on social protection decline between 2010 and 2012.

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84 As a comparison, social protection expenditure as a share of GDP was 29.5 in the EU-27 in 2009.
85 As a comparison, public debt as a share of GDP was 74.5 per cent in 2009 in the EU-27. Only Italy had comparably high levels of public debt, at 114 per cent of GDP.
86 Revenues from taxes fell by 6.3 per cent between 2010 and 2012, due mainly to the dual effect of falling GDP and rising unemployment, which further limited the capacity of the Government to collect revenues.
On the revenues side, fiscal consolidation efforts have heavily relied on consumption taxes. In fact, taxes on goods and services have persistently accounted for almost 40 per cent of total tax revenue in recent years which has important distributional consequences. This was due in part to the fact that receipts from personal income taxation represented around 15 per cent of total tax revenues in 2011 against values close to 25 per cent across OECD countries in the same year. This is true also in terms of GDP, as tax revenues from personal income accounted for less than 5 per cent of GDP against average values around 9 per cent among OECD countries.
... with a focus on reductions in unemployment benefits, pensions and health related spending.

Leading up the crisis – between 2007 and 2009 – social protection expenditure grew by almost 8 per cent per year, mostly driven by spending in sickness care and old-age care – which increased by 27 per cent and 20 per cent, respectively, over this period. In 2010 a number of changes to the social protection system were introduced which focused on reducing benefit amounts or adjusting eligibility criteria (see box 4.1). The result was steep cuts between 2010 and 2011 – notably, sickness- and old-age related spending was cut by 21 per cent and 17 per cent, respectively (figure 4.3).
The overall decline in social protection spending was offset by an increase in unemployment related spending, which acted very much like an automatic stabilizer, rising as the number of unemployed rose. In fact, spending on unemployment benefits in Greece rose by 60 per cent between 2007 and 2009, and further increased by 20 per cent between 2010 and 2011. This occurred despite reductions in the benefit amount for the contributory unemployment scheme. In fact, basic contributory unemployment benefits were reduced by 22 per cent in 2012, and the period for receiving the benefit was reduced on two occasions during the crisis.
Greece has a social protection system with mandatory main and auxiliary insurance, based on three-party financing. In addition, there are optional occupational supplementary schemes and private insurance policies. Social insurance represents the predominant element in the social security system, which is characterized by fragmentation and complexity. There is a plethora of systems of primary, supplementary and ancillary insurance, and hundreds of social insurance funds exist corresponding to the large number of socio-professional groups. In recent years, efforts have been made towards merging funds and simplifying the system.

In Greece, dependent employment represents the majority of cases covered by the Social Insurance Institute – General Employees’ Insurance Fund (IKA-ETAM) – the largest social security organization in Greece. IKA covers employees, pensioners, plus some workers in atypical forms of employment, such as self-employed without a place of business. The benefits include sickness benefits, maternity benefits and pensions. The main insurer of employees against unemployment is the Manpower Employment Organization (OAED) under the supervision of the Ministry of Labour, Social Security and Welfare. OAED also covers family benefits. Other insurance schemes include, for example: the Agricultural Insurance Organization (OGA) for farmers; Social Security Organization for the Self-Employed (OAEE), covering craft workers, business professionals, hotel owners, drivers and travel agents; and the Insurance Fund for Independent Professionals (ETAA), covering liberal professions (doctors, lawyers, engineers).

Changes to various benefits carried out during the crisis include the following:

**Unemployment benefits:** In 2012 minimum wages were reduced for unskilled workers (by 22 per cent for workers aged over 25 years and by 32 per cent for those aged below 25); correspondingly, the basic contributory unemployment benefit was also reduced. In March 2012, the monthly unemployment benefit was set at €360 for full-time employees, down from the previous €454 per month. The amount has increased by 10 per cent for each dependent person, and the benefit period ranges from five months to 12 months, depending on days worked during the control period. The total number of days a worker can claim unemployment benefit over a period of four years was reduced to 450 days from 1 January 2013 and to 400 days from 1 January 2014. An allowance for young people aged 20–29 is paid at €73.37 per month for a period of five months for young people who are unemployed and remain registered with the Employment Agency for a year.

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87 EIRO (2007).
90 OECD (2013).
91 Law 3996/2011 and Law 4203/2013, respectively.
Pensions: In recent years, the pension system has undergone several reforms which, among other things, have tried to group and merge the previously numerous funds together. Pension payments were reduced successively through various pieces of legislation during the crisis. Act No. 3847/2010 abolished the 13th and 14th monthly pension payments of former public employees, and replaced them with more restricted vacation allowances, which were later abolished in 2013. In November 2011, Act No. 4024/2011 reduced the monthly pension exceeding €1,000 for public sector pensioners under 55 years by 40 per cent, and by 20 per cent for those aged 55 and above with pensions exceeding €1,200. Reductions of 15–30 per cent were introduced for various auxiliary pensions. Main pensions which, after previous reductions, still exceeded €1,300 were additionally reduced by 12 per cent in May 2012 through Act No. 4051/2012, with retroactive effect for the period January–April 2012.

New conditions for the entitlement to an old-age pension had been planned to be introduced in 2015 by Law 3863/2010, but these were applied from 1 January 2013 instead (the advanced entry into force was stipulated by law 4093/2012), increasing the retirement age from 65 to 67 years for pensions provided by the Social Security Funds under the competence of the Ministry of Labour, Social Security and Welfare, as well as the Bank of Greece. Law 4093/2012 also reduced the amount of any monthly pension (or sum of monthly pensions) of €1,000 and above by between 5 and 20 per cent. Furthermore, Christmas, Easter and holiday bonuses were abolished, meaning an additional 6 per cent reduction in annual income from IKA–ETAM pensions.

Law 4052/2012 and the corresponding Ministerial Decree revised the system of supplementary pensions by introducing a new formula for calculating pension benefits and a mechanism which aims to guarantee the future sustainability of the system. Supplementary pensions were reduced (by 10–20 per cent on amounts exceeding €200) as a continuation of other measures taken in 2011. The law also merged several funds under the Ministry of Labour, Social Security and Welfare into one fund, called ETEA. New pro-rata calculations will affect supplementary pensions under ETEA as of 2015, and a fiscal sustainability factor will be employed on the funds under ETEA from 1 July 2014 to eliminate any deficit. Based on this sustainability factor (also sometimes referred to as “zero deficit clause”), ETEA recently announced its proposal to reduce supplementary pensions by 5.2 per cent in 2014.

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92 Invalidity pensions, social pensions and farmers’ basic pensions were exempted.
93 The 13th and 14th monthly instalments of invalidity pensions, social pensions and farmers’ basic pensions were also abolished at this time.
Pensioners’ Social Solidarity Allowance (EKAS) – a non-contributory benefit to low-income pensioners originally created in 1996 – was reformed twice during the crisis, in 2011 and 2012. Law 3996/2011 introduced a new income test covering the entire income (including rentals, personal business, etc.) as well as personal and family income ceilings (annual taxable income €9,884.11 and €15,380.90, respectively). Depending on the income level, the EKAS benefit is paid at between €30 and €230 per month as of 1 January 2011. Since January 2012 these amounts can be re-evaluated and adjusted. Law 4093/2012 introduced a new age limit, applicable as of 1 January 2014: 65 instead of the previous 60 (with the exception of surviving children and invalidity pensioners).

**Family benefits:** Reformed through the abolition of five benefits (targeting families with three or more children) and introduction of means-tested benefits. The new child support (Law 4093/2012) is paid on the basis of the number of dependent children and according to the family income, as calculated by an income equivalent scale (monthly payments are: one child, €40; two children, €80; three children, €130; four children, €180; and €60 for additional children), with payments decreasing with increasing income (income ≤ €6,000, full allowance; €6,001–€12,000, 2/3 allowance; €12,001–€18,000, 1/3 allowance). In addition, there is a special allowance of €500 for each child per year for families with three or more dependent children, also based on family income criteria (Law 4141/2013).

**Housing benefits:** Provided by the Workers’ Housing Organization (OEK) through means-tested rent subsidies were suspended in 2010 and abolished in 2012, when the organization itself ceased to exist. Housing support has a strong basis in the Greek constitution. Plans for a broad-based means-tested housing assistance scheme have been announced. Regions implemented a housing allowance for uninsured and financially weak elderly people aged over 65 years who live alone or in couple and do not own a house.

Recent efforts, including minor improvements to unemployment benefits and ad hoc use of the primary surplus, have partially redressed the cuts ...

As the crisis prolonged and social challenges deepened (see section B), several measures to improve unemployment and related benefits were announced, especially for long-term jobseekers, as well as measures to address health concerns:
• **Extended eligibility criteria of unemployment benefits:** In 2013, unemployment insurance was extended to self-employed workers at €360 per month, paid for 3–9 months, but with strict eligibility criteria. To be eligible, individuals will have ceased their activities as self-employed after 1 January 2012 and have regularly paid social contributions for at least 12 months out of a total insurance period of at least three years. Income thresholds are set at below €10,000 for annual personal income and annual family income, averaged over two years. Patterns of self-employment and related social security were discussed in more detail in Chapter 3 of this report.

Further, eligibility criteria for receipt of long-term unemployment benefits were loosened from 2013 to respond to the growing numbers of long-term unemployed. Under the previous system, to be eligible, claimants had to have an income below €5,000 in the previous year and be above the age of 45. At present, assistance for the long-term unemployed amounts to €200 per month and is paid for a maximum period of 12 months. Conditions for receiving the payment introduced at the start of 2014 include: (i) 25–66 years of age; (ii) exhaustion of 12 months’ regular unemployment benefit; (iii) remained registered with the Employment Agency; (iv) annual family income does not exceed €10,000 (threshold is increased by €586.08 for each dependent child).

• **Public works programme for long-term unemployed:** A temporary emergency public/community works programme for the long-term unemployed and jobless households was designed as part of the Action Plan for Employment drafted in 2013 and funded through the EU structural funds. The first phase of the programme, covering 50,000 beneficiaries, has been completed and the next phase is intended to cover some 85,000–90,000 persons. Eligibility criteria for the programme include long-term unemployed status with another unemployed person in the household, plus income and family criteria. The programme provides for five months of subsidized community work with a monthly wage of up to €490 for those over 25 years of age (€19.60 per day) and up to €427

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96 The benefit was foreseen in Law No. 3986/2011 and under the Ministerial Decree ΦΕΚ 705/Β’/28.03.2013.

for those below 25 (€17.10 per day). The total costs for the intervention have been estimated at €216 million, split over two years (€172.8 million for 2013 and €43.2 million for 2014).

- **One-off social dividend and expansion of health-care coverage:** As a one-off measure, the Greek Government decided to pay out a particular “social dividend”, funded by using a part of the larger than expected primary surplus in 2013, confirmed to be €1.5 billion. The social dividend was legislated as a non-taxable income which could not be subject to deductions or confiscation for debts. At the end of April 2014, the Government agreed on the distribution of the total amount of €525 million to services for the homeless; to about 70,000 members of the military and police force through a one-off benefit; to persons who had lost their job in the preceding year; and to vulnerable social groups with low salaries and pensions. The income threshold was first set at €6,000, as per taxation processed in 2013, thus based on income earned in 2012. Higher incomes might be eligible based on social criteria, such as number of children, single-parent households and disabilities. A means test based on assets was also included, allowing the dividend to be paid out to persons with assets up to €125,000 (single) or €200,000 (couples), i.e. house owners. The income levels for eligibility for the payment were revised in May 2014 to increase the number of beneficiaries, reportedly up to 320,000. Under the new test, income from year 2013 can be taken into account. For those eligible, the one-off subsidy amounted to about €500, with increases for families with children and persons with disabilities, etc. Payments were effected in summer 2014.

In addition, one of the announced main targets of the social dividend was to provide health-care coverage to the uninsured population. This meas-

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98 Social security contributions are also partially subsidized through the programme (up to €258 per month for the above 25 age group and up to €225 for the under 25).
99 http://www.oaed.gr/images/NEA-ANAROINWSIES/GR_TYPOU/fek%20koinofelous%202013.pdf [01 September 2014]
103 http://www.ekathimerini.com/4degi/_w_articles_wsite2_1_03/06/2014_540296 [29 August 2014].
ure targeted about 400,000 uninsured persons and provided health-care coverage worth €20 million. These uninsured persons include long-term unemployed, retired uninsured, unemployed professionals with debts to their insurance fund or suffering chronic health problems. In addition, in September 2013, a cooperation agreement among responsible entities was signed with a view to providing free access to medicine for the uninsured. Health vouchers were also issued to give the uninsured access to diagnostics, and a new law on primary care provides universal access to health centres. While the exact numbers of uninsured persons are not known, there are plans to extend access to health care to them in a more systematic manner. A detailed analysis of the coverage situation is being carried out in cooperation with the World Health Organisation (WHO).

Among the EU-28 countries, Greece and Italy remain the only Member States without a basic social assistance scheme that provides a safety net at the subsistence level. Greece has committed itself to building a social safety net; specific targets on reduction of poverty and social exclusion have been included in the framework of the National Reform Programme, as discussed in Chapter 5. With regard to those facing extreme poverty, Law 4093/2012 laid the ground for setting up a guaranteed minimum income scheme. Guaranteed minimum income schemes are, in essence, means-tested, non-contributory and universal programmes aimed at providing an ultimate safety net to prevent extreme poverty. This scheme is under preparation with the World Bank. Initially it was agreed that the scheme would be piloted in two regions, but instead the pilot will target selected municipalities. The pilot programme is scheduled for the second half of 2014, with aim of reach over

... while in the longer term the plan is to introduce a guaranteed minimum-income scheme.

700,000 households in 13 municipalities.\textsuperscript{108} Eligible persons are to receive €200 per month (€300 for couples), and an additional €50 for each child. The pilot programme is also to involve some activation measures, and there will be a phased integration of other benefits to the guaranteed minimum income. The plan is to roll out the scheme nationwide in 2015, when it will form a key component of Greece’s “new strategy for social welfare”.\textsuperscript{109}

\textsuperscript{108} The pilot scheme targets about 30,000 beneficiaries, with the intention to ultimately cover 7 per cent of the population. See: http://www.kathimerini.gr/787957/article/oikonomia/ellnikh-oikonomia/elaxisto-eggyhmeno-eisodhma-apo-200-ews-500-eyrw-gia-30000-dikaioyxoys [21 October 2014].

\textsuperscript{109} European Commission (2014).
B. SOCIAL PROTECTION
AND RISK OF POVERTY DURING THE CRISIS

Recent efforts to offset social consequences of the crisis need to be reinforced ...

Although a step in the right direction, the series of recent initiatives, notably with respect to the unemployed, have not been able to match the magnitude of the challenges. For instance, the vast majority of Greeks registered with the national employment office (Manpower Employment Organization, OAED) are not receiving any unemployment benefits. According to the latest OAED data, only 105,694 individuals out of 1,054,626 persons who were registered with the OAED received unemployment benefits in March 2014. As a result, the coverage rate was 10 per cent of the registered job-seekers in March 2014, down from 35 per cent in the first quarter of 2010 and 28.8 per cent in the same quarter of 2012 (figure 4.4).

Coverage was particularly low among long-term unemployed: an estimated 1,850 long-term unemployed received assistance in 2010 and 3,000 in 2011. Importantly, the eligibility criteria for receipt of long-term unemployment benefits were loosened, leading to improved coverage in 2013 (estimated 28,000 persons or 5 per cent of all long-term unemployed).110 In addition, self-employed workers have often not been able to pay their dues to the social security fund, leaving many of them without coverage. Even with recent measures to extend health care to the uninsured, many of those affected have still not been reached.

Even when unemployed jobseekers are covered and receive benefits, in some cases their incomes are still below the national poverty threshold. In 2012, the national poverty line in Greece was set at €5,708 per year per person or €11,986 per year for a family of four persons,111 or at €476 and €999 per month, respectively. However, unemployment benefit for the long-term unemployed, for example, amounts to only €200 per month.

110 Moutos (forthcoming).
111 ELSTAT, 29 November 2013.
... and as a consequence, poverty has increased, especially for those out of the labour market ...

As a consequence of the fall in disposable income, an increased share of households has fallen below the poverty line – defined as 60 per cent of median equivalent household income. Between 2008 and 2013 this share in Greece rose by over 3 percentage points, from 20.1 per cent to 23.1 per cent of the population. This represents one of the steepest increases in poverty across European countries. Indeed, the share of people living in poverty in 2013 across EU-27 had only slightly increased, from 16.5 per cent in 2008 to 16.6 per cent in 2013. Moreover, indicators of poverty in absolute terms (i.e. based on the poverty line fixed in 2008) show that poverty has increased dramatically in Greece, from 20.1 per cent in 2008 to 44.3 per cent in 2013.
In addition, the broader indicator of poverty and social exclusion suggests that those out of the labour market have disproportionately suffered from the consequences of the crisis. In fact, while the risk of poverty and social exclusion among employed persons has increased slightly, and only after 2011, it has surged among unemployed and inactive individuals since 2008. In particular, the share of unemployed people at risk of poverty and social exclusion increased from 57.8 per cent in 2008 to 67.8 per cent in 2013. Similarly, the risk of poverty and social exclusion for inactive persons increased from 39.8 per cent to 50.1 per cent over the same period. Furthermore, it is noteworthy that poverty and social exclusion among pensioners, which increased between 2008 and 2011, started falling in 2012, despite increasing poverty among the rest of the population. This suggests that pensioners, although experiencing declining incomes because of the various pension reforms, have suffered from the consequences of the crisis comparatively less than the rest of the non-employed population. In fact, median equivalized income for pensioners dropped by 11 per cent over the period – from €10,307 in 2008 to €9,890 in 2012 – while it fell by 25 per cent among unemployed – from €8,000 in 2008 to €6,163 in 2012.

More importantly, despite the fact that the relative risk of poverty has increased across all households, families with multiple children are those which have suffered the most in absolute terms. In 2012, the median equivalized income for households with two adults and one dependent child was €9,229; around 23 per cent lower than in 2008. A similar decrease is registered among households with two or more dependent children. Meanwhile, non-monetary indicators of material deprivation show more eloquently the economic distress experienced by households. For instance, the share of two-adult households with dependent children and income below the first quintile which experienced severe material deprivation was 53.8 per cent in 2012, up from 27.4 per cent in 2008.

Therefore, it is not surprising that such a fall in family incomes has led to surging child poverty – from 21.6 per cent in 2007 to 33.2 per cent in 2012. Furthermore, a staggering 60 per cent of children (aged less than six
Figure 4.5 Measures of poverty and social exclusion in Greece after 2008 (percentages)

Panel A. At-risk-of-poverty rate in selected EU countries

Panel B. Share of people at risk of poverty and social exclusion by activity status

Note: Relative poverty line defined as 60 per cent of median equivalent household income. Data for Ireland and Spain refer to 2012.
Source: ILO Research Department based on Eurostat.

Chapter 4 Economic security: Role of social protection in times of crisis
years) having parents with lower than secondary educational attainment – a proxy for the probability of parents being out of the labour market or in low-paid jobs – were in a state of severe material deprivation in 2012. In 2008, the figure was 24.7 per cent.

Consequently, alleviating economic and material distress in families with dependent children is a key policy concern. Although measures targeted at tackling the disproportionate surge in poverty and material distress of families with dependent children have recently been implemented (see box 4.1), income support measures need to be strengthened to take better account of household composition (see section C).

... while massive long-term unemployment has been accompanied by an erosion of health coverage.

The number of uninsured persons has been increasing in line with the rapid increase in unemployment since 2009. It is estimated that 800,000 potential beneficiaries are left without unemployment benefits and health coverage. Furthermore, other indicators suggest that the fall in disposable incomes may have affected health outcomes. For instance, the share of the Greek population unable to meet unexpected financial expenses – a proxy indicator for the ability to pay for health care – went from 26.6 per cent in 2008 to 40.5 per cent in 2012. The situation is worse for single persons with dependent children – inability to face unexpected financial expenses went up from 48.1 per cent in 2008 to 66.6 per cent in 2012.

This has been combined with a significant reduction in overall health related public expenditure. In fact, per capita public health expenditure fell from US$2,036 in 2009 to US$1,535 in 2011 (adjusted for purchasing power parity). Yet, despite these cuts, demands on the public health system increased as a number of people – due likely to the contraction in disposable income – shifted away from private to public health-care provision. In fact, the number of admissions to public hospitals rose by 24 per

112 ILO Research Department on the basis of OECD statistics.
cent between 2009 and 2010, and further increased by 8 per cent in the first half of 2011, while admissions to private hospitals fell by around 20 per cent over the same period.\textsuperscript{113}

Although the impact on health of reduced public and private health-care expenditure cannot be fully evaluated at this stage, because of lack of updated information, various indicators suggest that there is a rising concern for health outcomes, especially among lower income groups. For instance, the percentage of people reporting an unmet need for a medical examination because it is considered too expensive has increased – from 4.2 per cent in 2008 to 6.5 per cent in 2012. However, this percentage substantially varies according to income level. In fact, between 2008 and 2012, the share of people in the first quintile of income distribution reporting reduced access to medical services increased from 7 per cent to 11 per cent; while it rose from 0.9 per cent to 2.2 per cent among those in the fifth quintile. At the same time, third sector organizations report an increase in demand for their services.\textsuperscript{114}

Moreover, other indicators suggest that health outcomes have worsened, particularly among the most vulnerable societal groups. For instance, healthy life years expected at birth went down from 66.1 years in 2009 to 64.8 in 2012 for men; and from 66.8 in 2009 to 64.9 in 2012 for women.\textsuperscript{115} Also, the share of young people (aged 16–29) reporting poor health status was 3.7 per cent in 2012, up from 1 per cent in 2008. It is also worth noting that infant mortality increased in 2009 and 2010 – though it returned to a pre-crisis level in 2011.

\textsuperscript{113} Simou and Koutsogeorgou (2014).
\textsuperscript{114} Medecins du monde, Greece; see: http://www.mdmgreece.gr [03 September 2014].
\textsuperscript{115} Eurostat.
C  POLICY CONSIDERATIONS

This chapter has attempted to analyse some key features of the Greek social protection system, and also policy measures implemented during the crisis and their immediate effects. In some respects, the depth of the crisis has meant that the social protection system has not been able to maintain adequate levels of support and so has failed to provide a cushion for the Greek population. This situation was exacerbated by the extent of cuts to benefits and the overall financial position of the Government.

Although some recent initiatives have attempted to address the social challenges, the efforts have been rather piecemeal. Moving forward, unless greater and more systemic efforts are made to address these challenges, there is a risk that these reductions in the level of social protection will lead to long-term negative consequences (see box 4.2). In particular, a comprehensive analysis of the social protection system as a whole, including the needs and contributory capacities of different age groups, is a prerequisite for further action in the area. Moreover, social protection should be approached through a comprehensive strategy, concentrating efforts on structural improvements rather than on ad hoc measures. Yet, in the interim, emergency measures are needed to respond to immediate needs. In this respect, in analysing options for the future, more efforts are needed to increase targeting of social protection to the most vulnerable. Better targeting enables an improvement in the poverty-reducing effects of social protection and the optimization of government spending in this area. Additionally, appropriate linkages to active policies should be made with a view to maintaining skills and avoiding social exclusion.

In the short term, emergency measures are needed that are better targeted and keep individuals connected to the labour market ...

In the midst of the long-term recession, relief has been sought from one-off measures and programmes. This has undoubtedly temporarily alleviated the situation for some individuals, yet the impacts of these measures are not
Box 4.2  Excessive reductions in preventive programmes can lead to long-term negative consequences: The case of Finland

Economic depressions and the policies adopted to tackle crises have far-reaching consequences, some of which are visible decades later. A recent study focusing on children born in Finland just before the major depression at the beginning of 1990s found that while most of the Finnish youth are doing well, disadvantage transfers through generations. A notable group of young people who grew up in the recessionary environment of the 1990s needs support in attaching to society. During their early childhood, services designed for children and families were reduced significantly and preventative work was compromised. Reductions concerned, among others, school health check-ups, prenatal care visits, services provided to families with children as well as resources for schools and kindergartens. The study found that a large proportion of the age group had mental problems when growing up, and educational achievements remained relatively low. The study further concluded saving resources by reducing preventive programmes subsequently increases the need for and costs of corrective services, which often come too late and, at worst, are inefficient.

clear. In the short term, enhanced interim emergency measures are needed to respond to the immediate needs of the most vulnerable. With a view to improving the efficiency of such measures, however, considerable effort is needed to improve targeting, along with improving linkages to the labour market.

• **Increase the allocation of the social dividend:** In 2014, Greece allocated a total of €525 million out of a primary surplus of €1.5 billion in 2013 to emergency social measures (the social dividend). For 2014, the primary balance forecast stands at €2.7 billion. In view of this forecast, the minimum allocation to emergency social measures should be increased proportionally for next year. This would mean an allocation of at least €945 million to emergency social measures, which would need to be designed in a way that optimizes their impact on poverty reduction and labour market inclusion through improved targeting.

116 Paananen et. al. (2012). The study followed all persons born in the year 1987 (approximately 60,000) from the prenatal period through to the year 2008, using official registers collected by Finnish authorities.
117 Following the 1987 cohort, the study found that one-fifth had received specialized psychiatric care or medication for mental health problems before the age of 21. Approximately 18 per cent of the cohort members had only completed primary education, and of those 40 per cent had mental health problems. Social support assistance had been received by 23 per cent of the cohort members, and 26 per cent had a record in the police or judicial registers for a misdemeanour or for a sentence. Approximately 3 per cent of the cohort had been placed in out-of-home care.
• **Improve targeting:** It appears from available data that the households most in need of support are those with multiple dependent children and adults with low educational achievements and also single-parent households. Long-term unemployed are at particular risk of poverty and social exclusion, and their coverage through social security remains meagre. Better targeting would allow for improved poverty reducing effects, and help to improve the financial efficiency of social protection.

With a view to ensuring appropriate means testing and verification of self-declared incomes and assets, appropriate information systems and registries must be in place and communicate with each other. According to the OECD, the absence of appropriate tracking systems and interlinkages between various databases means that it is currently not possible to check the accuracy of means testing.\(^{119}\) This is an area that needs to be addressed when designing both emergency measures and the more comprehensive social protection strategy, as it will be crucial that funds can be channelled to the target population.

• **Improve linkages to the labour market:** An improved interaction between social protection measures and labour market programmes would improve the effectiveness of government efforts to ensure that workers remain attached to the labour market and retain (and where necessary improve) their skills. Indeed, making benefits and social assistance transfers conditional upon participation in training programmes and work activities – if well targeted – could be especially helpful in Greece given the extremely high long-term unemployment rate and risk of labour market detachment. These linkages should be built into both the short-term emergency measures and the long-term social protection strategy (see box 4.3 for the activation guarantee scheme). It will be important that the public employment services – as the professionalized service providers, offering individualized counselling support and job-matching – have an active role in this regard.

\(^{119}\) OECD (2013).
For instance, in Denmark, labour market and income support is linked to the duration of unemployment, so that the resources directed to participants increase in line with the risk of long-term unemployment. Moreover, participation in activation measures (career counselling, requalification, vocational training, etc.) is required in order to remain entitled to both unemployment benefits and social assistance, and the measures are tailored towards the individual’s specific employment needs.\textsuperscript{120}

\textbf{Box 4.3 A universal activation guarantee scheme for youths and groups most in need}

The introduction of a universal activation guarantee scheme for youths and those most in need in the labour market could be considered by the Government and social partners as part of any emergency measures introduced. In particular, in Greece the depth and duration of the recession have sharply increased the risk of labour market detachment, skills erosion and social exclusion.

A universal activation guarantee scheme is built on the idea that participants receive an offer of job, apprenticeship, traineeship or education within a specified time period. Before receiving an offer, participants are typically provided with job search assistance and generally also undergo an assessment of their skills profiles in order to identify areas of development. In contrast with other active labour market policies, a “guarantee” provides an entitlement for all those that fulfill pre-established criteria, e.g. long-term unemployment, low-skilled unemployed or youth, as is the case for the EU Youth Guarantee Scheme.\textsuperscript{121}

The benefits of a guarantee scheme are related to its comprehensive approach to addressing labour market challenges. Indeed, job search assistance and individual assessments are complemented with training or a job opportunity depending on the specific profile of the jobseeker. Moreover, the universal approach of the programme limits the risks of substitution effects between participating and non-participating individuals – whereby participating individuals get a job but at the expense of non-participating ones. As such, in the context of the EU youth employment guarantee it has been estimated that the costs of implementation of such a programme are largely outpaced by the benefits.\textsuperscript{122}

\begin{footnotes}
\item[120] Andersen (2011).
\item[121] However not all programmes that are currently in place in the EU include an entitlement for the target group. For example, in Germany there is a commitment by the Government and the social partners to ensure sufficient positions in the apprenticeship system, but this does not represent an entitlement to participate for young people. Similar schemes are present in Poland and the Netherlands.
\end{footnotes}
The success of a universal activation guarantees critically depends on the institutional design and implementation strategies that are adopted both in the initial and successive phases. In particular, the prerequisites for a well-functioning scheme include the following:

- **Early activation and well-defined targeting:** The eligibility criteria should be designed in such a way to allow at the same time early activation of the measures and the identification of the groups that are most in need (using criteria such as age, education, unemployment duration, non-work income).

- **Functioning administrative capacity:** The effectiveness of employment guarantee schemes depend on the capacity of public employment services to deliver the agreed measures. Moreover, it is important to establish agreements with trade unions, employers’ confederations and educational institutions.

- **Rigorous impact evaluation:** Evidence of the impact of employment guarantee schemes is rather limited for advanced economies. It is therefore crucial to plan the evaluation of such programme in order to compare the results against pre-established targets and modify the programme as appropriate.

- **Building institutional capacity:** according to the latest available data, the number of PES staff directly serving unemployed individuals in Greece was one of the lowest in the EU — it was 4 per thousand of unemployed individuals in 2011 against values close to 20 or higher in many EU countries. This calls for further investments in terms of both the number of staff employed and quality of services provided. In this regard, the distribution of funding among various employment services providers might be optimized by making access to financial resources conditional on placement performance. Furthermore, design of activation programmes requires putting in place rigorous ex-post evaluation mechanisms to measure the effectiveness and cost-efficiency of these programmes. As part of the reform of active employment policies, Greece may consider setting up a monitoring system which periodically assesses the results of activation programmes in place against pre-established benchmarks.

124 ILO Research Department based on European Job Mobility Laboratory.
• **Supporting working parents:** The specific situations of single-parent families and two-parent families with dependent children should be considered when designing active labour market policies and their interlinkages with passive policies. For example, linking childcare support to labour market programmes will be helpful in enabling parents to work, participate in training and look for jobs. In Luxembourg, *Maisons Relais* created in 2005 offer care for children outside of school hours, including for children not yet enrolled in school. In 2009, a state-funded childcare service voucher programme (*Chèques-Service Accueil*) was introduced, aimed at increasing formal childcare provision and helping parents to improve their work–life balance, and providing more equitable access to childcare. Depending on household incomes, families are able to benefit from childcare support for free or at a low price.

• **Sustaining the social economy:** The potential role of the social economy in Greece is still largely untapped and the institutional capacities are underdeveloped. In order to address these issues, the Steering Committee appointed by the EU Commission DG Employment, Social Affairs & Inclusion has designed an action plan to leverage the potential role of the social economy by (i) creating an enabling ecosystem for the social economy; (ii) providing direct financial support for starting and developing social enterprises; (iii) facilitating access to finance to social enterprises and (iv) building good governance and public sector capacity building.125 This strategy can be reinforced by the establishment of a coherent system of representation for all cooperatives in Greece. This would allow social enterprises building strategic development plans with other actors in the civil society and to dialogue with the public authorities in order to transform cooperatives’ local needs and experiences into national or regional policies and legislation.126

The development of pilot programmes with social enterprises could be also considered by the Government as part of the emergency measures

for creating jobs and tackling social challenges. Pilot programmes are also particularly important for social enterprises due to their specific final aim of maximizing human well-being. Indeed, pilot programmes allow understanding and incorporating the needs of those to which the service is provided before scaling up and extending the project. 127

... but over the medium term a thorough analysis of the current situation is required to make sustainable improvements to the Greek social protection system ...

In the medium to long term, however, ad hoc social measures cannot provide the kind of social safety net required to ensure adequate standards of living and professional support towards labour market inclusion to the most vulnerable groups of the population. Furthermore, while social protection spending in Greece was close to the EU-17 average before the crisis, the poverty-reducing effects of social protection were significantly lower in Greece than in countries that had more effective social security systems in place before the crisis (figure 4.6). Moving forward, as Greece begins to rebuild and reintroduce support measures, there is an urgent need to re-evaluate the system as a whole and to thoroughly analyse the current situation, including the fiscal space available for social security. In this regard, improving the overall design of the tax system is crucial to raise financial resources for social security purposes while meeting fiscal adjustment targets. As previously discussed, fiscal consolidation efforts have so far heavily relied on cuts to social security expenditure and regressive increases in consumption taxes. In order to sustain public revenues without weighing on the most vulnerable, higher VAT rates should be only considered for goods deemed not to be necessities and possibly counterbalanced by tax rebates for low-income individuals. Rather, higher property taxes could be considered as an alternative source of financing with limited distortive effects on economic growth.

127 Ibid.
In addition, tax policies will need to foster greater formality. As discussed in Chapter 2, the high incidence of undeclared work in Greece undermines the collection of social security contributions and compromises the long-term financial sustainability of the entire social security system. This in turn reduces the incentives to belong to the social security system, induces higher taxation, so further reducing incentives to engage in formal work. In an effort to contain growing informality, the Greek government has recently reinforced the role of the Labour Inspectorate, while a clearer legislative framework (e.g. definitions, fines) has been recently introduced (see Chapter 3 for details). However, deterrence mechanisms need to be complemented with measures providing financial incentive to formalization. Indeed, to the extent that differences between financial gains from formal jobs and those from undeclared work remain small, individuals have little incentive to participate in the formal labour market. Well-designed in-work income supplements and refundable tax credits for low-income individuals and households could play a major role in promoting compliance with the social security system, while also helping to alleviate poverty. In this regard, experiences in other countries could serve as example:

- **Providing in-work incentives to increase jobs formalization and labour market participation:** Following the successful experiences of Canada, the United States, the United Kingdom as well as the Flemish Government in Belgium and others, in-work tax credits can foster labour market participation, make work financially viable and provide income support to those most in need. In 2007, the Flemish programme, *Jobkorting*, was introduced that provides workers who earn between €5,500 and €21,000 per year with a tax credit. After reaching the €21,000 threshold, the credit begins to phase out, disappearing at the earnings threshold of €22,250. In Canada, individuals and families can apply for advance payments (up to 50 per cent of the expected amount) of the Working Income Tax Benefit.
The ILO has collaborated with Greece in the past, particularly in the area of actuarial analysis.\textsuperscript{128} Much of this work was carried out prior to the crisis, and only concerned a part of the social protection system. It remains important that a full analysis of the pension system is carried out and actuarial projections revised accordingly, taking account of the recent changes (box 4.3),\textsuperscript{129} as part of an assessment of the social protection system and its viability as a whole. This full assessment will be crucial in supporting the

\textsuperscript{128} An actuarial analysis was carried out in Greece in collaboration with the ILO in 2005 and published in October 2007, thus mirroring the pre-crisis situation. An actuarial evaluation of the 2010 pension reform was conducted in 2011 to assess the sustainability of the reforms. Projections concerning the main pension were peer reviewed by ILO experts. This latest analysis, however, did not include the reforms undertaken in 2011 and beyond. Observation (CEACR) – adopted 2012, published 102nd ILC session (2013), Social Security (Minimum Standards) Convention, 1952 (No. 102), Greece.

\textsuperscript{129} Observation (CEACR) - adopted 2013, published 103rd ILC session (2014), Social Security (Minimum Standards) Convention, 1952 (No. 102), Greece.
development of a comprehensive social protection strategy that effectively links to the labour market and optimizes poverty-reducing effects through better targeting.

Coordination with other EU countries will be helpful in this regard. For instance, Greece participates in the European working group on “Efficiency and effectiveness of social spending and financial arrangements”, which can provide important insights in the assessment of the effectiveness of Greece’s social spending. Such coordination can lead to important policy recommendations: the Social Protection Committee of the EU, for example, has concluded on the need for Member States implementing economic adjustment programmes to assess the social impact of measures prior to implementing their programmes. In the case of Greece, this action will have to happen in retrospect. EU Member States can also benefit from each other’s policy experiences and impact evaluations carried out across the Member States (see box 4.2 above, for example).

... with a view to providing a comprehensive social protection system ...

Certain principles and rules commonly agreed upon by the international community form minimum standards of social security, which thereby provide minimum-level guidelines for national systems. The ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) and the European Code of Social Security share as one of their main objectives the prevention of poverty.\footnote{In a broader context, the International Covenant on Economic, Social and Cultural Rights recognizes the right of everyone to social security, including social insurance (International Covenant on Economic, Social and Cultural Rights, article 9, adopted 16 December 1966, 993 U.N.T.S. 3).} In the context of current situation in Greece, the recently adopted ILO Social Protection Floors Recommendation, 2012 (No. 202) is particularly relevant as it highlights the notion of social security as an investment in people.

Therefore, a comprehensive social protection strategy should take as a starting point a minimum level of security that allows life in dignity. Further, it should include provisions on periodic reassessment of the benefits provided to ensure adequate living standards can be maintained and to guarantee the viability of the system. For example, Finland evaluates the sufficiency of its minimum subsistence benefits every four years. The
In June 2014, the ILO Conference Committee on the Application of Standards discussed the implementation of the Social Security (Minimum Standards) Convention, 1952 (No. 102) in Greece. In this context, the Government of Greece explained that the social security system had been profoundly reformed, and that the viability of the system was ensured through actuarial studies carried out by the National Actuarial Authority every three years for the entire social security system, based on the ILO model. Furthermore, work had been undertaken to develop and apply the necessary IT systems, improve collection of contributions through a new unified Social Security Contributions Collection Centre (KEAO) and establish an Insurance Fund for Generations Solidarity (AKAGE). Due to the impact of the crisis and social budget limitations, however, the effectiveness and scope of the efforts were acknowledged to be limited.

According to the Government, pensions granted to the whole population were above the rates provided in the Convention despite the crisis situation. At the same time, specific social assistance schemes were being reviewed in order to ensure that the established minimum amounts remained above the physical subsistence levels of different age groups. Anti-poverty policies for the most vulnerable had been developed, including the so-called “social dividend”, benefits were provided for the long-term unemployed and guaranteed minimum income was under development with the World Bank.

The Committee recalled the important general responsibility of the State to establish a sound financial and institutional architecture for the social security system. This includes, in particular, ensuring the system’s financial equilibrium, proper collection of contributions and taxes, carrying out necessary assessments of the system, ensuring due provision of benefits and preventing hardship for persons with few means. The Committee further noted that the continuous contraction of the system in terms of coverage and benefits had affected all branches of social security, and in some instances resulted in reducing the overall level of protection to below the levels established in the Convention. The Committee therefore invited the Government to continue reviewing the functioning of the system and to adjust it, as necessary, and to draw on ILO’s support in the process, as required.


2011 evaluation was carried out by a working group consisting of the National Institute for Health and Welfare, the Social Insurance Institution (KELA), Statistics Finland and experts from various research institutions and a university. The comprehensive social protection strategy would need to adequately take into account the so called new forms of work, as discussed in Chapter 3.

131 An English abstract of the evaluation is provided at: http://www.thl.fi/thl-client/pdfs/d4f9b358-3440-4894-9004-0c9d6a621efe [03 September 2014].
With a view to ensuring the new social protection system’s appropriateness and close linkages to the labour market, it will be important to design the social protection strategy as a tripartite collaboration effort with the support of appropriate experts and research organizations (see the above examples on improved targeting of social protection and linkages to the labour market). Such a strategy would need to incorporate due responses in line with the Europe 2020 strategy for smart, sustainable and inclusive growth and make full use of the collaboration in the framework of the European platform against poverty and social exclusion. Equally, management arrangements for the implementation of the strategy should be made such that they allow for effective tripartism in the governance of the system.

• Engaging the public in the social reform debate: In Austria, a new results-oriented impact assessment of public measures was introduced in January 2013. In nine policy areas, the estimated impacts of all draft laws need to be presented in a systematic and standardized way. Within the field of social affairs, one of the core areas of assessment is the effects of planned legislation on persons at risk of poverty or social exclusion. The new impact assessment approach incorporated the introduction of an interactive web-based application, SORESI, with which it is possible for not only policy-makers but for all citizens to access information on the Austrian social and taxation systems, and to simulate effects of planned legislation on different groups of the population.

... with a minimum safety net above the subsistence level.

The guaranteed minimum income scheme, piloted at the end of 2014, is intended to form a key component of the country’s new strategy for social welfare. Establishing a basic social assistance scheme has been considered an urgent necessity by the ILO Committee of Experts. In designing this scheme, it will be important to refer to the ILO Social Protection Floors Recommendation, 2012 (No. 202), which gives guidelines for such basic schemes.

133 http://soresi.sozialministerium.at/soresi/ [03 September 2014].
134 http://www.eurocentre.org/data/139634607_61195.pdf [03 September 2014].
When defining the approach to the implementation of basic income security in a country, the most effective and efficient combination of benefits and schemes in the national context should be considered. This assessment should also include a thorough analysis of the contributory capacities of different population groups so that the necessary resources can be mobilized to ensure financial, fiscal and economic sustainability of the system. Effective participation of the tripartite partners and other relevant and representative organizations in the management of the system should also be ensured, as part of the broader social protection strategy.

In light of this, it will be important to ensure that benefit amounts received by beneficiaries remain above the physical subsistence levels for the different age groups of the population, and not to merely rely on poverty indicators. There is ongoing work at the EU level to establish parameters for categories of goods and services that can form the basis for notional basic needs and the minimum consumer basket that determines the level of minimum income. While at present there is no agreement between EU Member States on the methodology for the elaboration of these indicators, there remains an urgent need to establish adequate standards at the national level. Indeed, while recommendations from EU institutions have stressed the importance of guaranteeing adequate income support to enable an individual to live in dignity, living costs vary between countries and therefore need to be determined at appropriate levels nationally. Further, the concept of sufficient resources in this sense also covers the ability to take part in social/public life and to live a fulfilling life.

It will also be necessary to carefully consider the guaranteed minimum income scheme in the light of Greece’s commitment within the Europe 2020 Strategy frame to improve the at-risk-of-poverty and/or social exclusion rate from 28 per cent in 2008 to 24 per cent in 2020; and to reduce the at-risk-of-poverty rate for children from 23 per cent in 2008 to 18 per cent in 2020 (see Chapter 5, box 5.1). Further, the same policy framework

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136 See for example the European Commission Recommendation of 3 October 2008 on the Active Inclusion of people excluded from the labour market (C (2008) 5737) and Council Recommendation 92/441/EEC of 24 June 1992 on common criteria concerning sufficient resources and social assistance in social protection systems.
A particular measure regarding young workers – namely apprenticeships contracts for 15–18 year-old persons – was investigated by the Council of Europe/European Committee of Social Rights in light of the European Social Charter, based on a collective complaint by two Greek workers’ organizations, leading to a resolution by the Council of Europe Committee of Ministers in February 2013.

The Committee recognized that the less favourable treatment of young workers was designed to give effect to a legitimate aim of employment policy (integration of young workers into the labour market at a time of serious economic crisis) and was thus accepted. However, the extent of the reduction in the minimum wage was considered disproportionate, even when taking into account the particular economic circumstances. The levels of young apprentices’ wages were set by Act No. 3863/2010 (at 70 per cent of the minimum wage specified in the National General Collective Agreement (NGCA). This Act was later abolished and replaced by Ministerial Council Act No. 6/2012, which reduced the minimum wage for all employed persons under the age of 25 by 32 per cent.

In this context the resolution by the Committee of Ministers stated that provisions of Act No. 3863/2010 and the subsequent Ministerial Council Act No. 6 were in violation of the European Social Charter, because they provided for the payment of a minimum wage which was below the poverty level to all workers below the age of 25.

Further, concerning apprenticeships contracts for 15–18 year-old persons, the Committee concluded that the national legislation in question did not fulfil all requirements concerning the organization of apprenticeships, as required by the Charter: issues such as division of time between practical and theoretical learning, selection of apprentices, and selection and qualifications of trainers were not regulated by Act No. 3863/2010, although it did stipulate the duration and remuneration of apprenticeships. In addition, a violation of the Charter was established due to the fact that this group of young people was excluded from labour legislation, including from the entitlement to annual holiday with pay, and was only afforded very limited social protection.

The Government of Greece in its reply accepted the conclusions of the European Committee of Social Rights, maintaining that the legislation in question was a response to the extremely difficult financial situation of the country, and that it is of a provisional nature and to be revoked as soon as the situation allows. Considering how important it is to promote youth employment in Greece, including through apprenticeships, the resolution gives important guidelines for the future. It also provides support in relation to minimum wage setting at a more general level.

138 The complaint was brought by the General Federation of Employees of the National Electric Power Corporation (GENOP-DEI) and the Greek Civil Servants’ Union (ADEDY) against Greece.

139 As a comparison, the poverty threshold in Greece for 2012 was set at €6,591 per year per person (or €549.25 per month), or €13,842 per year per household with two children under 14 (or €1,153.50 per month). Source EL-STAT: http://www.statistics.gr/portal/page/portal/ESYE/BUCKET/A0802/PressReleases/A0802_SFA10_DT_AN_00_2011_01_F_GR.pdf [09 April 2014].

sets the target of including into this social safety net access to basic services, such as medical care, housing and education, thus removing problems related to the uninsured population’s lack of access to health care.

At the same time, the basic safety net should encourage labour market inclusion, as already discussed above in connection with emergency social measures. Guidelines on benefit adequacy remain important in the context of ensuring a minimum level of worker protection through various work insertion programmes. Indeed, problems have arisen with employment conditions and social protection for young apprentices (box 4.4). Minimum standards must also be guaranteed under emergency programmes, such as community work programmes, which no doubt provide important relief to the unemployment situation.

Among the EU-28, 26 Member States have some form of minimum income guarantee to ensure a minimum standard of living for individuals and families, ranging from universalistic schemes to basic and non-categorical schemes as well as categorical schemes. Support to labour market inclusion has been seen as an important component of such schemes:

• In 2009, France introduced the Revenu de Solidarite Active (RSA) to target the unemployed and working poor. This plan ensures a minimum income for all, while increasing the incentives to return to work. The basic amount of income support is contingent on household composition and the number of dependent children. Furthermore, beneficiaries must be involved in active job searching, take necessary steps towards self-employment or participate in prescribed integration activities in order to receive the basic income benefit. RSA has been shown to be successful at alleviating poverty through effective targeting of income transfers.

• In Portugal, the guaranteed minimum income scheme known as Social Integration Income (Rendimento social de inserção, RSI) was introduced in 1996 in response to the 1992 Council recommendation. It consists of a cash benefit and an insertion programme aimed at supporting individu-

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141 Council Recommendation 92/441/EEC of 24 June 1992 on common criteria concerning sufficient resources and social assistance in social protection systems.
als and families who are under severe risk of social exclusion and poverty to cover their basic needs while promoting their progressive social and professional integration. The non-contributory benefit is means tested. The indexing reference of social support (*indexante dos apoios sociais*) is used in the calculation of the benefit, with graduated support for household members.\(^{142}\) Studies have shown that RSI transfers have effectively contributed to reducing the “resource deficit” of the poor population.

\(^{142}\) European Commission (2013).
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CHAPTER 5
BUILDING A RECOVERY THROUGH SOCIAL DIALOGUE AND COLLECTIVE BARGAINING

INTRODUCTION

This chapter discusses the evolution of tripartite social dialogue in Greece, including its institutional features, with section A highlighting the fundamental role it plays as a framework for decision-making in social and economic matters. Indeed, the participation of all key actors and social partners increases the likelihood of bringing about sustainable solutions, especially in times of crisis.\textsuperscript{143} In particular, social dialogue provides the institutional means to manage conflicts triggered by a crisis, and to facilitate consensus on reform programmes and measures for containing the economic and social consequences.\textsuperscript{144} However, prior to the crisis there were already challenges in shaping common agreements in economic and social matters and in translating opinions from the Greek consultative bodies into actual policy and law-making – which only intensified during the recession. Indeed, institutional structures are not always sufficient to achieve collaboration in practical terms.\textsuperscript{145}

The chapter also describes the evolution of collective bargaining mechanisms, concentrating on the changes introduced since 2010 and their preliminary impacts (section B). The analysis builds on the premises of the growth-supporting nature of collective bargaining, and its ability to promote social cohesion and provide more sustainable flexibility in times of crisis. In fact, research shows that the level of wage stability achieved through collective bargaining reduces uncertainty about future labour costs and prices for the employer. This helps to create confidence for investment and hiring. Of particular relevance is the fact that structured and organized decentralization – guided by industry-wide collective agreements – seems

\textsuperscript{143} Global Jobs Pact, ILC 2010. The role of social dialogue and tripartism in assisting countries to overcome serious economic and labour market difficulties and accelerate recovery has been well documented, see ILO (2009).

\textsuperscript{144} North (1990); Rodrik (1999); Lee (1998).

\textsuperscript{145} Siegel (2005).
to be correlated with a higher employment rate than is seen with more fragmented decentralization,\textsuperscript{146} which in turn has been connected with increased wage inequality.\textsuperscript{147,148} In this regard, particular emphasis is placed on the evolution of wages through collective bargaining and developments in minimum wage setting that have taken place in Greece in recent years (section C). Finally, section D focuses on policy options that the Greek tripartite partners could consider in their reflections on the way forward.

\textsuperscript{146} Patra (2012).
\textsuperscript{147} According to international empirical evidence, decentralization of collective bargaining can be associated with greater wage inequality (Hayter and Weinberg, 2011).
\textsuperscript{148} Freeman (2011).
A TRIPARTITE SOCIAL DIALOGUE IN GREECE

Social dialogue is anchored in an institutional framework in Greece ...

Tripartite social dialogue and related institutions at the national level were considered particularly relevant in the period following the return to democracy and adoption of the 1975 Constitution. Although somewhat adversarial industrial relations prevailed from 1975 up until the 1980s, the mechanisms for tripartite social dialogue became well established during this period and the 1990s, and enabled employer and worker participation in tripartite bodies at the national level, such as the Supreme Labour Council and the Manpower Employment Service (OAED).149

Various developments led to a decline in industrial conflict in the early 1990s. The change has been attributed to a number of factors, including, interestingly, the recession of 1990–1993, which had an effect on trade union strategies, as well as change in the Government. Further, EU integration also contributed to the decline in industrial conflict; this included the establishment of social dialogue institutions and the achievement of tripartite consensus on the entry into the Economic and Monetary Union.150

The main national tripartite social dialogue institution – the Economic and Social Committee (OKE) – was established in 1994 through Law 2232/1994.151 OKE is a consultative body, responsible for providing the Government with opinions on legislative proposals – a mandatory step in the process of adopting laws on issues of wider socioeconomic policy – and facilitating social dialogue on economic and social policy issues overall. OKE is based on the model of the Economic and Social Committee of the European Union and comprises three segments representing employers, workers and a group that includes independent professionals, self-employed persons and local government workers.152

149 Kravaritou (1994).
150 Tsarouhas (2008).
151 Article 82, paragraph 3 of the Constitution (as adopted in May 2001) stipulates that “The law determines the issues related to the formation, operation and competencies of the Economic and Social Council, whose mission is to conduct social dialogue on the country’s general policy and in particular on economic and social policy guidelines, as well as to formulate opinions on government bills or MP’s law proposals referred to it.” OKE website, http://www.oke-esc.eu/index_en.html [accessed 2 April 2014].
Tripartism has also been institutionalized at the prefectural level in Greece. Prefectural Economic and Social Committees (PESCs) were set up in 1994 with the objective of giving opinions within the framework of the prefectural government. A number of PESCs have been created, covering most prefectures of the country. During the period 1997–2010, national and prefectural-level bodies held joint meetings 11 times to review progress of their work.

In 2003, the National Committee for Employment and the National Committee for Social Protection were established by law. Renewed focus was placed on these two institutions in 2012, with the appointment of new representatives. The Employment Committee is tasked with promoting social dialogue for the development of policies aimed at employment growth, and has a monitoring and evaluation function in the National Action Plan for Employment. The National Social Protection Committee, in turn, aims to promote social dialogue in the fight against poverty and social exclusion and further the objective of social integration, including supporting the formulation, monitoring and evaluation of the National Plan for Social Integration. Furthermore, a new body, the National Social Dialogue Committee, was established in September 2012. This new committee assumes a consultative role in a number of areas, including tackling unemployment, fighting against undeclared work, reducing labour market bureaucracy, defining the new mechanism for setting of minimum wages as well as continuing part of the work carried out through the Workers’ Housing Organization and Workers’ Welfare Organization – two bodies which were abolished during the crisis.

154 Ioannou (2010).
155 http://www.eurofound.europa.eu/eiro/2013/02/articles/gr1302029i.htm [30 September 2014].
... yet, tripartite cooperation has proven difficult in practice, especially during the recent crisis.

A closer analysis of the period from 1975 onwards, however, shows that in practice tripartite consultations often tended to be of an ad hoc nature.\textsuperscript{156} The 1990s and 2000s saw some more systematic efforts to establish tripartite cooperation, but with limited success. In 1997, a tripartite “confidence pact” was achieved. While partners were able to agree on some issues, such as wage moderation, topics where major disagreements existed were often not included or only generally referred to. One area of disagreement was more flexible forms of employment, which in 1998 were introduced by the Government through legislative action, provoking a number of labour protests.\textsuperscript{157}

In the year 2000, tripartite social dialogue on issues of employment and unemployment were initiated, yet no consensus was reached, particularly on the organization of working time. The Government then adopted legislation on its own initiative, introducing more flexibility in working-time arrangements and regulating overtime and redundancies. Both social partners criticized this, but on different grounds. Likewise, no agreement could be reached on the reform of social security in 2001 and 2002, leading to a reform bill being introduced by the Government in June 2002. Simultaneously, however, some national policy development processes greatly benefited from a tripartite element. This was the case, for example, for the National Reform Programme process in the early 2000s (box 5.1).

\textsuperscript{156} Zambarloukou (2006).
\textsuperscript{157} Ibid.
Box 5.1 National Reform Programmes under the European Employment Strategy: Greece

National Reform Programmes (NRPs) are mandatory policy documents developed by EU Member States under the revised European Employment Strategy, replacing the earlier National Action Plans. The NRPs set out comprehensive three-year strategies to implement the integrated guidelines approved by the European Council, merging the employment guidelines and Broad Economic Policy Guidelines. On a yearly basis, the Member States and the Commission report on progress achieved, on the basis of which guidelines and national programmes may be adapted, if necessary.

Countries with financial assistance programmes, including Greece, have been exempted from the obligation to submit NRPs and stability or convergence programmes. However, the Greek authorities have chosen to present NRPs even during the programme period. The European Commission gave recommendations for Greece in 2011 and 2012, but as of 2013 no recommendations were given under the European Employment Strategy to avoid the duplication of measures set out in the Economic Adjustment Programme.

Within the Europe 2020 Strategy frame, a number of employment and social targets were set in October 2010, such as in particular Greece’s national target employment rate (70 per cent of the population aged 20–64 by 2020) as well as specific poverty reduction targets. Due to the crisis situation, these targets may need to be revised. It will be important that any such revision process will include the social partners with a view to ensuring coherent and balanced responses. The NRP process has reportedly benefitted from a tripartite element in its early years.

Since 2008 onwards, tripartite social dialogue in Greece has suffered major setbacks. While OKE provided several opinions, including on the reform programmes, its views were often not reflected in measures adopted. Since 2008, OKE has also made efforts towards mobilizing consensus on a National Social Development Agreement with the aim of developing an agenda that would lay the foundation for “an on-going and structured social dialogue process by addressing the major problems of the country”. These efforts remain incomplete.

In late 2011, the Government initiated a tripartite dialogue on national minimum wages with a view to boosting competitiveness and preserving employment. However, the results from the dialogue were considered unsatisfactory, and the situation led to a reduction in minimum wages and reform of collective bargaining through legislative action by the Government. The Minister of Labour invited the social partners to consultations on labour market reforms three times during the period 2010–2012. However, some have argued that the dialogue that took place on these occasions was not genuine. In some instances, this led to a number of strikes, notably in protest against the fiscal consolidation measures introduced by the Government. According to the Labour Institute of the Greek General Confederation of Labour (GSEE), about 445 strikes and work stoppages took place in 2011, including several nationwide strikes. A general strike against fiscal consolidation was held in September 2012. Major public sector strikes and protests also took place in July, September and October 2013. In 2014 there was also a series of strikes, including various sectors from farmers and health-care employees to media sector personnel. In addition, a general strike was organized on 9 April 2014.

168 A full picture of the number of strikes, work stoppages and days lost due to strikes is not available due to deficiencies in data gathering through the regional agencies of the Ministry of Labour, Social Security and Welfare. Overall, industrial relations literature refers to “visible mobilization” by trade unions and “fierce protests” against Government measures, see: http://www.eurofound.europa.eu/eiro/studies/trn301019/s301019s_4.htm [17 June 2014].
170 Ibid.
171 http://www.eurofound.europa.eu/eiro/2012/10/articles/gr1210019i.htm [30 September 2014].
Chapter 5 Building a recovery through social dialogue and collective bargaining

GREECE: PRODUCTIVE JOBS FOR GREECE

B COLLECTIVE BARGAINING:
RECENT REFORMS AND PRELIMINARY IMPACTS

1 REFORMS TO COLLECTIVE BARGAINING

The collective bargaining system in Greece has traditionally been centralized ...

The Greek collective bargaining system has traditionally relied on national-level bargaining. The National General Collective Agreement (NGCA) determined the minimum wage and set the minimum provisions on employment and working conditions and workers’ rights, establishing a core element of the collective bargaining system in the post-war period. The second most important element of the system was national-level bargaining on sectoral or occupational minimum conditions of work. Enterprise-level bargaining was introduced after 1974, which allowed for the possibility of an enterprise agreement with higher than minimum conditions as set by sectoral or occupational agreements. However, these lower-level agreements did not have a legal basis until the entry into force of Law 1876/1990 on free collective bargaining. The “most favourable arrangement” clause (or favourability principle) was introduced by this law, stipulating that in case of conflict between collective bargaining agreements (CBAs) at different levels, the agreement or provisions giving the most favourable conditions for the employees would be applied (see appendix 1 and box 5.2 below).

... but underwent major changes during the crisis period, moving towards a more decentralized bargaining model.

During the crisis period, in line with the conditionality attached to the financial assistance programme, major efforts were made to bring negotiations on wages and working conditions closer to the enterprise level. The overarching reform of wage bargaining systems in the private sector was

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172 National-level bargaining on the national minimum wage was first established in Greece in 1935.
173 Patra (2012).
1980s: From a regulation-led approach towards bipartism

From 1974 through the 1980s, collective bargaining in Greece was deeply state-sponsored and sanctioned under the terms of Law 3239/1955. This did not allow for the full development of a collective bargaining culture among employers and trade unions, resulting in poor and restricted collective agreements. The situation started to change in the mid-1980s, when organized business gained a more prominent role. From 1980 to 1989, in total 1,944 CBAs were concluded. During this period, NGCAs were concluded between the leading trade unions and employers’ organizations every year (except in 1983).

1990s: More emphasis on the autonomy of bipartite partners

The 1990s began with the introduction of Law 1876/1990, entitled *Free Collective Bargaining and other provisions*. This law established four types of collective agreements, as explained in appendix 1, and replaced the previous centralized and hierarchical arbitration system with a voluntary, decentralized and independent procedure for the settlement of industrial disputes. In total, 2,635 agreements were concluded during this decade, around 700 more than in the 1980s. Moreover, in 1997, the first attempt to conduct national-level tripartite dialogue with the social partners took place, and ended up with a tripartite confidence pact. During 1990s, seven NGCAs were signed.

2000s: Trend towards gradual decentralization

Although collective bargaining remained largely centralized, a gradual trend towards decentralization continued in the 2000s, as evidenced by a substantial increase in enterprise-level agreements compared with the previous decade. This decade saw the completion of more CBAs than the previous two, reaching in total 3,370 agreements. Five NGCAs were signed every two years since 2000, establishing floor provisions on wages and working conditions.

175 Tsarouhas (2008).
176 Source: data from Ministry of Labour, Social Security and Welfare. This includes data for collective agreements at sectoral, company and national or local occupational level.
177 NGCAs since 1980 are available at http://www.ypakp.gr [14 July 2014].
178 Following a six-month negotiation period, a “Government-Social Partners Confidence Agreement on the way to the Year 2000” was concluded.
expected to provide for increased flexibility in terms of wages and the management of working time. Indeed, as discussed in Chapter 2, wages were seen as the source of loss of competitiveness. According to the Memorandum of Understanding on Specific Economic Policy Conditionality (MSEPC) of May 2010, local territorial pacts were allowed to set wage growth below the level in a sectoral agreement and introduce variable pay to link wages to productivity performance at the firm level. A few months later, in December 2010, two more objectives were added, i.e. the elimination of the automatic extension of sectoral agreements, and precedence of firm-level agreements over sectoral agreements “without undue restrictions”.

Further, the first MSEPC provided the basis for a change in the arbitration system to allow both employers and workers to resort to arbitration if they disagreed with the proposal of the mediator. A few months later, an explicit objective to secure the independence of the Greek Mediation and Arbitration Service (OMED) – free from government influence – was added to this, as well as a specific guideline for mediators and arbitrators to pay due attention to cost competitiveness. Additionally, the Government was expected to introduce legislation on minimum wages.

In particular, major reforms to the collective bargaining system – some of which were introduced on a temporary basis – included the following: (i) more flexibility to derogate from CBAs; (ii) a time-limited priority for enterprise-level agreements; (iii) changes in the recourse to arbitration; (iv) right for associations of persons to bargain at the enterprise-level; (v) temporary limitation to extensions of CBAs, (vi) limits to the duration and after-effects of CBAs, and (vii) new minimum wages for low-skilled workers below and over 25 years (set by law).

Gradually, increased possibilities for derogation from CBAs were introduced and enterprise-level agreements were given priority on a temporary basis ...

Decentralization of collective bargaining was encouraged through various pieces of legislation introduced from 2010 onwards. Law 3845/10 introduced, in the first instance, the possibility that lower-level agree-
ments could derogate from specific provisions in higher-level agreements. Thus, provisions in enterprise-level and professional CBAs could differ from equivalent provisions in sectoral agreements and the NGCA; similarly, sectoral agreement provisions may derogate from their equivalents in the NGCA. This abolished the favourability principle (described above). Further, this law established the predominance of legislation (emergency measures) over CBAs and arbitration decisions that apply to wages and working conditions for contracted employees in the public sector and public enterprises.

In 2011, a deeper reform was carried out through Law 4024, although applicable only during the financial assistance programme period (2012–2015). This Law entailed important changes in the overall hierarchy of agreements by stipulating that enterprise-level collective agreements shall prevail if they conflict with occupational or sectoral collective agreements. However, enterprise agreements still do not have precedence over the NGCA.

... further, the system of recourse to arbitration was changed and associations of persons can now negotiate in place of trade unions at the enterprise level ...

Law 3871/10, in turn, introduced special conditions, upon which arbitration decisions on labour disputes could be rendered ineffective. This temporary measure covered the period 1 July 2011 to 31 December 2012, and concerned decisions which provided wage increases above the NGCA. This law maintained unilateral recourse to arbitration, extending this right from trade unions only to include employers’ organizations in cases where mediation was unsuccessful. Further, new legislation introduced in February 2012 (Law 4046/2012 and Cabinet Act 6/2012) fully eliminated unilateral recourse to arbitration, making it conditional on both parties’ consent. Moreover, arbitration applies only to the basic wage and not to any other remuneration.

However, the Greek Council of State – the highest administrative court – considered the elimination of unilateral recourse to arbitration as non-
constitutional in its decision of 24 June 2014 (no. 2307/2014). Therefore, the arbitration system now requires modification to adapt to the new decision.

Associations of persons were originally introduced in 1982 and could be created for a limited duration of six months in enterprises with fewer than 20 workers by 15 per cent of workers, and in enterprises with more than 20 workers by 25 per cent of the workforce. Associations of persons were not considered as fully-fledged trade unions since they had a limited duration and could not sign collective agreements. They also did not benefit from the protection available to trade union members and were not subject to the detailed provisions on the governance of trade union organizations. Their purpose was to ensure worker representation for a specific time-bound purpose, e.g. prior to the closure of an enterprise, if a union did not exist.  

Law No. 3986 of 1 July 2011 on “Urgent measures for the implementation of the midterm fiscal strategy framework” allowed associations of persons to negotiate working-time arrangements at the enterprise level in the absence of a trade union (built on the provisions of Act No. 3846). Subsequently, Law No. 4024/2011 allowed associations of persons to conclude enterprise-level collective agreements as long as three-fifths of workers in the enterprise participated in these associations, regardless of the number of employees in the company. In company-level negotiations, these associations take precedence over sectoral unions. Further, the duration of associations of persons was no longer limited to six months. As a result, the associations of persons gained the rather prominent status they have in the industrial scene in Greece today.

... and the extension of CBAs was restricted to non-unionized workers and limits to the duration and “after-effects” of CBAs were established ...

Law 4024/11 also gives the Minister of Labour the right to suspend the extension of sectoral and professional CBAs to non-members of the signa-

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180 According to Carley et al. (2005), however, the statutory or centrally agreed system of works councils appeared to be largely rejected by both trade unions and employers.
tory organizations during the period of application of the Medium-Term Financial Strategy Framework (2012–2015). Abolition of the extension principle during this period makes CBAs binding only on firms which are members of the negotiating associations.

The extension principle served to establish equal working conditions for unionized and non-unionized workers in companies that either were or were not members of employers’ organizations, thus avoiding gaps in CBA coverage and fragmentation. Other countries have similar safeguard mechanisms in place. Before the suspension of the extension prerogative, the Minister of Labour and Social Security could decide to extend a collective agreement and declare it mandatory for all workers in a certain sector of economic activity if the agreement was already binding on employers employing 51 per cent of the sector’s or profession’s workers. However, the tests to verify the coverage ratios were not consistently applied, which led to a sense that the extension process had lost its legitimacy. This, in part, led to the temporary modification of the extension principle explained above.

In February 2012, changes were made to the duration and validity following expiration of CBAs. Law 4046/2012 stipulated that all CBAs, including those in force at the time the law came into force (February 2012), should cover a period from a mandatory minimum of one year to a mandatory maximum of three years.

The law also reduced the period of CBA “after-effects” from six months to three months: thus, after the expiry of a CBA, the agreement terms would remain valid for a period of three months. If no new CBA can be concluded during this grace period, all terms of the expired agreement will cease to apply, except terms on base salary and maturity, as well as child, education and hazardous work allowances. For new employees, the absence of a CBA means that each worker will be subject to individual contractual arrangements with the employer, with the minimum base established through the NGCA, and by law with regard to the minimum wage.

181 Almost all EU Member States have this type of a mechanism in place. There are only six Member States with no legal procedure in place for extending agreements, notably Cyprus, Denmark, Italy, Malta, Sweden and the UK (Eurofound, 2011).
Finally, Law 4046/2012 and Cabinet Act No. 6/2012 brought major changes into the minimum wage-setting mechanism. For the financial assistance programme period, new reduced minimum wages were set by law instead of the NGCA and sectoral CBAs. A new system for minimum wage-setting was established, which will come into force after the financial assistance programme period ends. In the new mechanism, the Government sets minimum wages after consultation with the social partners and expert organizations. Minimum wages and wage developments are discussed in more detail in section C.

2 PRELIMINARY IMPACTS OF THE RECENT REFORMS ON COLLECTIVE BARGAINING

The status of the NGCA weakened during the crisis...

The crisis period saw the conclusion of several NGCAs, yet the status of the agreements was gradually weakened. A two-year NGCA was concluded by the Greek General Confederation of Labour (GSEE), and the Hellenic Federation of Enterprises (SEV), the Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE) and the National Confederation of Hellenic Commerce (ESEE) to cover the period January 2008 to December 2009. It was followed by another NGCA covering the period from January 2010 to December 2012, which was extended up to 15 May 2013 pending the conclusion of a new deal.

On 14 May 2013 a new NGCA was concluded by the social partners, including the Association of Greek Tourism Enterprises (SETE) as a new partner, although the major employers’ confederation, SEV, did not participate. However, on 26 March 2014, a new NGCA was concluded after three rounds of negotiations, with participation of all key partners, including the SEV. The agreement is valid for one year, as from 1 January 2014 up to 31 December 2014. The bipartite effort was duly recognized by the
Government.\textsuperscript{182} Full participation of social partners in the new NGCA provided a positive sign in the industrial relations scene. However, as minimum wages – as discussed above – continue to be regulated by law, the relevance of the NGCA remains in doubt.

\textbf{Table 5.1 Collective bargaining agreements concluded in 2010 – 2013 by type*}

<table>
<thead>
<tr>
<th>Year concluded</th>
<th>National sectoral and occupational agreements</th>
<th>Local occupational agreements</th>
<th>Firm-level agreements</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>65</td>
<td>14</td>
<td>227</td>
</tr>
<tr>
<td>2011</td>
<td>38</td>
<td>7</td>
<td>170</td>
</tr>
<tr>
<td>2012</td>
<td>23</td>
<td>6</td>
<td>975</td>
</tr>
<tr>
<td>2013</td>
<td>14</td>
<td>10</td>
<td>409</td>
</tr>
</tbody>
</table>

* The figures on firm-level agreements include agreements concluded by associations of persons.

Note: The figures represent the number of registered agreements each year. Further, sectoral and occupational agreements are recorded together, in a format that does not allow for differentiation of these two types of agreements directly from the data.\textsuperscript{183}


... and the number of enterprise-level agreements rose in parallel with a decline in higher-level agreements – a major factor pointing to a loss of coverage of workers ...

Against the background of efforts to decentralize collective bargaining, since 2011 there has been a rapid increase in the number of enterprise-level agreements and a parallel decline in sectoral and occupational CBAs, particularly at the national level. In 2013, though, far fewer enterprise-level

\textsuperscript{182} The Minister of Labour, Social Security and Welfare, Mr Giannis Vroutsis, warmly welcomed the new NGCA and “the spirit of maturity, cooperation and mutual trust” shown by the social partners. He also noted that the agreement contributes to addressing the need for a “big shift to restart economic development, social understanding and peace, consensus and cooperation of the forces of labour and production [which] is more necessary than ever.” Minister Vroutsis’ statement at the completion of the NGCA.

\textsuperscript{183} Data on agreements concluded each year does not allow for a snapshot of agreements in force at a particular moment in time. At the moment, there are four sectoral agreements in force: an agreement covering hotel employees (covering more than 100,000 persons for 2013–2015); a banking sector agreement (to 2015); a tobacco industry agreement (to 2014); and an agreement on foreign airlines (to 2014).
agreements were concluded than in the preceding year (yet still almost double the number in 2010). This can be tied to the fact that several sectoral and occupational CBAs were still valid in 2012, requiring enterprises to negotiate a plant-level agreement if they wished to employ different conditions. And with far fewer higher-level agreements in place as of 2013, enterprises could directly apply minimum wages as set by law and conditions established through the NGCA or labour law.

Another factor that may partially explain the decline in sectoral and occupational agreements is the elimination of the unilateral recourse to arbitration. During the 1990–2012 period, arbitration had an important role in settling collective bargaining disputes, possibly as a result of the right to unilateral recourse. Indeed, depending on the year, up to 50 per cent of disputes concerning sectoral and occupational collective agreements were settled through arbitration in the period following the introduction of (principally) voluntary mediation and arbitration (box 5.3).184

Box 5.3 Arbitration in the Greek context

The system for conciliation, mediation and arbitration in Greece underwent rapid change during the crisis period after being in force for a considerable period of time. Compulsory state-led arbitration (introduced in 1955) was abolished in 1990 when voluntary mediation and arbitration was introduced. With this new system, the share of industrial disputes settled by an arbitration award fell from approximately 35 per cent in 1990 to an average of 15 per cent per year in 1992–2004.185 However, although the general share of arbitration awards fell, the importance of arbitration remained significant for sectoral and occupational collective agreements under the new law: 25–50 per cent of these disputes, depending on the year, were settled through arbitration.186

184 Ioannou et al. (2011).
185 Ioannou (2010).
186 Ioannou et al. (2011). An extensive study on OMED is available in Greek at: http://www.omed.gr/el/files/meletiIwannou%201.pdf [29 September 2014].
Various reforms affected the system during the crisis period. First, Law No. 3899/2010 extended the right to unilateral recourse to compulsory arbitration to employers’ organizations in cases where the mediator’s proposals were not accepted by the other party. Previously this right had only been awarded to trade unions. Law No. 3899/2010 also restricted the scope of arbitration to minimum wages only, and set temporary upper wage limits. The ILO Committee of Experts reviewed the notion of unilateral recourse to arbitration within this new context in Greece, and concluded that recourse to compulsory arbitration would not appear to breach the Right to Organize and Collective Bargaining Convention in the situation where (i) unilateral recourse to compulsory arbitration is limited to the determination of a basic wage at national or sectoral/occupational level after negotiations and mediation have failed, (ii) unilateral recourse to compulsory arbitration is available to both parties, and (iii) there is no machinery in place for minimum-wage fixing. The temporary wage limits binding arbitrators were also not considered to be a breach of the Convention, so long as the measure is exceptional and does not exceed a reasonable period of time.\(^{187}\)

Second, Law 4046/2012 and Cabinet Act 6/2012 fully removed the unilateral recourse to arbitration that had been in force during the period 1990–2012. However, this change has now been considered unconstitutional by the Council of State. The situation calls for tripartite dialogue on what a new type of arbitration mechanism in Greece should look like in light of this latest decision from the Council of State and the recommendations of the ILO supervisory bodies, and how this mechanism will be situated within a new comprehensive employment strategy in support of a new production model in Greece.

In Greece, minimum employment conditions are established via the NGCA for overall working conditions and legislation for minimum wages. It appears that workers are increasingly covered by these minimum standards as limited available evidence points to the fact that fewer workers are covered by CBAs – which is consistent with the legal amendments described above.\(^{188}\) In particular, the decline in the number of sectoral and occupational CBAs implies a reduction in coverage because despite the increase in

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\(^{188}\) The latest official estimate of 65 per cent coverage concerns year 1996. Notwithstanding, coverage in the public sector was significantly higher than in the private sector (Ioannou, 2004).
enterprise-level agreements, these are still relatively few in comparison with the number of enterprises in Greece, and even the enterprise-level CBAs have started to decline as of 2013.\textsuperscript{189}

In addition, the newly prescribed periods of validity for CBAs, including the reduced “after-effects” period, may have contributed to a decline in coverage. Further, the temporary limitation to the Minister of Labour’s prerogative to extend sectoral and occupational CBAs to non-members of the signatory organizations during the period 2012–2015 will have had an important effect, as no extensions have been awarded since 2012. This means that CBAs are binding only on enterprises that are members of the negotiating association and cover only workers affiliated to signatory unions. According to ILO survey data, the proportion of unionized workers to all wage and salary earners was 30.6 per cent in 2007, while the proportion relative to total employment was 19.6 per cent,\textsuperscript{190} implying a coverage loss where no extensions are issued.

Recent preliminary estimates on coverage vary, but still show a significant decline in coverage as compared with the latest official estimate. For instance, OMED – which is currently working on assessing the status of coverage in the Greek labour market – estimates private sector coverage in the first quarter of 2014 at close to 10 per cent.\textsuperscript{191} Meanwhile, the Bank of Greece estimates that around 27.5 per cent of business sector employees were covered by branch and occupational collective agreements during the period October 2011 to December 2013.

Of particular concern is the fact that the quality of the minimum standards appears to have fallen – to the extent they have been associated with significant reductions in wages. In addition, among those workers covered by CBAs, the conditions of the agreements have also deterio-
rated: as section C describes, newly concluded agreements have mostly met minimum standards rather than exceeding them as has been the case in the past.

... and associations of persons became prominent in enterprise-level negotiations.

Prior to the introduction of Law 4024, the process to establish a trade union at the firm level was a cumbersome process. For instance, the processing of an application to form a firm-level union by the court of first instance (Protodikeia) could take several months. On 31 May 2011, the Ministry of Labour, Social Security and Welfare announced that a new procedural decision of the administrative section of the Athens Court of First Instance provided for a 20-day delay for decisions on setting up trade unions. However, this decision was never fully applied, and some months later Law 4024 introduced bargaining rights to associations of persons.

As a result, associations of persons gained major significance in the industrial relations scene from 2011 onwards. According to a recent OMED study, 83.4 per cent of firm-level agreements registered in the period 2011–2012 were concluded by associations of persons.\textsuperscript{192} CBAs negotiated by first-level sectoral and local unions accounted for 11 per cent of total agreements, and CBAs concluded by firm-level unions reached 5.1 per cent of the total. Similarly, the Government of Greece reported to the ILO Committee of Experts that 72 per cent of enterprise-level agreements registered in 2012 were concluded by associations of persons. For 2013, the figure stood at 57 per cent at the time of information collection.\textsuperscript{193} Preliminary estimates for 2014 indicate that out of the 149 new enterprise-level CBAs registered by May, 54 per cent were concluded by associations of persons.\textsuperscript{194} Despite their increased prevalence and importance as negotiation partners, associations of persons continue to operate on a weaker basis than trade unions, as they

\textsuperscript{192} Ioannou and Papadimitriou (2013).
\textsuperscript{193} Observation of the ILO Committee of Experts on the Application of Conventions and Recommendations (CEACR) – adopted 2013, published 103rd ILC session (2014), Right to Organise and Collective Bargaining Convention, 1949 (No. 98), Greece.
are automatically dissolved if their membership falls below three-fifths of the company employees. Further, they do not enjoy the usual trade union protections and are not connected to the major union organizations. This weaker status compared with trade unions could have influence on the negotiation positions of associations of persons, considering the deeper concessions on wages, as discussed in section C.
Wages have fallen, in part due to wage reductions in collective agreements …

During the recession, wages fell in Greece substantially more than in any other EU country. In particular, the index of nominal wages started contracting in the first quarter of 2010 and it remained in negative territory until the last quarter of 2013. Moreover, the magnitude of the contraction increased over time: nominal wages fell by 5.6 per cent in 2011, 6.9 per cent in 2012 and 8 per cent in 2013. Mild signs of stabilization have now been registered, as the wage index increased 0.6 per cent, year-on-year, in the first quarter of 2014. However, during most of the crisis, prices have not adjusted and inflation has remained substantially higher than nominal wage growth (see also Chapter 2).\(^\text{195}\)

Wage contraction has taken different forms and has concerned workers both covered and not covered by collective agreements. In terms of the latter, collective agreements in Greece have included wage reductions in line with the trends discussed above. In fact, in Greece, in 2012, wage reductions were approved in eight out of 14 national sectoral collective agreements, four out of seven local sectoral agreements and three out of six occupational agreements investigated by OMED.\(^\text{196}\) Wage cuts were even more common in firm-level agreements. Indeed, only 0.7 per cent of the firm-level agreements signed in 2012 approved wage increases, while 16 per cent maintained the previous wage levels, 19 per cent agreed wage reductions and 48 per cent adjusted wages to the limits of the NGCA. Although the adjustment to the NGCA does not necessarily entail a wage reduction, evidence suggests that this has generally been the case.\(^\text{197}\)

\(^{195}\) Data are seasonally adjusted, but not adjusted for the number of the working days. Data for Q1 2014 are provisional.

\(^{196}\) OMED investigated the contents of collective agreements in 2012 and drew conclusions on differences in wage provisions per type of agreement. Due to different counting methods, yearly figures for collective agreements differ from those produced by the Ministry of Labour, Social Security and Welfare, as explained earlier.

\(^{197}\) Ioannou and Papadimitriou (2013).
This is in contrast to the experience of other EU countries, where collective bargaining has generally helped to protect incomes during the crisis, while at the same time it has not represented an impediment to economic adjustment. For instance in Germany, wage increases stipulated in collective agreements passed from 2.9 per cent in 2008 to 1.8 per cent in 2010 and they returned to pre-crisis levels (2.8 per cent) in 2013. Differences in the macroeconomic situation across sectors have also been taken into account in Germany, with wage increases in 2013 ranging from 3.6 per cent in water, electricity and mining to 2.3 per cent in banking and insurance.\(^{198}\)

Interestingly, in the case of Greece the increased prevalence of the associations of persons appears to have affected bargaining power with respect to wages. In fact, 65.4 per cent of firm-level agreements concluded with associations of persons provided for wage adjustments to the limits of the NGCA, while for firm-level agreements concluded with trade unions, the share was 3.5 per cent. Similarly, 33.5 per cent of firm-level agreements concluded with trade unions maintained stable wage levels, compared with only 1 per cent of firm-level agreements signed with associations of persons.\(^{199}\)

Furthermore, in concordance with the trend towards individualised contracting, downward pressure on wages may have increased. In essence, in the absence of an applicable CBA, individual employment contracts have been based on the minimum wage as set by law and working conditions as prescribed in the NGCA.

... as well as cuts in public sector wages ...

Wage reductions have occurred in both the private and public sectors, as the Government approved a number of measures aimed at reducing civil servants’ salaries in order to restrain public expenditures and make wage


\(^{199}\) Ibid.
levels the same as those in the private sector.\textsuperscript{200} Savings in the public wage bill – initially planned at €770 million in 2011, €600 million in 2012, €448 million in 2013, €306 million in 2014 and €71 million in 2015 – were undertaken. In particular, Law 3833/2010 reduced, for all persons employed in the public sector, allowances and compensations by 12 per cent, ordinary earnings by 7 per cent and Christmas allowances by 30 per cent. Moreover, the new law prohibited salary increases in the public sector, suspended the recruitment of new civil servants and introduced a ratio of one hire to five departures for permanent employees in the public sector.

The legislation was further changed by Law 3845/2010. In particular, the Law established that earnings, severance payments, allowances and all types of remuneration were to be cut by 8 per cent for civil servants and by 3 per cent for the personnel employed in private law institutions owned by the state. Moreover, a cap was introduced on Christmas, Easter and holiday bonuses – which amount to two months of salary (referred to as the 13th and 14th monthly salaries), i.e. only workers with a monthly remuneration below €3,000 were now entitled to these bonuses. Finally, Law 3899/2010 reduced by 10 per cent all monthly gross earnings above €1,800 and introduced a ceiling of €4,000 for gross monthly earnings in the public sector. As a result of these measures, the government wage bill decreased by more than a third during the crisis – going from €24.5 billion in December 2009 to €15.9 billion in September 2013.

... and a reduction of minimum wages.

Finally, the decline in average wages was also a result of cuts to the minimum wage. In particular, as part of the fiscal consolidation programme, minimum wages (per month) were reduced in 2012 from €751 to €586.08 for workers above the age of 25 (a 22 per cent reduction) and from €751 to €510.95 for young workers below 25 (a 32 per cent cut). A new bill was

\textsuperscript{200} Wage reductions were introduced through laws 3833/2010, 3845/2010, 3899/2010, 3986/2011, 4024/2011 and 4093/2012.
passed on 30 March 2014, entailing changes to minimum wages for newly recruited workers who have previously been long-term unemployed. In particular, minimum wages of those who have been unemployed longer than 12 months are set at €586.08 irrespective of their age and experience.\textsuperscript{201} These new minimum wages will remain in force until the end of the financial assistance programme, after which, minimum wages will be set by a decision of the Council of Ministers following consultations with the social partners and relevant expert organizations. In addition, seniority increments were abolished for work provided after 14 February 2012 – this measure will remain in place until the unemployment rate falls to below 10 per cent.

\textsuperscript{201} The minimum wage in Greece is increased with seniority allowances that vary according to age (i.e. below or above the age of 25) and the status of the person (i.e. worker or employee). For instance, for an employee who is 30 years old and has accumulated 6 years of experience, the allowance is equal to 20 per cent of the minimum wage.
Interestingly, Greece is the only EU country where minimum wages were reduced during the crisis. Whereas, during the same time, minimum wages increased by 11.3 per cent in the United Kingdom, 8.2 per cent in Belgium, 7.6 per cent in France, 5.6 per cent in the Netherlands and by more than 20 per cent in some Eastern European countries. Also, other economies that have been particularly hit by the global recession managed to increase their minimum wages – in Portugal and Spain they were increased by 2 per cent (figure 5.1).\textsuperscript{202} As a result, in Greece the ratio of minimum wage to median income decreased from 48 per cent in 2008 to 43 per cent in 2012. This represents the third lowest ratio in the euro area – just above Estonia and Luxembourg – and significantly less than the shares registered in other EU countries, such as France (62 per cent) and Portugal (58 per cent).\textsuperscript{203}

\textsuperscript{202} This is computed by taking into account annual minimum wages. Indeed, in some countries, such as Greece, Spain and Ireland, minimum wages are paid for 14 months per year.

\textsuperscript{203} OECD Statistics Database.
D POLICY CONSIDERATIONS

Previous sections in this chapter have discussed the role of social dialogue at national, regional and various institutional levels, including changes in approaches that occurred during the crisis. They have also addressed the evolution of collective bargaining regulation in Greece, together with the preliminary impacts of the most recent reforms. In addition, wage-setting as a particular feature of collective bargaining and wage developments during the current crisis period were discussed in detail.

Drawing from the analysis, this section focuses on policy considerations that the Greek tripartite partners could consider in their reflections on the way forward for the country. On the basis of the analysis, three main policy considerations can be drawn:

(i) Social dialogue mechanisms need to be strengthened in order to provide an effective framework for decision-making on social and economic issues. In this vein, a detailed analysis of the existing mechanisms and their objectives could be conducted in a tripartite setting, with the explicit intention of strengthening the role of tripartite consultation in decision-making.

(ii) Tripartite social dialogue and collective bargaining would benefit from more profound labour market monitoring, including monitoring of wages, working conditions and price developments – potentially through a tripartite body. This would allow more informed and evidence-based decision-making. The tripartite body could also support the future minimum wage-setting mechanism and ensure that wages grow appropriately, i.e. in line with productivity so that a race to the bottom in terms of wages and competitiveness can be avoided.
For the collective bargaining system to produce sustainable outcomes, the autonomy and effective representation of both employers’ and workers’ organizations in collective bargaining negotiations needs to be ensured. As such, it would be helpful for the tripartite partners to reflect on how associations of persons could be connected with and organized towards formal trade unions so as to ensure worker representation through appropriate bodies. In addition, it is important to mitigate gaps in coverage through securing CBAs at appropriate levels and ensuring that there is coordination between different levels. A combination of minimum standards at the sectoral/occupational level and enterprise-level adaptation within a specified framework could be considered. Proposed solutions should be discussed in a tripartite setting, duly assessing models suitable for the structure of the Greek economy, which is dominated by small (often family-led) enterprises.

First, strengthen tripartite consultations and social dialogue to provide a more sustainable basis for change...

To be sustainable and successful, the macroeconomic, labour market and social challenges discussed in this report need to be tackled through concerted efforts by key partners and jointly agreed policy approaches. Social dialogue institutions provide a framework whereby such dialogue can take place, and the functioning of these institutions is fostered by giving appropriate importance to the decisions they adopt. The ILO Supervisory Bodies have on various occasions encouraged the Greek Government and the social partners to rapidly re-engage in intensive social dialogue with a view to developing a comprehensive vision for labour relations in the country. They consider it important that the Government creates space for the social partners that will enable them to be fully engaged in the determination of
any further measures that touch upon aspects that go to the heart of labour relations and social dialogue, trusting that the views of the social partners will be fully taken into account.\textsuperscript{204}

Moving forward, a closer analysis of the functioning of the social dialogue mechanisms and the influence of their consultative role in policy and law-making is needed. This includes bodies at different levels of governance and sectors, for instance in the vocational training system, with a view to finding solutions that optimally benefit the labour market. Such an analysis would enable the tripartite partners to jointly agree on adjustments to the structures, as and when necessary, to strengthen the role of tripartite consultations in policy and law-making. In other countries, national tripartite bodies have been widely involved in deciding on the national course of action during the current crisis period:

- \textit{Review central social dialogue mechanisms and consultative processes with a view to improving their effectiveness:} Established and regular tripartite social dialogue at the national level have helped other countries to address economic and social issues during the crisis. For example, the Netherlands quickly mobilized its regular national social dialogue mechanisms in response to the global financial crisis, and the impending consequences of the crisis had already been discussed in March 2008. A special tripartite crisis team was convened by the Government in January 2009 to respond to the challenges through joint action. This dialogue resulted in a bipartite compromise, and later on in the social partners’ agreement on a government package designed to mitigate the effects of the crisis. According to the Dutch Ministry of Labour, the long tradition of established national tripartite dialogue helped to address the impacts of the crisis through a tripartite response.\textsuperscript{205}

\textsuperscript{204} Observation of the ILO Committee of Experts (CEACR) – adopted 2012, published 102nd ILC session (2013), Right to Organise and Collective Bargaining Convention, 1949 (No. 98), and ILO (2013a).
\textsuperscript{205} Ghellab (2009).
To improve the policy influence of tripartite consensus, the social partners in Greece could, for example, consider introducing rules that would require policy and law-makers to justify any substantial deviations from tripartite opinions of consultative bodies such as OKE. In addition, the practical facilitation of tripartite work is important: OKE itself has raised the need for *systematic and timely dispatch of proposed legislative measures* by the Government with a view to enabling the institution to perform its functions effectively.  

The same is undoubtedly true for other tripartite bodies working at various levels of governance.

*... especially in terms of monitoring labour market and wage developments to support evidence-based policy-making and effective collective bargaining.*

Social dialogue and collective bargaining processes rely essentially on accurate and updated data concerning the labour market. Data on working conditions in Greece, however, suffer from considerable gaps, and these would need to be filled with a view to enabling effective tripartite decision-making and, indeed, policy-making in general. Once available, this data would need to be analysed through a tripartite expert body so as to ensure national policy-making resulting from evidence-based policy advice. The ILO Committee of Experts urged already in 2012 the Government to make every possible effort to avoid any new curtailment of workers’ rights in respect of wage protection and to seek to restore the purchasing power of wages.  

To make decisions on these matters, regular monitoring and analysis of developments in wages and other working conditions, as well as prices and other developments in the economy, are needed and must be available in a timely manner.

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206 OKE (2012).
207 Observation of the ILO Committee of Experts (CEACR) – adopted 2012, published 102nd ILC session (2013), Protection of Wages Convention, 1949 (No. 95), Greece.
In addition, coordination of wage growth at the national level should be appropriately complemented at the sectoral and enterprise levels with a view to adapting to the practical realities. In particular, sectoral-level bargaining could guarantee that wage developments in different firms within the same sector respect the competitive challenges that characterize different economic regions. Finally, enterprise-level bargaining should ensure that the need for flexibility at the plant level does not translate into a negative spiral of wage contraction. This, in essence, can be promoted through the monitoring mechanism of wages and working conditions set up at the central level, efficient information gathering and well-resourced negotiators at lower levels. Indeed, effective wage coordination at lower bargaining levels can lead to innovative practices, such as profit sharing (see box 5.4).

Good practices are available on effective data gathering, as well as analysis and monitoring of developments in wages, working conditions and the economy in a tripartite setting:

- **Institute regular data gathering concerning wages, prices and working conditions:** For more effective decision-making concerning the labour market, information on wages and working conditions determined in CBAs at various levels is essential, as well as data on derogations from sectoral/occupational agreements at the enterprise level during the crisis period. Further, it is important to estimate the coverage of workers by CBAs – information that could be gathered by the Ministry of Labour, Social Security and Welfare in connection with reporting on CBAs concluded. Social partners themselves would benefit from a close scrutiny of developments in their memberships, with a view to improving their reach, strategies and services. Additionally, information on price developments and the labour market situation in other relevant countries, such as trading partners and neighbouring states, will also be crucial. Further, data on strikes and days lost due to strikes would enable an estimation of the cost of industrial conflicts. Various other EU countries gather such detailed data and the social partners have an active role in this. For example, in Finland, the main Employers’ Confederation gathers wage data from the private sector, contributing to the overall statistics of the Central Statistical Office.208

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• Establish a tripartite body with a consultative status to provide inputs for the new minimum wage setting mechanism as well as social dialogue and collective bargaining processes: It is important that there is a tripartite mechanism to monitor and analyse the data generated and to provide recommendations for wider policy-making. This analysis could then be used in decision-making regarding, for example, the adoption of minimum wages after the financial assistance programme period and wage coordination across sectors. This would help to ensure that wages grow in line with productivity and price developments – preventing labour remuneration dropping below poverty lines and ensuring compensation does not surpass productivity gains. Further, data on productivity and employment flows could be analysed in order to enable recommendations on wage growth that would favour sectoral reallocation and not hamper employment recovery.

Such monitoring and analysis could be undertaken under the aegis of appropriate tripartite bodies, such as OKE or OMED, or the newly established National Social Dialogue Committee. For example, Austria and Finland have instituted tripartite national bodies of this type, which monitor developments in wages, costs and purchasing power, implementation of CBAs and their impacts at a general level as well as developments in trading partners’ markets.209

Second, enable more effective collective bargaining at appropriate levels and organise the decentralization process to improve coverage and create a stable environment for growth and investment.

The overall picture of labour market governance through collective agreements in Greece comes across as somewhat non-transparent. Fragmentation of collective bargaining and the lack of transparency on employment conditions exacerbate the overall ambiguity concerning labour market governance in Greece. With fewer higher-level CBAs and more and more employment contracts made at the individual level within companies, there is a risk that decentralization of collective bargaining without a gradual and structured approach may lead to no bargaining at all. This is of particular relevance given that the majority of firms in Greece are micro or small enterprises.

209 See, for example, Tuollo- ja kustannuskehityksen selvitystoimikunta (TUKUSETO) in Finland and Paritätische Kommission in Austria.
Box 5.4  The collective agreement at ACS Courier

Wages can be linked to productivity at the firm level through local wage bargaining. This would not contradict wage coordination at the national or sectoral level, but rather complement it, as flexible provisions can connect wage growth to firm dynamics. An interesting example is presented by the collective agreement signed in 2013 at ACS Courier in Greece. This agreement links wage growth to the company’s turnover. If there is an increase in turnover, employees receive a bonus, whose parameters have been defined in the agreement. Conversely, if there is a fall in turnover, wages will either remain unchanged or be reduced, again according to pre-defined parameters.

This kind of agreement can be useful as it represents a flexible mechanism for linking wages with productivity, while trying to limit lay-offs in times of crisis. However, attention should be paid to preventing employees bearing the entire burden of the fluctuations in the financial performance of the company – therefore, minimum wage levels should also be guaranteed. Moreover, company turnover is not only determined by direct worker productivity, but also by management decisions. Therefore, in these schemes profit-sharing should be accompanied by parallel mechanisms that increase the role of workers in the decision-making processes of the company – this happens in Germany where profit-sharing schemes are well developed. Additionally, other indicators – not just the company’s turnover – could be taken into consideration for determining wage rates, including sales and value added.

Social partner organizations may not have developed the necessary capacities to bargain at the local level, and small enterprises themselves often lack bargaining practices, feel threatened by the unusual task of bargaining and are constrained by lack of time and other resources. In addition, the uneven situation may give some enterprises a competitive advantage over others operating in the same sector. The situation is likely to create uncertainty and conflict, which works against the objectives of promoting investment and creating jobs.

Essentially, if there is insufficient capacity and appropriate structures for negotiations at the local level are not in place, or negotiations are not considered cost-effective at that level (particularly in micro and small enter-

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210 See the case of France (FGB, 2013).
prises), bargaining at appropriate higher levels should be ensured with a view to avoiding governance gaps and promoting transparency. At the same time, social partners should engage in building capacity at the local level in the longer term.

Nevertheless, even with efforts to improve representation at the enterprise level, the need to establish and maintain key sectoral agreements in Greece remains valid in view of the prevailing enterprise structure. Responsiveness to realities on the ground in such a setting can be addressed by ensuring that negotiators understand the realities faced by enterprises and workers in a particular sector, region or locality, but that they also possess the necessary bigger picture of labour market and price developments. In addition to this knowledge base, negotiators on both sides benefit from experience and a tradition in bargaining, as well as having the necessary resources. When negotiations take place at various levels, it will be important to coordinate between the negotiation levels, and to organize the issues to be negotiated at the different levels.

In a fragmented business environment, extensions of collective agreements can also be used to ensure greater harmonization. Through extensions, conditions stipulated in a CBA apply to all workers throughout the sector or profession, irrespective of membership of a union or employer organization. Extension of CBAs is clearly a matter of public policy determination – if employed, the practice should be appropriate and suited to the conditions of each country. At the same time, Recommendation No. 91 refers to the utility of extending CBAs. In addition, arbitration had previously an important role in the Greek context, when bipartite consensus was not achieved even through mediation. Notwithstanding the primary preference for jointly negotiated solutions, it will be important to ensure that the new arbitration model chosen produces results which optimally support a balanced growth strategy.

Innovative approaches explored by others in these areas can provide good reference material for the Greek social partners:

211 See the ILO Collective Agreements Recommendation, 1951 (No. 91).
212 Observation of the ILO Committee of Experts (CEACR) - adopted 2011, published 101st ILC session (2012), Right to Organise and Collective Bargaining Convention, 1949 (No. 98), Greece.
• **Ensure bargaining at appropriate levels and sectors, as well as high-quality agreements supporting a balanced growth strategy:** In Greece, the tripartite partners could more closely analyse options for negotiating sectoral/occupational agreements that combine floor conditions at the industry or occupational level with necessary adaptations at the enterprise level, so that balanced labour market outcomes can be achieved in a particular context. Sectoral-level rules on delegation of issues to lower-level agreements can also be considered. Another strategic point of reflection could be to focus on negotiating sectoral collective agreements in selected key sectors of major economic and employment importance.

Italy, for example, applies a two-tier bargaining structure in line with the Agreement of 1993, i.e. collective bargaining is divided between national (industry) and decentralized levels. While decentralized bargaining mostly happens at the enterprise level, second-level bargaining takes place in a few sectors, particularly in construction, tourism, crafts, agriculture and commerce. In recent reforms, the inter-sectoral agreement signed in 2011 put emphasis on strengthening decentralized bargaining at enterprise and territorial levels. This agreement introduced wide-reaching reforms: it allowed enterprise- and territorial-level agreements to derogate from both industry-wide deals and legislation, yet respecting the limits set by the Italian Constitution, EU regulation and International Labour Conventions. Yet, derogations from higher-level pacts could be made through firm-level agreements only if (i) an agreement was achieved between employers and trade unions and (ii) the derogation was aimed at improving competitiveness and promoting employment within the firm. Even after the reforms, wages and working time are principally set at the industry level. In this context of profound reform, a case study conducted in 2012 on decentralized collective bargaining showed that bargaining at national level and territorial level (second-level bargaining

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213 The Agreement of 23 July 1993 (Accordo 23 Luglio 1993) is a tripartite agreement outlining a thorough reform of the Italian industrial relations system.

214 The inter-sectoral agreement was signed by Italy’s major union confederations CGIL, CISL and UIL and employers’ federation Confindustria on 28 June 2011. It introduced new rules on the certification of representativeness for participation in industry-wide bargaining at the national level, and on the validity of company deals.

215 Eurofound (2011a).
in the chemical-ceramic industry in Lombardy) has succeeded in combining uniformity with national regulation as concerns general issues with regulation tailored for the local context.216

More recently, in November 2012, a Pact on Productivity was signed between the social partners in Italy during a meeting with the Government.217 Interestingly, in this pact it was agreed that sectoral agreements shall guarantee homogenous economic and normative conditions for all industry workers and introduce clear rules of delegation to second-level bargaining as concerns topics that can enhance productivity (such as employment contracts, working time and work organization). Sectoral agreements were also tasked with the duty to ensure that their economic effects are consistent with the general trends in the economy, labour market, international competition and sectoral developments.

• Monitor derogation practices to support appropriate labour market outcomes: In Greece, it would be useful to monitor how enterprise-level agreements differ from sectoral agreements pertaining to their sector, or corresponding occupational agreements, with a view to being able to analyse trends and act on them through guidelines, either at sectoral/occupational or national level. As discussed above, transparency, predictability and clarity provide a solid basis for investment and hiring by employers. For instance, in Germany, decentralized collective bargaining and increased use of opt-outs in the metalworking industry led to the adoption of the so-called "Pforzheim Agreement" in 2004, which aimed to monitor and control derogation practices at the industry level.218 The agreement established internal coordination guidelines which reportedly led to more professional bargaining procedures and more transparency, which in turn moderated disputes and stimulated substantive discussions.219

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216 The case examined the Regional Collective Agreement (signed on 24 October 2012) for employees of handicraft businesses in the chemical-ceramic industry of Lombardy. FGB (2013).
217 Signatories to this deal included Confindustria, Rete Imprese Italia, Alleanza delle Cooperative Italiane, ABI and ANIA on the employer side; and CISL, UIL and UGL on the worker side. One worker confederation, CGIL, did not join the pact.
218 The Pforzheim Agreement stipulated that derogations should be decided on by the bargaining parties at the firm and industry levels and companies should make information available. In addition, it instructed that parties at the industry level should be empowered to conclude derogation agreements.
219 FGB (2013).
• **Analyse the usefulness of the extension of CBAs in a tripartite forum:** Bearing in mind the need to adapt extension practices to the local business environment, the Greek social partners could assess the relevance of extensions in the Greek context and produce appropriate recommendations for the Government within their research and reflections on the future collective bargaining system. In this, it will be important to address the issue of minimum conditions and their coherent application, if and when applied. A magnitude of experiences is available on extension of CBAs in various EU countries: according to Eurofound, 21 out of 27 Member States had extension mechanisms in place in 2009, with various conditions and initiators.²²⁰

• **Facilitate tripartite discussions on an optimal arbitration mechanism:** An effective labour dispute resolution system can be described as forming the shape of a triangle, with the broad base consisting of *Consensus*, above which is a middle section of *Rights* and finally at the top is *Power*. *Consensus* encompasses dialogue, negotiations, mediation and conciliation, and is generally considered the part that produces most sustainable results in terms of acceptance and effectiveness of implementation, among others. *Rights* covers adjudication by labour courts and arbitration. Finally, *Power* involves the ultimate means, such as strikes and lockouts. Moving towards the tip of the triangle, negative consequences of the actions taken increase and the possibilities for sustainable outcomes and continued good relations decrease.²²¹ With the most recent Council of State decision on unconstitutionality of the elimination of the right to unilateral recourse to arbitration, fresh tripartite reflection on the matter is required. Importantly, these discussions need to take into account observations by the ILO Committee of Experts on the issue (discussed in box 5.3 above).

*Third, ensure autonomy and effective representation of workers and employers.*

The framework of international law on collective bargaining places emphasis on the autonomy of the negotiating parties: collective bargaining is free

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²²⁰ Eurofound (2011b).
and voluntary, and should be enabled to take place at any level whatsoever, including establishment, undertaking, branch of activity, industry, regional and national levels. In this sense, the parties themselves are best positioned to choose and agree on the appropriate level of bargaining, while making sure that effective representation is guaranteed.222

The ILO supervisory bodies have put particular emphasis on ensuring effective worker representation at all levels, taking into account that employers by definition are institutions. Indeed, the parties to collective bargaining are employers or their organizations, on the one hand, and workers’ organizations, on the other. In principle, only in the absence of workers’ organizations can workers or their representatives participate in collective bargaining; and in such circumstances, the system should not prevent workers from forming or joining workers’ organizations. At the moment, while associations of persons are increasingly negotiating enterprise-level agreements, their status remains weaker than that of unions. This naturally has implications on the strength of worker representation at local levels.

While ensuring appropriate worker and employer representation remains crucial, it will be important for the social partners to strengthen their own efforts to connect with their membership more effectively. Where the connections between enterprises and their representative organizations on one hand, and workers and unions on the other are tight and interactive, legitimacy of negotiations at various levels is improved. In this vein, new organization strategies could help workers’ and employers’ organizations to move closer to their constituency and through that increase their membership and therefore their voice in social dialogue processes:

• Employ social dialogue to connect associations of persons with trade unions to enable worker representation through designated bodies at the enterprise level: The ILO Committee of Experts has expressed its concerns about associations of persons as primary collective bargaining negotiators in small enterprises, as unions cannot be formed in enterprises with fewer than 20 workers.223 In light of this, the Committee has requested the

222 Gernigon et. al (2000); Right to Organise and Collective Bargaining Convention, 1949 (No. 98).
223 Observation of the ILO Committee of Experts (CEACR) – adopted 2012, published 102nd ILC session (2013), Right to Organise and Collective Bargaining Convention, 1949 (No. 98), Greece. Convention No. 98 provides for the promotion of collective bargaining with workers’ organizations at all levels, including at the enterprise level.
Government to ensure that trade union sections can be formed in small enterprises to ensure full respect for the principle of collective bargaining with trade unions, particularly given the prevalence of collective agreements concluded by associations of persons, as noted in the most recent Committee discussion (box 5.5).224

The above observations from the mandated international supervisory body are particularly important to note with a view to the Government’s commitment to implement reforms to collective bargaining in respect of Core Labour Standards and EU law.225 Indeed, as the need for effective worker representation at all levels persists, it would be useful to explore ways in which unions could engage with associations of persons to complete the process and formalize the status of these organizations as units that in the longer term can effectively represent workers at the enterprise level. Social dialogue would be helpful for finding options to facilitate this from an institutional point of view.

• New strategies for social partners in the new economy – towards improved representativeness: Social partners in various countries have adopted new strategies for recruiting and retaining members and for better representing them. Since the 1980s, Belgian trade unions have been developing specific activities centred on the problems faced by workers employed in SMEs. The initial SME campaign of the Confederation of Christian Trade Unions (Algemeen Christelijk Vakverbond/Confédération des Syndicats Chrétiens, ACV-CSC) in 1988–1989 had three objectives: to inform SME workers of their rights; to increase SME workers’ awareness of ACV-CSC’s services; and to propagate the points of view of ACV-CSC in and towards SMEs. The strategy of the campaign included: concluding national agreements; reducing the threshold for trade union representation; looking for contact persons within companies; and developing quality services. In addition, the unions developed methods for addressing specific sectors: local branches or sections; network trade unionism; and mentoring and

225 The fifth update to the MSEPC on 30 November 2011 introduces for the first time a specific commitment in respect of core labour standards as follows: “Reforms to collective bargaining do not concern health and safety conditions and are implemented in respect of core labour standards and EU law”.

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coaching. Belgian trade unions have reportedly been successful in attracting members from small enterprises, and the individualized approaches and strategies are likely to have contributed to their success.226

In Greece there are already employers’ organizations that target large and small enterprises. Micro, small and medium enterprises (MSMEs) require specific support, from legal, tax and finance-related issues to management strategies, including growth planning. Effective representation through employers’ organizations and support in collective bargaining processes are particularly relevant to MSMEs. Employers’ organizations could improve their recruitment and retention of members by placing greater emphasis on these areas and by connecting with similar organizations in other countries to exchange ideas. For example, the Spanish Confederation for Small and Medium Enterprises (Confederación Española de la Pequeña y Mediana Empresa, CEPYME) offers courses to SMEs in partnership with the public employment services, utilizing innovative methods in areas such as internationalization of companies and entrepreneurship.227

Cooperation in the field of social dialogue – with ILO technical support – has been identified as a key priority by the Government and social partners in Greece.

The Letter of Intent signed between the Greek Ministry of Labour, Social Security and Welfare, the European Commission’s Task Force for Greece, the World Bank and the ILO in summer 2013 puts forward a specific request to the ILO to support the design, implementation and monitoring of reforms in the field of social dialogue and labour inspection in Greece. Cooperation in this area commenced with a joint ILO–EC high-level seminar in Athens in June 2013, to explore ways in which the ILO could provide greater assistance to the Government and social partner confederations of

226 http://www.europfound.europa.eu/eiro/studies/tn0901028s/be0901029q.htm [17 September 2014].
Selected comments from the ILO Committee of Experts: Collective bargaining in Greece

2012
The ILO Committee of Experts (Committee) deeply regretted that far-reaching changes in collective bargaining regulation had been carried out without full and thorough discussions with the social partners. It expressed the firm hope that the Government together with the social partners would review the measures taken and elaborate a system that is relevant to Greece and its traditions; it also expressed trust that the social partners would be fully involved in the determination of any further alterations on aspects that go to the heart of labour relations, social dialogue and social peace in the framework of the agreements with the EC, the ECB and the IMF.

The Committee requested the Government to review two pieces of legislation with the social partners so as to bring the collective bargaining framework in line with the Convention concerning associations of persons and binding nature of concluded collective agreements.


2013
The Committee encouraged the Government and the social partners to rapidly re-engage in intensive social dialogue with a view to developing a comprehensive vision for labour relations in the country, and urged the creation of a space for the social partners to be fully involved in alterations on aspects that go to the heart of labour relations, social dialogue and social peace in the framework of the agreements with the EC, the ECB and the IMF.

Further, the Committee expressed concerns about the future of collective bargaining in Greece where 90 per cent of the workforce works in small enterprises and where associations of persons now have priority as bargaining partners in enterprises with less than 20 employees (whereas the respective negotiations were previously carried out at a sectoral level). Other changes, such as the abolition of the “favourability principle”, contributed to this concern. The Committee requested the Government to ensure that trade union sections can be formed in small enterprises in order to guarantee the possibility of collective bargaining through trade union organizations.


2014
The Committee noted progress through commitment towards improving social dialogue as expressed by the Minister of Labour of Greece and cooperation discussions started between the Government, ILO and EC Task Force for Greece in 2013. It expressed trust for these developments to provide an important framework for consideration and debate by all parties concerned in relation to the most effective system for industrial relations in the current context.

The Committee requested the Government to indicate steps taken to ensure full respect for the principle of collective bargaining with trade unions, as well as steps taken to discuss with social partners how to ensure the possibility to form trade union sections in small enterprises.

Greece. In this endeavour, the ILO is working in close cooperation with the EC Task Force for Greece, and the Directorate-General for Employment, Social Affairs and Inclusion of the European Commission.

Since then, progress has been achieved through the development of a National Social Partners’ Joint Action Programme, with the objective of restoring social partners’ confidence and enabling their effective participation in social dialogue. The social partners are driving the process, with technical support from the ILO and funding from the European Social Fund. This project will assess the current tripartite social dialogue structures and their effectiveness vis-à-vis national decision-making with a view to strengthening their functioning in the current context and providing a platform on which the Government and the social partners can discuss further policy reforms. Further, it will look at ways to strengthen the processes and effectiveness of sectoral-level bargaining – with due importance given to the promotion of negotiations attached to the reality of enterprises and workers on the ground.

The same joint action also includes a component aimed at optimizing the participation of social partners in the implementation of quality vocational education and training, with a particular focus on apprenticeships, as well as on combating discrimination at the workplace. The social partners make specific reference to this cooperation and to the ILO’s role in the recently concluded NGCA for the period 1 January to 31 December 2014. In addition to this, the ILO is working closely with Greek social partners in the commerce sector to help them renew the sectoral agreement which expired at the end of 2013.

An important high-level tripartite event, facilitated by the ILO, took place in Geneva on 30 September 2014 and resulted into an agreement on how to proceed on important topics relevant for the Greek labour market regulation. The issues covered were collective dismissals, Supreme Labour Council procedure, lock-outs, industrial action and effective system for disbursement of workers’ contributions. Moving forward, continued social dialogue – with the support of ILO as needed – will be central to ensuring an equitable, job-rich and sustainable recovery.

Law 1876/1990 established four types of CBAs, including an inherent hierarchy of norms. Essentially, the national-level agreements set the basis for wage and working conditions, and lower-level agreements could derogate therefrom only when providing better working conditions to the employees (favourability principle). Changes to the contents of the NGCA and temporary modifications to the hierarchy of norms were introduced during the crisis period. The four types of CBAs introduced by Law 1876/1990 are:

(i) The National General Collective Agreement, NGCA, which is applicable to all workers in the country, regardless of union affiliation. NGCA is concluded by third-level (i.e., the highest) labour unions and the most representative or nationwide employers’ organizations, i.e. the Greek General Confederation of Labour (GSEE), on the one hand, and the Hellenic Federation of Enterprises (SEV), the Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE) and the National Confederation of Hellenic Commerce (ESEE) on the other. More recently, the Association of Greek Tourism Enterprises (SETE) has also been recognized as a national social partner in Greece. NGCA is legally binding and determines the minimum work standards, including wage and salary rates. It applies to all private sector employees and employees in the public sector under private law contracts who are not covered by any of the other collective agreements. In 2012, however, minimum wages were set by law (see the discussion in section C.)

(ii) Sectoral collective agreements, which cover employees in the same sector (or branch or industry) at a national or regional level. They are concluded by first- or second-level trade unions, which represent workers who are employed by enterprises in the same sector, and by employers’ associations in the same sector. Specific to the banking sec-

229 http://news.gtp.gr/2013/01/08/sete-becomes-social-partner-for-collective-labor-agreement/ [30 September 2014].
tor (in case there are no employers’ associations representing banks), Law 1876/1990 prescribed that such agreements may be concluded by individual employers represented by authorized representatives, as long as 70 per cent of the personnel in this sector are employed by the said employers.

(iii) Occupational collective agreements, which cover employees of the same or related occupation(s) or trades at a national or local level. They are concluded by second- or first-level trade union organizations and the corresponding employers’ associations.

(iv) Enterprise collective agreements, which cover all employees of a certain enterprise or of a distinct unit of an enterprise, whether these employees belong to a union or not. According to Law 1876/1990, enterprise agreements were to be negotiated between the most representative enterprise trade union or the respective first level sectoral union and an employer who employs at least 50 workers.
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The aim of the *Studies on Growth with Equity* series is to show how strong and well-designed employment, labour and social protection measures are central – in combination with supportive macroeconomic policy – to building sustainable, job-rich and equitable growth.

After six years of recession, the Greek economy is showing some signs of recovery. Yet, unemployment has reached unprecedented levels, the risk of poverty and social exclusion continues to increase and enterprise investment is too weak to lead to a sustainable employment recovery.

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