

How effective were the EU's economic adjustment programmes in improving job quality in Greece?

- Nasos Koratzanis¹

EXECUTIVE SUMMARY

This brief shows that Greece's economic adjustment programmes (EAP) have been detrimental to job quality. Against this background, it proposes five policy measures that could improve employment conditions, which are: a) the re-regulation of the labour market, b) the increase in the minimum wage, c) the shift in fiscal policy stance, d) the efficient allocation of the EU Recovery Fund to development projects and e) the reform of the state's labour market inspection mechanism. Given the potential positive effects of job quality to macro-financial stability, such measures could also improve the country's socio-economic performance over the post-adjustment period.

ACKNOWLEDGEMENTS

The author would like to thank Naren Prasad for helping him in writing this brief as a result of ILO RESEARCH department's "International Training Evidence-Based Policy Making for Decent Work". He would also like to thank Ekkehard Ernst and Evangelia Bourmpoula for their comments and suggestions on the draft. The views and opinions in this paper are solely those of the author and the responsibility for the information set out lies entirely with him.

KEYWORDS

Job quality, Economic adjustment programmes, Greece

Introduction

Greece has had multiple crises over the past decade. The austerity and internal devaluation measures imposed by the Troika to deal with the public debt and financial crisis crippled key state's functions and industrial relations, causing a major impact on the labour market and society. Unemployment skyrocketed, the social security system weakened and episodes of poverty proliferated.² Added to this, there has been an unprecedented migration crisis and the recent Covid-19 pandemic, putting more strains on the economy. This policy brief shows that Greece's EAP have also harmed employment quality in the country. Against this backdrop, it proposes five policy measures that could reverse this worrisome trend and improve socio-economic conditions in the post-program period.

Background

During the period 2010-2018, Greece implemented three consecutive EAP as a policy condition for receiving financial support. Their objective has been to help the country restore its public debt sustainability and enter a path of export- and investment-led growth. In what follows, we outline the effects of Greece's EAP on four aspects of job quality.³

Policy process

a. Labour income: Over the EAP period, average wages in Greece have substantially declined. In fact, as shown in Figure 1, despite the slight recovery reported in recent years, in 2019 average nominal compensation per employee measured in PPS has stood at 17,947 euros, down by 4.7% compared to 2009. This level corresponds to 53.2% of the

The policy brief is based on the ILO's training on Evidence-Based Policy Making for Decent Work, which was organized by the Research Department from 1 Oct – 30 November 2020.

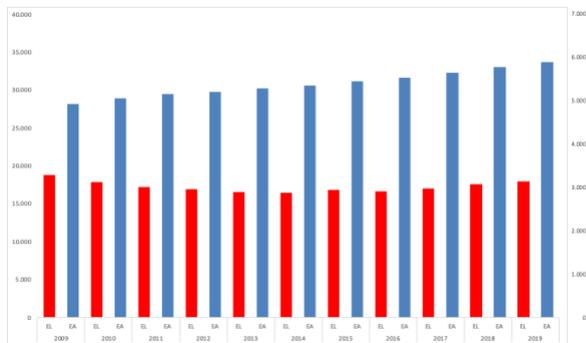
¹This policy brief was prepared by Nasos Koratzanis, researcher at the Labour Institute of the Greek General Confederation of Labour (INE GSEE). The opinions expressed herein are those of the author and do not necessarily represent the views of the ILO or its staff.

² For a critical evaluation of Greece's EAP and an alternative economic policy that could help the country exit the crisis, see Argitis *et al.* (2017).

³ For the determinants of job quality, see Leschke *et al.* (2008) and also <https://ilostat.ilo.org/measuring-job-quality-difficult-but-necessary/>.

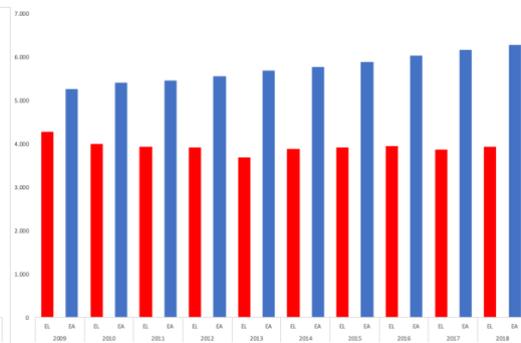
Euro area average⁴ against 66.9% in 2009. The overall trend of wage compression in Greece, which has been especially pronounced between 2010 and 2014, arguably reveals the adverse impact of internal devaluation on workers' material well-being. Note that, in 2019 the severe material deprivation rate for adult employed people has been 11.1%, still well above the Euro area's average of almost 3%.⁵

Figure 1: Compensation per employee in Greece and the Euro area-19 (PPS, 2009-2019)



Source: AMECO (November 2020), author's calculations.

Figure 2: Public expenditure on social protection in Greece and the Euro area-19 (per capita, PPS, 2009-2018)



Source: Eurostat (access: 13.11.2020), author's calculations.

Workers' income condition depends also on social protection spending since the latter supports their disposable income and protects them against unexpected risks (Ghai, 2003). As seen in Figure 2, in 2018 per capita public expenditure on social protection (measured in PPS) in Greece has been 3,929 euros compared to 4,273 euros in 2009.⁶ By contrast, in the Euro area it has reached 6,286 euros in 2018, i.e., a level 60% higher than that of Greece. This highlights the serious repercussions of the creditors' policy on Greece's social security system and on workers' welfare.

b. Labour market security: Greece's EAP have also caused a contraction of employment opportunities in the country. Although the employment rate, following a four-year period of steep fall, has recently shown some signs of feeble recovery, in 2019 it has been still below its pre-adjustment era level, lagging behind by 11.6 percentage points the Euro area average (Figure 3). The plunge of employment may reasonably be attributed to the depressing impact of austerity and devaluation on internal demand and to the complications it has created for firms' financial position.⁷

⁴ Note that Portugal, Ireland and Cyprus have also implemented EAP during the 2010s. In our analysis, we focus on the divergence of job quality between Greece and the Euro-area, given the country's much longer implementation period and heavy reliance on private consumption.

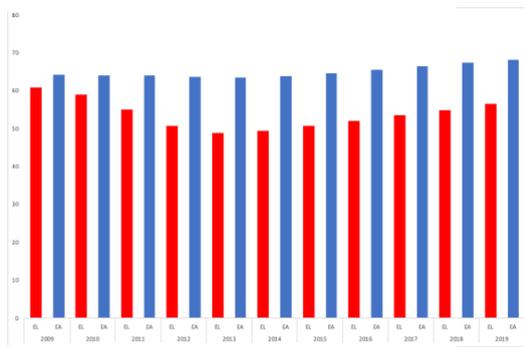
⁵ Eurostat data accessed on 21.11.2020

⁶ In the same period the ratio of per capita public spending on social protection to per capita GDP (measured in PPS) has increased from 18.6% to 19.6%. However, this has been due to the larger drop of per capita income, hence further underlying the need for social welfare spending.

⁷ This is especially true in an economy, like Greece, in which, according to Eurostat, final consumption expenditure in the period 2001-2009 has accounted for nearly 86% of GDP.

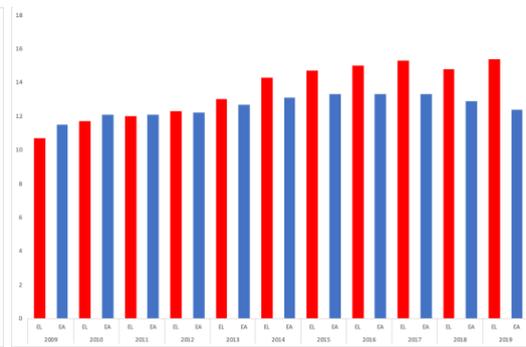
How effective were the EU's economic adjustment programmes in improving job quality in Greece?

Figure 3: Employment rate in Greece and the Euro area-19 (2009-2019)



Source: Eurostat (access: 13.11.2020)

Figure 4: Employees who cannot find a permanent or full-time job in Greece and the Euro area-19 (% of total employees, 2009-2019)

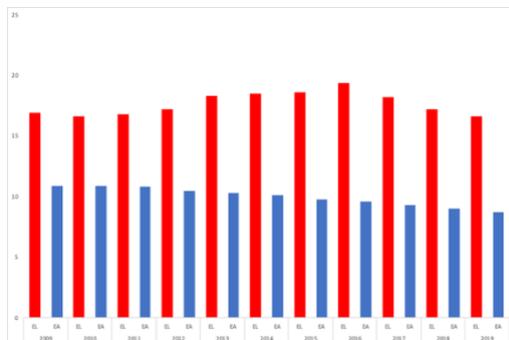


Source: Eurostat (access: 12.02.2021)

Moreover, precarious forms of employment in Greece have also been on the rise (Figure 4). In particular, the share of involuntary temporary or part-time workers to total employees has increased from 10.7% in 2009 to 15.4% in 2019. Note that atypical forms of work have been mostly proliferated from 2014 onwards, meaning that a large share of the employment gains during this period has resulted from the rise of precarious jobs. Such forms of employment are typically related to lower quality of employment as they imply higher job uncertainty, lower benefits and lower training opportunities (Leschke *et al.* 2008).

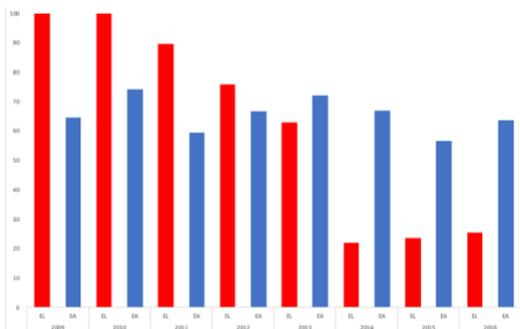
c. Working conditions: Another indication of low job quality in Greece is the increasing episodes of work intensity. As depicted in Figure 5, the share of employed people working more than 48 hours a week in Greece has climbed from 16.9% in 2009 to 19.4% in 2016, before declining to 16.6% in 2019. Despite this improvement, the corresponding share in the Euro area has been in 2019 close to half of Greece. Equally worrying has been that during the EAP period the share of employed persons working on the weekends in Greece has remained exceptionally high, standing on average at 43.3%, against 29.3% in the Euro area.⁸

Figure 5: Long working hours in main jobs in Greece and the Euro area-19 (2009-2019)



Source: Eurostat (access: 13.11.2020)

Figure 6: Collective bargaining coverage ratio in Greece and the Euro area (2009-2016)



Source: OECD (access: 11.11.2020) author's calculations.

Note: unweighted arithmetic average for the Euro area; variable composition.

d. Social dialogue: An important dimension of job quality is the level of social dialogue and collective interest representation. Yet, in this area too, Greece's performance over the last decade has been quite unsatisfactory. In fact, while in 2009 Greece has recorded the highest rate of collective bargaining coverage among the Euro area member states, in 2016 this rate has fallen to only 25.5% (Figure 6), with Greece becoming the second-worst performer behind Latvia. This fact, largely caused by the labour market deregulation measures applied as part of the country's second EAP, has been accompanied by a notably low participation rate of workers in trade unions. In 2016 trade union density in Greece has hardly exceeded 20%, down by 2.2% compared to 2010, despite the fall in employment.⁹

⁸ Eurostat data accessed on 13.11.2020.

⁹ OECD data accessed on 11.11.2020.

Conclusion and recommendations proposed

Greece needs to upgrade job quality. This would improve not only well-being but also the macro-financial environment. The reason is that better working conditions tend to tame people's uncertainty about the future, hence favourably affecting households' spending behaviour. Higher consumption demand can in turn stimulate firms' cash inflows, profit expectations and thus investment. By increasing the private sector's income, job quality can also contribute to financial stability, permitting economic sectors to fulfil their loan and/or tax payment obligations. This may also support fiscal consolidation, while facilitating credit expansion and sustainable refinancing positions, thereby further stimulating demand.¹⁰ To this end, we propose five recommendations.¹¹

a. The re-regulation of the labour market. In this respect, of particular relevance are, *inter alia*, the full restoration of free and collective bargaining, as well as the progressive reform of the legal framework governing mediation and arbitration, collective redundancies, strikes and industrial action. Such measures could enhance social dialogue, working conditions, while averting further wage compression.¹²

b. The increase in the minimum wage. Despite the 2019 10.9% increase in the minimum wage, employees' disposable income remains inadequate, taking into account the poor living conditions and heavy financial burden of many households, as well as Greece's consumption-led growth model. A further rise of the minimum wage is thus needed for improving workers' remuneration, stimulating internal demand and GDP, thus brightening employment prospects and job quality. In so doing, this measure could also improve firms' turnover and the stability of the banking sector.

c. The overachievement of primary surplus targets over the last years as well as the presence of a substantial amount of state's cash reserves¹³ allow **the adoption of fiscal measures** (e.g. the reduction in VAT, income tax rates and employees' social contributions) to increase workers' disposable income and job quality, while responding to the challenges of the pandemic crisis. Furthermore, higher public expenditure on social security system, education and training would also help improve job quality. An in-depth reform of the EU fiscal governance would support this policy stance. The recent relaxation of fiscal rules to combat the pandemic crisis may provide an opportunity for this.

d. The efficient allocation of the EU Recovery Fund to development projects would support working skills, green investment and technology-intensive sectors,¹⁴ thereby ensuring the smooth adjustment of the Greek labour market to the challenges set by the 4.0 Industry and climate change. Given the current high-level uncertainty, a large part of the funds should also be channeled

¹⁰ The analysis of the favourable macro-financial effects of job quality draws inspiration from Argitis and Koratzanis (2018).

¹¹ For a partly similar proposal in the context of the pandemic crisis, see INE GSEE (2020).

¹² On the negative effects of labour market deregulation and internal devaluation on employment, see Myant *et al.* (2016).

¹³ In late September the state's cash reserve amounted to 34.5 billion euros or 21% of GDP (EC, 2020).

¹⁴ While further skills building is required, this endeavor could arguably be facilitated by Greece's relatively competent workforce, with the share of highly qualified persons in 2018 corresponding to 32% (against 31% in the EU-27), see Cedefop (2020).

to the implementation of a Job Guarantee Program. This can act as a valuable vector for regulating industrial relations, ameliorating poverty and fighting social exclusion.¹⁵

e. Reform of the state's labour market inspection mechanism. Efforts should *inter alia* concentrate on preventing illegal long working hours and forced overtime, eliminating various forms of undeclared work and securing decent, regular and timely payment of workers' salary. For securing adherence to labour legislation, the strengthening of the states' labour inspectorate body charged with monitoring working conditions, receiving complaints, proposing legislative acts, instructing social partners and settling labour disputes would be highly instrumental in this respect.

¹⁵ Antonopoulos *et al.* (2014a) and Argitis *et al.* (2017) provide empirical evidence supporting the use of this program as an effective counter-cyclical tool. See Argitis and Koratzanis (2021) for the program's positive economic, social and development effects.

References

- Antonopoulos, R., Adam, S., Kim, K., Masterson, T. and Papadimitriou, D. (2014). 'Responding to the unemployment challenge: A Job Guarantee Proposal for Greece', The Levy Economics Institute/Observatory of economic and social development, Labour Institute, Greek General Confederation of Labour.
- Argitis, G. and Koratzanis, N. (2018). 'The end of the bail-out era in Greece: not out of the wood yet', ETUI Policy Brief No. 13, ETUI, Brussels.
- Argitis, G. and Koratzanis, N. (2021). 'A European Job Guarantee to foster wellbeing', *Social Europe*, 7th January.
- Argitis, G., Koratzanis, N. and Pierros, Ch. (2017). 'The Greek crisis: outlook and an alternative economic policy' in Independent Annual Growth Survey 2017: The elusive recovery, 5th Report, Special Studies on Greece and Germany.
- Cedefop, (2020). '2020 skills forecast. Greece', European Centre for the Development of Vocational Training.
- EC (2020). 'Enhanced Surveillance Report: Greece', Institutional paper 137, European Commission, Brussels, November.
- Ghai, D. (2003). 'Decent work: Concept and indicators', *International Labour Review*, Vol. 142, pp. 113-145.
- INE GSEE (2020). *The Greek Economic and Employment 2020*, Labour Institute, Greek General Confederation of Labour, Athens [in Greek].
- Leschke, J. Watt, A. and Fin, M. (2008). 'Job quality in Europe', ETUI-REHS Institute Working paper 2008.07, ETUI for Research, Education and Health and Safety, Brussels.
- Myant, M., Theodoropoulou, S. and Piasna, A. (eds) (2016). *Unemployment, internal devaluation and labour market deregulation in Europe*, ETUI, Brussels.

Contact

International Labour Organization
Route des Morillons 4
CH-1211 Geneva 22
Switzerland

Research Department
E : researchcourse@ilo.org