Abstract

The Greek competitiveness deficit was, among others, one of the main drivers of the economic crisis. Troika considered the Greek labour market as over-regulated and provided a series of measures in order to restore competitiveness and stabilises the economy. The suggested measures caused a substantial change in labour market institutions regarding employment protection legislation, the size of a minimum wage, union coverage, and the presence and coverage of collective bargaining.

Despite the fact that labor market deregulation is a common European practice for almost the last two decades, in Greece reforms in this field were induced in an extremely accelerated pace since 2010, which depicts an innovation in the way the Common Labour Market is developing. These interventions distorted the character of labour law that was originally developed to protect the weakest part in the working relations, the employee, by incorporating features met in commercial law. The present study will assess the efficacy of these interventions and will examine the links between them and the real economy by scrutinising the evolution of average household income during the crisis.

Keywords: Greek crisis, labour market, household income

1. Introduction

The flawed construction of the Eurozone allowed the crisis that originally burst in the financial sector to transform into an economic crisis Autumn 2008. The euro system was utterly unprepared to deal with the internal imbalances that emerged, since the existing mechanisms were rather precautionary than able to tackle an evolving crisis. Therefore, the only tool available was labour market flexibility to adjust price levels in order to bring about stability (Stockhammer 2011).

Moreover, according to conventional policy practice the Greek labour market had to undergo serious reforms in order to restore the competitiveness gap between Greece and the member states of the European core. This was due to the rigidities of the Greek labour market, which played a key role in the escalation of the Greek economic crisis, as argued by the institutions forming Troika.

These reforms were implemented in the Greek labour market as a prerequisite for every disbursement of the loans provided by support mechanisms in order to handle the general government’s funding gap.

The main pillars of labour market interventions since 2010 can be summarised in:
● The introduction of measures reducing wages, reducing or abolishing benefits, freezing wage increases and diminishing minimum wage in both private and public sector
● The deterioration of full, stable employment and protection against individual and collective dismissals in favour of flexible forms of work that involve limited salaries and adjustments in working hours
● The way collective agreements are formed (parts involved, process and coverage) and their duration

The present study will assess the link between deregulation of labour market institutions and average income of households through a short overview of the relevant literature that provides theoretical considerations and facts about the formation of the Greek labor market in the pre-crisis period. The second part will discuss the main interventions in this field and present a metric of labour market deregulation. Next, an econometric model will be employed in order to assess the impact of deregulation on average household income.

2. The form of the labour market in the pre-crisis period in Greece

In Greece, about 20% of the total workforce was receiving a salary of no more than 700 euros well before the crisis, creating a pool of cheap and mainly highly qualified workforce. At the same period real wages in Germany were reduced by 11%, while 4 million workers employed in “mini jobs” schemes earned less than 600 euros per month (Kouzis 2012). As it becomes obvious, the measures introduced since 2010 were nothing new either to the European or to the Greek labour market, but part of gradual changes in labour law during the last two decades.

By the time memoranda reforms became part of Greek legislation, the Greek labor market was ambiguously regulated. Temporary contracts were almost as popular as to the rest EU 15, but part time employment was lower than Eurozone’s standards. An explanation to the latter could be that private sector was indifferent to non full-time employment until the burst of the economic crisis.

![Figure 1. Part-time workers in % of total employment](image)
Greek labor cost increased more than in EU15 in the period before and after the Olympic games that concurs with a period of major construction projects, and modernization and expansion of tertiary sector activities in both private and public sector. Wage convergence within the Eurozone never happened despite its upward trend after the accession in the EU. Therefore, compensation of employees increased in a much more moderate way than labour cost, indicating differences in productivity and in price level of goods and services between Greece and the Euro area.

Moreover, labor protection was never a bottleneck to the Greek market, which is proved by the upward trend of dismissals. At the same time, balance of hirings to dismissals is diminishing feeding unemployment.
Unemployment in Greece, since 1990’s, was mostly close to the EU15 rates. This relatively small deviation from the European standards can be attributed to intertemporal shortcomings of the Greek production structure, which were amplified by competitiveness of Common Market policies, but also to the Greek shadow economy that absorbs part of inactive workforce.

The number of wage earners in Greece is relatively small due to the large rate of self-employment. Private sector is dominated by SMEs, mostly family firms, with lower than public sector’s contribution to hirings. However, only a small portion, around 30%, of the wage earners is employed in public sector. Furthermore, public sector’s employment was below the European average even before the crisis, which contradicts the assumption about particularly large size. Nevertheless, it was subject to fundamental malfunctions that kept it away from being efficient.
All these indicate that Greek labour market suffered mainly from issues regarding the production structure and monitoring mechanisms rather than excessive regulation. However, interventions for stabilizing Greek economy were focused on reforms that liberalised the labour market in order to become more competitive and efficient.

3. Labour market interventions: A short literature overview

Structural labour market reforms is an OECD-IMF orthodoxy that anticipates job creation, boost of exports and markets’ self-regulation that resolve crises. This strategy was particularly famous in the UK and USA during the 80’s and became the paradigm for the rest of the world by 1990’s. Even though this policy concept received tremendous critique due to its dubious efficacy, in 2009 EC published a study based on the EC’s QUEST model, which indicated that the effects of the crisis would be mitigated, only if labour markets were sufficiently flexible.
Checchi and García-Peñalosa (2010), on the contrary, argue that labour market protection provides insurance against market forces and shocks. Stockhammer and Onaran (2012) claim that flexibility is not able to reverse the negative trends of the economic crisis and that this kind of policy resulted in declining wage shares that created an unsustainable growth model in the Euro area. Keynes stemming from the perception that wages are the source of demand, in 1930 stated that wage flexibility in wages would cause economic instability, while it is also insufficient to create full employment.

Dedoussopoulou et al (2013) note that this practice tends to reduce total individual consumption - including the revenues in the sector of social security - and has a positive influence on the upward course of recession. Nominal wage cuts and labour market flexibility act as a device of domestic devaluation that aims to improve trade balance but increases the real value of debt. Stockhammer and Onaran (2012) argue that this kind of adjustment in small, open European economies is incapable of affecting the overall outcome in a positive way because most of the exports are within the Euro area.

Treating labour as private cost merely overlooks the effects on macroeconomic indicators and suggests the adoption of flexible forms of employment as a solution to economic turbulence. Consequently, interventions that promote labour market liberalisation are more likely to have a sharp decrease in domestic demand than improvement in competitiveness and economic performance.

4. Labour market legislation and a metric of deregulation

The present study assesses if, how, and to what extent liberalisation of labour market institutions affects income of household, which is a sufficient measure to estimate wealth that determines domestic demand and economic performance. In doing so, labour market reforms should be represented by a quantifiable variable. Basic memorandum’s legislation in this field consist the source of data that fall under three major categories: deregulation in payroll, collective bargaining and flexibility.

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<td>Category</td>
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<td>Payroll</td>
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<td>Collective bargaining</td>
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The evaluation of every intervention was a simplification of the concept followed by OECD for computing the Protection of Employment indicator. The graph clearly indicates that since 2009 Greek labor market experienced a severe deregulation that was more intense in the side of flexibility in employment and less significant on issues regarding labor earnings. The total amount of deregulation is computed as an average of deregulation in the three mentioned areas.

5. Empirical analysis of the effect of labour market interventions on income

In this section we will attempt to justify the theoretical considerations that link flexibility in the labor market to wealth and decrease in demand. In doing so, we estimate the effect of deregulation on average household income during the crisis. We follow panel data analysis in order to have a sufficient amount of data, and use annual time series data that run from
2009-2011, so that there is no seasonality. Cross-sectional variables are regional values apart from deregulation, which is measured at national level. All quantitative data were retrieved from Eurostat.

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Average household income, NUTS2
Source: Eurostat

Household income depends on the expenses of private and public sector that pay salaries of employees and freelancers’ profits. Gross fixed capital formation is a metric of expenditures on GDP, and by this means it affects income of households. Unemployment on the other hand, whether subsidised or not, is considered as income loss. Finally, according to the previously discussed literature, income is expected to be affected by labor market flexibility, positively or negatively.

Therefore, average household income is given by:

\[ inc = c + \alpha \cdot dereg + \beta \cdot un + \gamma \cdot cf \]

where \( inc \) is average household income, \( dereg \) is the value of total deregulation, \( un \) is the number of the unemployed, and \( cf \) is the gross fixed capital formation.

Running the equation with the OLS method gives some indication of endogeneity. According to the economic theory, unemployment is a function of capital flows and previous
period’s unemployment. Therefore, we employ instrumental variables that can interpret unemployment in that way. Moreover, we fill the instrument list with demographic variables and variables that express labor skills.

The instrumental variables employed are the number of the unemployed in the previous period \( g \), trade balance \( x_m \), population density \( \text{pop} \), the number of people with tertiary education \( ed \). The latter variable will be employed in quadratic form in order to capture the effect of over-education. Instrumental variables are checked for correlation with regressors and error term.

We run regression with tsls and cross section weights, due to the differentiation in economic performance of Greece’s 13 regions. Signs confirm the initial assumptions about the strong negative effect of deregulation on income. There is also a negative relationship between income and unemployment, and a positive relationship with capital formation according to the economic rationale.

<table>
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<th>Variable</th>
<th>Coef</th>
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<tr>
<td>( C )</td>
<td>11 63.54***</td>
</tr>
<tr>
<td>( DEREG )</td>
<td>-140.86***</td>
</tr>
<tr>
<td>( UN )</td>
<td>-5.02***</td>
</tr>
<tr>
<td>( CF )</td>
<td>0.75***</td>
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Weighed statistics

| \( R^2 \) adjusted | 0.84 |
| \( F \)-statistics | 68.65 |
| Durbin-Watson | 1.41 |

As is obvious, household income depends heavily on the level of labor market regulation. Despite the fact that only a part of active workforce is wage earners affected by swifts in the form of labor relations, the protection of labour seems to affect all kinds of household incomes. This means that a big part of private sector in Greece is largely dependent on domestic demand and cannot be involved in export activities. This result is also in line with the argument about the wage-led nature of the Greek economy.
Unemployment is also negatively related to the household income, but to a lesser extent. Although it is only a small portion of the unemployed that receives unemployment benefit, it should be mentioned that it is higher than the remuneration received by flexible forms of employment. Finally, the small but positive effect of capital stock to average household income indicates that household wealth is shaped by expansionary or contractionary policies in both the private and public sectors.

6. Concluding Remarks

The reforms in the labour market constituted the main tools of internal devaluation in order to restore competitiveness and stabilise the Greek economy. Nevertheless, intensive deregulation in the Greek labour market could not respond to the inefficiencies caused by a defective production structure and insufficient monitoring mechanisms. Labour market reforms affected negatively households’ wealth enhancing the dynamics of the evolving recessionary spiral in Greece. Competitiveness did not seem to be restored (World Economic Forum 2010) while the Greek economy experienced the most severe shock in its recent history losing one quarter of its GDP since 2008

The Greek economy needs injections that impact on effective demand creating job vacancies with sustainable – economically and socially - conditions. This requires interventions in the opposite direction than the ones that took place in Greece, such as reformation of the production model with a focus on quality factors rather than compression of labor costs, restoration of labor protection legislation and establishment of sufficient monitoring mechanisms.

References


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