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The limits of engineering collective escape: the 2000 reform of the Greek labour market

Panel 14: Adjusting to Europe: the Politics of Structural Reforms

Dimitris G. Papadimitriou

Department of Government

University of Manchester

Tel. 0161- 2754888

Fax: 0161-2754925

Dimitris.papadimitriou@man.ac.uk

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Introduction[1]

In recent years much debate has been generated over the need for the European economy to become more competitive. The introduction of the single European currency, the Euro, in 1999 has unleashed a powerful stimulus for domestic transformation. With economies in the Eurozone now ever more closely interdependent hardly any area of domestic economic policy escapes European Union (EU) scrutiny. The formal rules of the Stability and Growth Pact and, more recently, the introduction of softer mechanisms of policy co-ordination such as the Open Method of Co-ordination (OMC) have produced a powerful new agenda for the structural adjustment of the European economy. Calls for the intensification of competition within the Eurozone are challenging the traditional role of the European state in sectors such as telecommunications and electricity. More importantly the new reform agenda, with its focus on labour markets and pensions, has opened up a passionate debate over the ‘modernisation’, ‘refocusing’ and/or ‘renegotiation’ of the European model of society (Ross and Martin 1999). The way in which Europeans work and retire are now at the forefront of political and economic contestation.

This paper looks at the process of labour market reform in Greece since 1997, focusing in particular on the 2000 reform initiative launched by the Socialist (PASOK) government of Costas Simitis. As indeed in many other EU member states, developments at the European level - in particular the Luxembourg and Lisbon processes - have had an important impact on the domestic reform agenda. Yet powerful stimuli for reform were also provided by the domestic context. By the end of the 1990s Greece had the second highest rate of unemployment and one of the worst employment records in the EU. Since the beginning of the decade the country had witnessed an unprecedented influx of economic migrants, the vast majority of whom remained at the margins of the labour market and received minimal protection from the Greek state. The weaknesses of the Greek labour market also had significant economic fallout. Greece's poor employment record cost the government dearly in lost revenues and further undermined the financial sustainability of the troubled social security system. Distortions in the labour market were also blamed for the low levels of competitiveness of the Greek economy.

Despite the powerful arguments for radical domestic adjustment, however, the 2000 labour market reform initiative was marked by controversy and conflict between the government on the one hand and the social partners on the other. The legislation that followed has been widely regarded as having failed to address the key weaknesses of the Greek labour market. In the process it had also undermined the government's relations with both the unions and employers. The aim of this paper is to look at how this failure of initiative and response came to be. In doing so the paper places its empirical analysis into a game theoretic framework that seeks to reveal both the structural characteristics of the '2000 labour market reform' game and the strategies followed by its main protagonists. References will also be made to actors' low trust and the failure of a 'winning' package deal to emerge. These, it will be argued,

[1] This paper forms part of a collaborative project between the author and Prof. Kevin Featherstone from the London School of Economics. Fieldwork for this paper included an extensive set of personal interviews conducted in Athens in autumn/winter 2002-3. The author would like to record their gratitude to the interviewees, whilst also respecting their confidentiality.

produced powerful blockages to reform and eventually transformed the 2000 reform initiative from a prisoner's dilemma to a deadlock game.

The paper is structured in four parts. The first reviews the main characteristics of the Greek labour market in the late 1990s and highlights the basic parameters of the policy problem. The second part looks at the 1997 Confidence Pact and the Socialist government's difficulties in building a consensus over its 1998 labour market reform. The third part focuses on the domestic discourse of the 2000 reform initiative focusing on the actors' strategies and the construction of the reform agenda. In its concluding part the paper seeks to conceptualise the '2000 labour market reform' game and highlight reasons that contributed to its rather poor outcome.

'Greece Doesn't Work': the weaknesses of the Greek labour market in perspective

Much of the Greek 'labour market problem' since the second half of the 1990s has been understood within the context of a rapidly growing economy that has been unable to generate high rates of job creation. During the period 1995-1999 the Greek economy grew on average by 3% a year as compared with the EU average of 2.4%. Yet, over the same period employment growth in Greece stood at a disappointing 0.6% as compared with the EU average of 1.1%. Astonishingly, for the period 2000-2003, despite the fact that Greece was the third fastest economy in the EU (with an average GDP growth of 4%), employment growth stood at just 0.1%, almost ten times slower than the EU average of 1.1% (with the EU's GDP growth at 2.3%, almost half of that of Greece). Throughout the 1990s unemployment in Greece rose steadily from 6.4% in 1990 to 9.2% in 1995, reaching its peak in 1999 at 11.6% (10.2% in 2001). During the same period the number of long-term unemployed nearly doubled, accounting for 56.0% of total unemployment in 1999 (EU=48.2%). For the same year unemployment for the under-25s stood at an astonishing 31.3% (EU=17.0%) whereas the figure for young women was even higher at 40.4% (EU= 18.4%). In 1999 the employment rate in Greece stood at 55.3%, the third lowest in the European Union (ahead only of that of Italy and Spain) and 7% lower than the EU average (62.3%) (Commission, Employment in Europe, 2002).

Labour costs in Greece remained the second lowest in the European Union (ahead of Portugal). In 1999 the average Greek wage was 65% of the EU average, where as for industrial workers the share fell to under 50%. Despite some moderate pay increases during the second half of the decade, labour costs per unit of production in 1998 had decreased by 15% since 1990 (Kouzis, 2001). In 2000, wage costs accounted for 76% of total labour costs as compared with the EU average of 73%. In the same year the ratio of total taxes on employed labour[2] in Greece was only marginally higher than the EU average (38.5% and 36.7% respectively) (Commission Compendium 2002). Over the last decade labour productivity has consistently ranked the second worse in the European Union (ahead of Portugal). In 1998 the productivity rate (per hour worked) of the Greek workforce was just over 50% of that of their American counterparts and less than 70% of the EU average (Commission, (2001)79 final). Low productivity rates reflect Greece's poor record of public spending on education (3.7% of GDP in

[2] These include personal income taxes plus employees' and employers' social security contributions as well as payroll taxes.

1999, the lowest share in the EU) as well as disappointing indicators of lifelong learning and R&D (the worst in the European Union).

In 1999 44.8% of the Greek workforce was self-employed. This was the largest share among all EU member states and almost three times larger than the EU average. In the same year part-time employment accounted for only 5.8% of total employment, registering the smallest such share amongst the EU member states (EU=17.6%). On the other hand full-time-equivalent employment rates in Greece and the EU were much closer (53.7% and 56.2% respectively). In terms of temporary employment (fixed-term contracts) the Greek figure of 12.0% was only marginally smaller than the EU average of 13.4% (Commission, Employment Europe, 2002). Yet flexible employment in Greece seemed to have more frequently been borne out of necessity rather than choice. In 1999 the Greek average for involuntary part-time employment (43.8%) is almost two and half times higher than the EU average (16.8%). The same is also true for employment based on involuntary fixed-term contacts where the Greek average is almost twice as high the EU one (Sabethai, 2000). On average the Greek labour force tends to work longer hours than their EU counterparts. In 1999 average working hours of full-time workers in Greece were 39.3 as opposed to 36.5 in the EU. The same was also true for white-collar employees where the figures were 40.9 and 40.4 respectively.

The legislative framework regulating the Greek labour market has traditionally remained incomplete and slow to react to new employment trends (both within Greece and internationally). For example, despite its de facto use for many decades, part-time employment was legally recognised only in 1990 (Law 1892/90). Similarly legislation on the regulation of atypical forms of employment (mainly contract work) was introduced as late as 1998 (Law 2639/98). Even more astonishingly until 1998 the law prohibited the operation of private employment agencies (even after the adoption of the 2639/98 Law the operation of these agencies is heavily regulated). In addition to its fragmented and somehow erratic coverage, the Greek labour market legislation also displayed significant discrepancies with regards to the working conditions in the private and public sectors. In general the labour market regime in the public sector is far more ‘employee friendly’ than that of the private sector. Indicative of these discrepancies is the fact that until 1998 the law banned the public sector (including all ministerial bureaucracies, regional and local administration and state-controlled corporations) from introducing flexible patterns of employment such as part-time and seasonal work and/or fixed-term contracts.

As far as the private sector is concerned (which forms the main focus of this paper), Greek labour market legislation has traditionally displayed a strong bias towards the protection of existing ‘conventional’ full-time employment (rather than the aggressive promotion of flexible employment as a means of faster job creation). This has been mainly achieved through higher levels of severance pay than the EU average (29 weekly wages in Greece as compared with 17 in the EU)[3] as well as through tight limits on collective redundancies (significantly tighter than those stipulated by the EEC directive 75/129).[4] Additionally employers pursuing collective redundancies

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[3] For blue-collar workers the severance pay stipulated by the Greek legislation is more convergent with the EU average.

[4] Prior to the introduction of the Law 2874/2000 the monthly limits on collective redundancies were as follows: a) up to 5 employees for businesses employing between 20 and 49 staff; b) between 1 and 4

have been required by law to engage in consultations with the unions as well as to secure approval from the Ministry of Labour, the latter often being a lengthy and extremely bureaucratic process. The legal framework on working time provided further restrictions on flexible employment. Until 1990 working time (the statutory 40 hours-a-week) was strictly calculated on a weekly basis. By the end of the 1990s, the reference period for the calculation of working time was extended to six months (under Laws 1892/90 and 2639/98), but such an extension had been subjected to a number of restrictions and required full union consent. Throughout the 1990s not a single company was able to make use of this provision.

The considerable levels of protection for 'conventional' forms of employment, however, did not extend to those employed under more flexible working arrangements. Employees working on a part-time, seasonal or fixed-term basis often found themselves short-changed by the existing legislation. Discrimination against these employees has often included lesser forms of protection with regard to their working hours, holiday entitlements and severance pay as well as their pension and social security rights. The big discrepancies between the legal obligations associated with full-time employment on the one hand and part-time/temporary on the other may also explain why the latter (particularly fixed-term contacts and contract work) has been used extensively by employers over the last few years**.** Further elements of flexibility in the Greek labour market have been provided through the measures of 'temporary suspension' (διαθεσιμότητα) and 'compulsory overtime' (υπερεργασία). The former relates to the managerial prerogative (i.e. without union consent) to suspend employment for a part (or the totality) of the workforce for a period of up to 3 months per year, during which the employees receive a fraction of their normal pay.[5] 'Compulsory overtime' relates to a unique characteristic of the Greek labour market legislation that provides employers with easy and relatively cheap access to overtime employment. This measure has been utilised widely since its introduction in 1975. It has allowed employers to introduce overtime employment of up to 8 hours a week (on the basis of individual, rather than union, consent) with the relatively moderate pay increase of 25%.[6]

Yet, an analysis of the Greek 'labour market problem' based exclusively on the content of the existing legislation may depict a rather misleading picture. Many of the peculiarities of the Greek case lay not so much in what the legislation actually stipulates, but rather on the range of labour relations it manages to regulate as well as on whether the legal framework can be effectively enforced. In this sense issues of coverage and implementation are of crucial importance. In 2001 the extent of the black economy in Greece stood at 28.7% of GDP, the highest figure amongst all the OECD members (Macedonian News Agency, 1.3.2002). The vast majority of jobs (perhaps in their hundreds of thousands) that fuel this illegal economic activity remain unprotected by the labour market legislation. The widespread existence of black

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employees for businesses employing between 50 and 250 staff; and c) up to 2% of the total workforce for businesses employing over 250 staff. Under Law 2874/2000 these limits were altered as follows: a) up to 4 employees for businesses employing between 29 and 250 staff; and b) up to 2% of the total workforce for businesses employing over 250 staff.

[5] The measure 'temporary suspension' (διαθεσιμότητα) originates from the mid-1950s (Law 3198/55). During the period of their temporary suspension employees are remunerated at 50% of their average wage during the last two months prior to their suspension.

[6] 'Normal overtime' referred to employment over 48 hours a week which was remunerated, depending on the length of overtime, with up to 75% over and above normal pay.

economy is not new; it has been a feature of Greek economic and social life for many decades. Over the last decade, however, the problem has taken an altogether different turn with the arrival of unprecedented numbers of illegal economic migrants in the country. In the absence of reliable official statistics, estimates about their numbers have varied significantly, with the most conservative of them converging around the 650,000 figure (Sabethai, 2001; Petronoti and Triandafyllidou, 2003). Astonishingly for most of the 1990s the Greek state made no effort to register the existence of these people and incorporate them into the labour market. As a result the vast majority of them remained outside the protection of the labour market (or indeed any other) laws, often been subjected to terrible living and working conditions. In 1998 the government's initiatives to introduce 'green cards' saw the legalisation of approximately 250,000 illegal economic immigrants, but still an unknown number of foreign workers continue to be employed in the black economy.[7]

The problems associated with the legalisation process of foreign workers and the control of undeclared employment (both by foreign and Greek workers) reflect wider regulatory weaknesses of the Greek state. Many of these stem from the well-documented (Sotiropoulos, 1993) inadequacies of the Greek public administration that, with regards to the labour market, have only been exacerbated by considerable delays in modernising the respective legislation (see above). Further confusion has been caused by the fluidity surrounding the institutional position and competences of labour watchdogs such as the Labour Inspectorate (responsible for upholding standards on working conditions). On a different level, many of the problems of regulating the Greek labour market are associated with the very structure of the Greek economy. The very high levels of self-employment and, more importantly, the very small size of the average Greek business (99% of businesses employ less than 20 staff accounting for more than 60% of total employment) (Kouzis, 2000) make the Greek labour market a notoriously difficult jungle to police! In the highly personalised, non-unionised, environment of the typical Greek business the violation of labour market legislation is far more difficult to resist or discover. Indeed it is the archipelago of small enterprises, rather than the large companies, that the hand of the law finds it harder to reach. It is there that Greek labour market meets much of its de facto flexibility.

The significant discrepancy between the letter of labour market legislation and its actual application on the ground is not a solely Greek problem. Indeed many countries across southern Europe face similar challenges as they struggle to implement labour market policies that are often inspired by northern European patterns of employment that share few of the socio-economic peculiarities of the south. Similar problems are also evident in the implementation of EU employment directives that are often negated by the realities of labour relations on the ground. At a theoretical level the difficulties of internalising of European norms in the domestic setting have been conceptualised by the literature on Europeanisation and particularly its 'goodness of fit' argument (Börzel, 1999). Yet, despite sharing some of the more general traits of the south European employment structure, the Greek labour market presents a rather unique case due to its failure to deliver on both grounds of efficiency and protection. It terms of efficiency the system produced the lowest rate of job creation (relative to

[7] In July 2001 the government invited a second wave of legalisation applications. Some 280,000 foreign workers responded to this invitation but as of summer 2003 it is not yet clear how many of them received their green cards.

economic growth) in the EU. In terms of protection the system delivered a strikingly uneven three-tier pattern with: (i) relatively advanced levels of protection for those in 'conventional' full-time employment (particularly in the public sector); (ii) significantly reduced levels of protection for those in part-time and seasonal employment as well as for those on contract work; and (iii) practically no protection at all for a substantial number of people (both Greek and foreign) employed in the black economy.

From the 1997 Confidence Pact to the disillusionment of the 1998 labour market reform

Both the problems of slow job creation and the incomplete regulation of the Greek labour market formed important priorities of the Socialist government's reform initiative in 1998. The process leading up to the 1998 labour market reform begun in March 1997 with the launch of a social dialogue on "development, competitiveness and employment" involving the government and representatives from the employers organisations and the unions. The social dialogue was meant to illustrate the commitment of the Simitis government (who have won the September 1996 election) to social consensus for the reform agenda associated with the country's aspirations for entry into Economic and Monetary Union (EMU) by 2001. Following eight months of laborious negotiations, during which the process came close to collapse on many occasions, the dialogue finally culminated in the signing, on 10 November 1997, of the "Confidence Pact between the Government and the Social Partners towards the year 2000" (Featherstone and Papadimitriou, 2003). Despite having invested much political capital in the whole exercise the government received a mixed return from the Confidence Pact. On the one hand the Pact gave the government the opportunity to claim that an agreement of this kind signified a real breakthrough in its relations with the social partners and the political traditions of the country. Yet in the process of keeping the social partners on board, the government had paid a heavy price: the text of the Confidence Pact remained vague and general and no agreement was reached over the specific direction of the forthcoming reform.

Many of the disagreements that lurked in the background during the negotiation of the Confidence Pact resurfaced with a vengeance when the Minister of Labour, Miltiadis Papaioannou, pressed on with the reform of the Greek labour market during the summer of 1998. Despite early expectations for a far-reaching reform, at the end the Law 2639/98 was only able to deliver a 'mixed bag'. The law tightened up the regulation of part-time and 'atypical' forms of employment and provided for an improved regime for the operation of the Labour Inspectorate. It also recognised the role of private recruitment agencies, but restricted their scope to specific professions and imposed a series of bureaucratic measures regulating their operation. Yet on the more controversial aspects of its agenda the government achieved limited success. Whilst the new law provided for a more flexible calculation of working time[8] the

[8] For companies employing more than 20 staff the new law provided for the calculation of working time on a 6-month basis. During this period an employee could work with no overtime payment for up to 9 hours a day (in some exceptional cases up to 48 hours a week) for a period of 3 months provided that weekly average working time over the reference period of 6 months did not exceed 40 hours. For companies employing between 5 and 20 staff, an employee could work with no overtime payment for up to 9 hours a day for a period of 2 months provided that the weekly average working time over the reference period of 4 months did not exceed 40 hours.

principle of union consent on this issue remained intact. Union consent was also safeguarded in relation to the introduction of Territorial Employment Pacts (TEPs), which, in certain deprived areas, could set pay below the nationally agreed minimum wages. The government's proposals for the introduction of part-time employment in the public sector were also seriously compromised: the measure would only be introduced in the state-controlled corporations, but not in the ministerial bureaucracies or local government.

The passing of Law 2639/98 through parliament in August 1998 was accompanied by a wave of strikes amidst an atmosphere of tension and mutual recriminations between the government and the social partners (as well as all opposition parties). Things were never meant to go this way. 18 months earlier the government had launched a process of social dialogue in the hope that a wider social consensus could be built on this issue. Yet by the summer of 1998 the government was under fire by all sides. For the unions, its tactics during the reform process had betrayed the spirit of the 1997 Confidence Pact. Many items that found their way into the new law had never been agreed upon (e.g. working time) with the unions, whilst others had not even been discussed during the social dialogue (e.g. TEPs). For their part the employers saw the final outcome of the 1998 as a 'soup' that lacked conviction and direction. In their eyes the government had failed to shake away its interventionist tendencies and had missed the opportunity for a significant breakthrough. Most importantly, however, the 1998 reform had seemingly failed to meet its prime objective: that of reducing unemployment. With employment figures showing little sign of improvement, the government soon grew as unconvinced about the impact of Law 2639/98 as its critics. Within a couple of years a new labour market law would be placed on the negotiating table.

This time is for real whatever the cost…or is it? Enter the 2000 labour market reform

Despite its very tight result, the April 2000 election gave PASOK the opportunity to go into its third successive term in office with a relatively comfortable parliamentary majority. Having secured Greece's entry into the Eurozone and won his second successive election, the position of Prime Minister Simitis within his party was significantly strengthened. With most of his internal opposition disunited and silenced many thought that Simitis, for the first time during his Premiership, would be able to form a truly 'Simitite' Cabinet in order to pursue an agenda of radical reform. Throughout the electoral campaign, Simitis had made it clear that his new government would focus its attention on rectifying some of the more structural problems of the Greek economy, which would allow Greece to compete successfully with other Eurozone members (*To Vima*, 5.3.2000). In the Prime Minister's strategic planning two of the thorniest problems of his previous term in office - labour market and pension reform – would be tackled within the first 18 months of his new term, allowing enough time for his government to recover its strength before the next election.

In order to pursue this ambitious reform agenda Simitis appointed one of his closest and most trusted allies, Tassos Giannitsis, to the Ministry of Labour. Giannitsis was a man of many contradictions. A German-educated economist (PhD), he had served as the chief economic advisor to the Prime Minister under both Andreas Papandreou

(1994-1995) and Simitis (1995-2000). During this time he acquired a reputation of being a hard-working, low profile operator whose deep knowledge of economics had provided a vital input in the design of the government's economic strategy leading to Greece's qualification into the third stage of EMU. Yet Giannitsis was not a politician by trade. He was not a Member of Parliament and had openly declared that his political ambitions did not extend beyond the lifetime of this government. In this sense, his appointment as Minister of Labour was a gamble. On one hand his standing as an extra-parliamentarian Minister gave him a considerable degree of freedom from the re-election worries facing career politicians. On the other hand, unlike his predecessor, Miltiadis Papaioannou, his knowledge of day-to-day politics was limited and, crucially, he lacked close links with the party's machinery and the unions. These were qualities that his Deputy Minister, Christos Protopapas[9] (who had also served under Papaioannou) had in plenty. Giannitsis' ideological profile was strongly influenced by his educational background and his close association with Professor Angelopoulos. In many ways he was an archetypical 'German Social Democrat'; a strong believer in the state's regulating role over the economy whose profile contrasted sharply with that of Giannos Papandoniou, the Cambridge-educated Minister of National Economy who had long been pressing for an economic reform agenda modelled on the Anglo-Saxon tradition.

The relationship between the two Ministers got off to a bad start when, on 11 July 2000, Papantoniou leaked to the press that the government's plans for labour market reform would be "a strong shock" for the unions (*Kathimerini*, 11.7.00). Papantoniou's remarks, which came just two days before the government's official announcement on this issue, angered Giannitsis who felt his credibility in the eyes of the unions was unnecessarily undermined. When the Minister of Labour eventually presented his reform proposals, he revealed the government's determination to revisit some of the 'unfinished business' of the 1998 reform. Stating PASOK's pre-election commitment to reduce unemployment by 40% in four years (by creating 300,000 new jobs), Giannitsis announced his intentions to: (i) establish further flexibility on working time (based upon managerial prerogative); (ii) radically restrict overtime; (iii) reduce employers' national insurance contributions for newly recruited staff; (iv) relax limits on mass redundancies (*EIRO*, 27.7.00).

Giannitsis also revealed that the process of consultation with the social partners was to be radically different from that which had led to the signing of the Confidence Pact in 1997. For a start, the allocated time was considerably shorter. The government planned to begin consultations with the social partners at the end of August with a view to concluding the process by early October. The dialogue's agenda was structured around nine items[10] which would be negotiated in parallel, with no disagreement in one item being allowed to stall progress in other items. Unlike 1997, the government would negotiate with the social partners on a bilateral basis, not through the establishment of tri-partite groups of experts, whilst plenary sessions were to be fewer. Publicly the government also appeared to encourage bilateral contacts between the unions and the employers with a view to them making joint submissions to the dialogue (*EIRO*, 27.7.00).

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[9] Protopapas had been President of GSEE during 1993 to 1996.

[10] These were: 1) EU Community Support Framework; 2) Qualitative improvement of support mechanisms for employment policies; 3) Fiscal, income and anti-inflationary policy; 4) Structural policies for competitiveness; 5) Policies for the development of entrepreneurship; 6) Institutional framework for human resources policies; 7) Initiatives for high-unemployment areas; 8) Active employment policies; 9) Safety net against exclusion, inequality and poverty.

Despite their fierce condemnation of the government's agenda, the unions of both the private (General Confederation of Greek Labour, GSEE) and the public (Higher Command of Public Servants' Unions, ADEDY) unions did not turn down Giannitsis' invitation. The big three employers association (SEV (League of Greek Industries), ESEE (National Confederation of Greek Commerce) and GESEVEE (General Confederation of Professionals, Medium and Small Business and Traders) also decided to participate in the process. In the first meeting of the social dialogue on 24 August 1998 new tensions emerged as GSEE decided to temporarily walk out of the process accusing the government of submitting a paper to the social dialogue that was far too general and was not backed by any statistical data! GSEE also warned the government that it would not give its consent to any reforms that involved unilateral managerial prerogative on working time, the reduction of limits on collective redundancies and any strategy that would encourage the extension of part-time employment in the private and public sector. For its part, the government continued its consultations with the employers' side and promised the unions that a detailed document with the government reform proposals would be presented to the social partners by early September.

Indeed on 4 September 2000 Minister of Labour Tassos Giannitsis published a document entitled "Policies for Combating Unemployment" in which the government's proposals for reforming the Greek labour market were explicitly spelt out (Ministry of Labour, 2000). The content of the proposals were widely interpreted as a conciliatory gesture towards the unions (*To Vima*, 3.9.00). Plans for granting managerial prerogative on working time had now been abandoned. The principle of union consent on this issue was thus maintained. The government did propose the annualised calculation of working time, but the (voluntary) adoption of this measure was linked to the introduction of a 38-hour week. The reduction of the working week from 40 to 38 hours was designed to please the unions' leadership, which had long argued for the introduction of a 35-hour week. On mass redundancies, the existing limits on large businesses (with over 250 staff) remained unchanged and the changes introduced for medium-sized business were not dramatic, both standing well below what the EEC directive 75/129 stipulated.[11] Certainly the government had not taken on board a maximalist agenda that argued for a complete abolition of such limits. The government's proposals on the reduction of overtime were more radical. The 8-hour a week 'compulsory' (under management prerogative) overtime was to be cut down to three hours per week, whilst the cost of all overtime was significantly increased.[12] On the reduction of employers' national insurance contributions for newly recruited staff, the government hinted that the proposed cuts would be in the region of 20-30%, but the precise figure was left open for the social partners to agree upon. Finally, on the issue of part-time employment, the government pushed for a 7.5% wage increase (above the minimum wage, proportionally) for those employed for less than 4 hours a day who would also qualify for one third of unemployment benefit during their first year of employment (Ministry of Labour, 2000).

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[11] Mass redundancy limits for businesses employing between 20 and 250 staff were set at 4 employees per month.

[12] Pay for the three hours (40-43) of 'compulsory' overtime would increase from 125% of normal wages to 150%. For 'normal' overtime (on the basis of management-union consent) between 43-48 hours per-week pay would increase to 175% of normal wages (from 125% previously). For overtime over and above 8 hours per week (i.e. over 48 hours) pay was set at 250% of normal wages (up from 200%).

Despite their conciliatory tone (compared with earlier announcements by the government), Giannitsis' proposals met very strong opposition by the unions. For GSEE even the slightest increase in the limits of redundancies was a *casus belli*, whilst the whole thrust of the proposals was seen as yet another indication of the government giving in to employers' demands and promoting the further de-regulation of the Greek labour market (*in gr*, 5.9.00; *To Vima*, 5.11.00). If Giannitsis had managed to alienate the unions, however, he had certainly failed to impress the employers. According to SEV the government's proposals were bound to increase labour costs by up to 8% (*in.gr*, 16.11.2000) whilst the reduction of redundancy limits were deemed far too moderate to have a real impact. Moreover, SEV remained disappointed that the government did not take on board its proposal for managerial prerogative on working time. ESEE and GSEVEE also resented the increase in the cost of part-time employment which is much more widespread among commerce and small businesses than in large industries (Sabethai, 2000).

Above all what united all three employers' associations in their opposition to Giannitsis' plans was the almost complete abolition of 'compulsory' overtime. For years, this peculiar arrangement had been a built-in feature of flexibility for the Greek labour market (Sabethai, 2000; Kouzis, 2001). Taking into consideration that the Greek labour market had been heavily biased towards protecting existing employment (through strict redundancy limits and costly severance pay), most employers preferred to utilise their workforce more intensively (through compulsory overtime) rather than resorting to new recruitment. This option offered many employers the best of both worlds: access to relatively cheap additional employment from existing employees as well as protection from the strict legislative framework associated with the recruiting (or potential dismissal) of new staff. Interestingly, Giannitsis' position on this issue did not even get the unqualified support of the unions which recognised that overtime provided many of their poorly-paid members a means of supplementing their income. Against a background of entrenched positions and serious misgivings about the government's proposals, the process of social consultation made little headway during September and October 2000.[13]

As consensus with the unions became all the more difficult to find, internal disagreements within the Cabinet and PASOK began to grow. Whilst Giannitsis' proposals enjoyed the almost unconditional support of the Prime Minister, both the content of the proposed reform and the government's strategy behind it were openly questioned by some of the Cabinet's heavyweights, including Defence Minster Akis Tsochatzopoulos and Minister of Culture Theodoros Pagalos (*Eleftherotipia*, 3.11.2000; *Ethnos*, 20.11.00). The latter was eventually removed from the Cabinet in November 2000 following a highly damaging public row with the Prime Minister (*Eleftherotipia*, 20.11.00). The sacking of one of Simitis' former key 'modernising allies' was seen as a clear indication of the Prime Minister's determination to see through the new labour market reform without making any significant alterations to Giannitsis' 'compromise' proposals in September. Indeed, following a period of intensive consultation within PASOK, the government was able to create the necessary consensus for its troubled reform initiative.[14] When submitted to Parliament

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[13] On 10 October 2000, GSEE organised a one-day strike against the government's plans on labour market reform. See also *To Vima*, 1.10.00 and 15.10.00.

[14] See, for instance, the stormy discussions during PASOK's National Conference on Unemployment (3-4 November 2000) and the joint meeting of PASOK's Parliamentary Group on Employment with the party's trade unionists (23 November). During

for discussion (on 24 November 2000), the draft bill on labour market reform differed little from the proposals that Giannitsis had presented back in September. With most internal disagreements within PASOK ironed-out over the previous weeks, the discussion of the draft bill in Parliament provided no further surprises for the government other than the expected condemnation of all opposition parties and a one-day strike announced by GSEE for 7 December 2000 (Hellenic Parliament 2000; *Eleftherotipia*, 23.11.00 and 7.12.00; *To Vima*, 26.11.00). On the same day, the 2874/00 law on 'Promoting of Employment' was adopted by the Greek Parliament.

The passage of 2874/00 law through Parliament was a Pyrrhic victory for the government. The tensions and recriminations that dogged the 2000 labour market reform bore little resemblance to the consensual profile that the government had tried to build with the 1997 Confidence Pact. In the process of promoting its reform agenda, the government had failed to broker consensus and alienated itself from both the unions and the employers (OKE, 2001). Along the way, Giannitsis stood accused of picking the wrong fight; of delivering a reform that was both politically costly to the government and unable to achieve its primary objective: that of radically reducing unemployment. Many of the government's problems were, indeed, self-inflicted. Early in the summer of 2000, SEV and GSEE were close to concluding a bilateral deal on labour reform. Both social partners urged the government to wait for their agreement before it launched its own reform initiative. However, Giannitsis did not trust the imminent deal, fearing that the government would eventually be asked to pick up the cost of what was agreed by the social partners. Instead, the Minister of Labour decided to keep close control over the reform agenda counting on his own political instinct and policy expertise. As it turned out, the gamble failed to produce its anticipated results: the 2000 labour market reform was neither radical nor was it consensual. A few months later, its acrimonious legacy would cost the government dearly when it attempted to reform the troubled Greek pension system. With most of the unions' goodwill exhausted, the reactions to the pension reform proposals brought the government to its knees, eventually forcing it into an embarrassing retreat. Soon afterwards, Tassos Giannitsis was removed from the Ministry of Labour.

Conceptualising the gridlock facing the 2000 Labour Market reform: a prisoner's dilemma or a deadlock game?

Why did the government's plans to reform the Greek labour market meet such fierce opposition by the social partners? Conventional wisdom would suggest that the chronic weakness of the Greek economy to create jobs offered a good platform on which social consensus could be built. High unemployment, so the argument goes, suited nobody. For the government it exposed the painful social deficit of its endeavour for EMU qualification that ate into its precious lower-middle class support. Unemployment was also bad economics. Fewer people in employment meant lower tax revenues and a higher social security bill. Trade unions too had a high stake in addressing the unemployment problem. In an era of rapidly declining membership the hundreds of thousands at the margins of Greek labour market offered a potentially significant pool of new recruits. High levels of unemployment also ran against the interests of the employers. With fewer people in work the overall levels of spending were likely to suffer, threatening businesses' profits. For both unions and employers'

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these discussions, PASOK's Secretary General Costas Skandalidis and Deputy Minister of Labour, Christos Protopapas played an instrumental role in winning over party doubters. On this see *Eleftherotipia*, 3.11.00; 5.11.00 and 20.11.00) associations engagement with the government's plans was also an essential ingredient of their strategy to promote a more 'grown up', socially responsible, profile. With unemployment being identified as one of the most explosive social problems in the country, neither of them could really afford to be seen to do nothing about it.

Borrowing from game theory, the status quo in the Greek labour market on the eve of the 2000 reform can therefore be conceptualised as a Pareto sub-optimal arrangement. Technically an outcome is called Pareto optimal if it is impossible to improve one player's payoff without reducing another's. Yet the pool of nearly 500,000 unemployed offered the possibility of increased payoffs to all three major participants of the 'labour market reform' game: more votes and tax revenue for the government; more members for the unions; more profits for the employers; more credibility for all. Put simply, if the employment pie grew bigger nobody needed to emerge as a loser from the game. In this sense the reform of the Greek labour market resembled that of a prisoner's dilemma game (PDG). Whilst in its classic form the game refers to the interaction between two players (Flood, 1952; Tucker, 1950), much of its explanatory power remains strong in three-player games (such as the one described in the case of labour market reform in Greece). The main assumption of the PDG is that co-operation is the only strategy that guarantees that both prisoners escape. In this sense co-operation produces higher payoffs than the preservation of status quo (i.e. staying in prison). The game, however, is played under conditions of uncertainty. If one prisoner decides to co-operate and the other defects, the defector maximises his/her profits whilst the player who co-operated receives the maximum penalty (i.e. punishment). The payoff matrix of the game is therefore as follows:

Defection	>	**Cooperation**	>	**Status Quo**	>	**Betrayal**
(maximum reward)		(escape)		(prison)		(punishment)

For prisoners to chose the route of mutual co-operation and the shared benefits of escape, however, two major preconditions must exist. The first is trust. Each prisoner must be reasonably confident that his/her fellow inmate would stick to his or her side of the bargain and would not opt to defect. Low trust increases anxiety of being left with the worse outcome of all: betrayal and punishment. Suspicion over the other player's motives may, therefore, prevent the emergence of co-operation. The second precondition for engagement in co-operative action rests with the anticipated benefits of the escape. The decision to attempt to escape is based on the assumption that life as a free man would be better than life in prison. Under conditions of uncertainty, however, prisoners may not always know what freedom has in store for them. If they fear that freedom is not likely to improve their condition, then the preservation of the status quo may be their optimal strategy. In this case, a new type of game emerges: deadlock (Oye, 1986; Snyder and Diesing, 1977). Here, the payoffs matrix is as follows:

Defection	>	**Status Quo**	>	**Co-operation**	>	**Betrayal**
(maximum reward)		(prison)		(escape)		(punishment)

The increasing polarisation and mutual recriminations surrounding Giannitsis' 2000 reform initiative was a potent reminder of how both the government and the social partners were eventually locked in a deadlock rather than a prisoner's dilemma game. Very soon after the initiative was launched the discourse of reform moved rapidly away from the mutual benefits of a possible 'escape'. Instead it became increasingly concerned with the potential threats, the fear of being cheated by the other partners and being left as the game's betrayed 'sucker'. Under these circumstances strategies grew more rigid and defensive. The preservation of an imperfect status quo became preferable to full engagement and radical reform. Loss of trust was probably the single most important reason for this shift. The government's role in this respect was central. During the early years of his premiership Costas Simitis and his 'modernised' PASOK had invested heavily in promoting a more consensual policy-making style based on consultation with the social partners. The conclusion of the Confidence Pact in 1997 was meant to epitomise this commitment. Since then, however, the government did little to invest the limited capital of trust that the Pact had created.

In both its 1998 and 2000 reform initiatives, for example, the government had shown major inconsistencies over the purpose and importance it attached to the process of social dialogue. The length, structure and membership of each consultation exercise had varied significantly depending on the political expediencies on the day. These inconsistencies reflected wider disagreements within the cabinet over the pace and extent of the required labour market reform as well as different policy-making styles of key ministers. Miltiadis Papaioannou, for example, was much more consensual than his successor to the Ministry of Labour, Tassos Giannitsis, whilst both were far less aggressive than the all powerful Minister of Economy Giannos Papandoniou. For his part Prime Minister Simitis, for all his good intentions to provide cover for his battered Labour Ministers (particularly Giannitsis), failed to ensure that his government spoke with one voice to the social partners. Confused and undecided over its reform strategy the government was consequently unable to persuade all players involved that processes of social dialogue were not simply used as pretexts to justify reforms for which the government had already made up its mind.

Suspicion over the government's commitment to the social dialogue had indeed been fuelled by a long history of distorted and disjointed corporatism (Mavrogordados, 1988; Lavdas, 1997). For many decades the relationship between successive governments and organised interests (particularly trade unions and employers' associations) had been one of patronage and domination. The long arm of the party-state and the ever-increasing dominance of the executive had resulted in a rather 'insulated' policy-making process that left little scope for 'recognised' social partners to develop a truly independent and representative role (whilst more 'independent' societal interests were almost completely excluded for the process). Within this context the credibility of both trade unions and employers' associations was significantly undermined, with both often being regarded as puppets of political parties or self-interested organisations with little regard for the common good.

During the 1990s important steps were taken to break the Gordian knot that kept the roles of the state, political parties and organised interests so dangerously blurred. A significant breakthrough in this respect was achieved in 1990 when the government put an end to its long-established practise of 'compulsory arbitration' in the process of wage bargaining in the private sector.[15] Since then a number of institutions have been set up (for example, the Economic and Social Committee and the Organisation for

[15] Until then when wage bargaining between employers and unions ended in a deadlock, the government intervened by law to set wage policy for the coming year. This form of 'obligatory mediation' on behalf of the executive had, for many years, rendered wage negotiations between the social partners a completely discredited process.

Mediation and Arbitration) in order to enhance the role and credibility of the social partners and increase their participation in the policy process. On one level freedom from the suffocating embrace of the state has helped both the unions and the employers to develop better channels of communication and indeed foster a remarkably consensual modus vivendi. This has been reflected in the substantial reduction of lost hours due to industrial action from 5.8 million in 1991 to 1.5 million in 1998.[16]

Yet despite the proliferation of institutions with a distinctly corporatist outlook and agenda, there has been still little common understanding between the government on the one hand and social partners on the other over the role and purpose of social consultation (performed either through formal institutions or ad hoc processes of social dialogue). The unions, for example, have long argued that the government should feel bound to legislate upon any agreement (with no direct financial implications) reached between the two sides of industry on lines similar to those followed in the case of collective wage bargaining in the private sector. The government for its part has taken a much more cautious approach stressing instead that these processes perform mainly a consultative function that do not substitute the government's responsibility to govern. Giannitsis' decision in 2000 to reject the joint proposal by unions and employers on the reform of the Greek labour market was the clearest manifestation of this thinking. Without clearly defined 'rules of engagement', however, the 'corporatist experiment' of the 1990s has all too often been reminiscent of a Potemkin village; pleasing to the eye but ultimately disposable when faced with the harsh political pragmatism associated with the pursuit (and opposition) of structural reform in Greece.

The inability of the government and the social partners to agree on an escape strategy during the 2000 'labour market reform' game was not simply down to the lack of trust. Expectation of a 'better future' is the second major precondition for co-operative action in a prisoner's dilemma game. As the instigator of the reform process and the player with the final responsibility of bringing legislation to Parliament, the government held the key in determining what sort of payoffs 'freedom' would bring to the prisoners. The Pareto sub-optimality of the Greek labour market provided possibilities, but not guarantees, that all players would increase their payoffs by engaging in the game. The materialisation of such gains depended heavily on the government's agenda and strategy during the reform process. If the other prisoners did not foresee benefits from the government's agenda or trusted that the distribution of payoffs after the escape would undermine relative power vis a vis the other players, then the chances of defective action would be greatly increased. To put it simply, the government's plans needed to give the impression that the reform had something in it for everybody. As it turned out this was not the case.

Giannitsis' proposals included a painful 'stick' for both employers and unions but almost no 'carrot' at all for either of them. The effective abolition of 'compulsory overtime' and, to a lesser extent, the increased costs associated with P/T employment hit hard the employers who felt that two important aspects of flexibility for the Greek labour market were under attack. What the government offered in return was limited:

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[16] For more details see http://www.eiro.eurofound.ie/2000/03/Update/tn0003401u.html. During the same period strike activity in the public sector has been significantly higher than the private sector.

the provisions on working time and mass redundancy limits were far too modest to make a real difference. Similarly the significant reduction in national insurance contributions for new recruits was partially negated by high redundancy costs. For the unions too the proposals offered little good news. The government's decision to proceed with a reduction of mass redundancy limits as a token gesture to the employers had tremendously powerful symbolism. Moreover the unions were bitterly disappointed that the government had once again opposed their demands for a 35-hour week, opting instead for a 38-hour week conditional on the annual calculation of working time. The government's 'gifts' offered little consolation: the abolition of 'compulsory overtime' never really topped the unions' agenda, whilst the increased pay for P/T employment had little impact on their clientele (see below).

In strategic terms Giannitsis' agenda had fatal weaknesses. His depiction of 'freedom' had little appeal to the game's other prisoners. As a result, he was not able to engage the unions and the employers in co-operative action. Neither was he able to devise a strategy that would allow the government to build a coalition with one of the two social partners and outmanoeuvre the opposition of the other. His agenda instead produced the worst possible result: an 'unholy' alliance between the unions and the employers against the government's plans. At the heart of Giannitsis' (and many of his predecessors') miscalculation lay his failure to recognise his fellow prisoners for what they really were: i.e. organisations with a very different outlook from the clientele they claimed to represent. On the employees' side, for example, the largest private sector union, the General Confederation of Greek Labour (GSEE), could hardly claim to represent those exposed to the 'real economy'. Its leadership was dominated by the unions of the public utilities (e.g. OTE, the state-controlled telecommunications corporation, and the unions of the banking sector, OTOE), most of whom have enjoyed relatively stable and secure employment. Due to the organisational distortions of Greek trade unionism (themselves imposed by the state through Law 1264/82!), GSEE receives almost no 'structural' input from those in flexible employment, or indeed from those employed in small businesses despite the fact that the latter account for the vast majority of employment in the country (Mavrogordatos 1988). In 2000 GSEE's 45-member Management Committee included no women and no representatives of foreign workers.

On the employers' side problems of representation are equally acute. Larger firms with a dynamic profile have been alienated by the traditional and narrow outlook of the main employers' association, SEV (League of Greek Industries). The latter represented firms coming from a long-term culture of oligopolistic position protected by the state. By contrast, medium-sized firms – a natural constituency for an agenda of market openness and flexibility – lack their own, effective representative association. For decades this role has been claimed by GSEVEE (General Confederation of Professionals, Medium and Small Business and Traders) an organisation with an astonishingly varied membership and notoriously unpredictable policies. In recent years the National Confederation of Greek Commerce (ESSE) has emerged as a powerful association representing those engaged in commercial activities, but its credibility has too been undermined by a legacy of factionalism and close engagement with party-political competition.

Some of the wider problems associated with the representation of organised interests in Greece had, therefore, serious implications for the way in which the 'labour market' game was pursued. The government's fellow prisoners were far from unitary actors; just like the government itself they were fragile coalitions with a need to appeal to diverse constituencies, not all of which necessarily shared the same stakes in reducing unemployment. The collective escape from the weaknesses of the Greek labour market required a delicate package deal that could appeal to these diverse agendas and at the same time retain enough radicalism to deal with complex and difficult problems. In its determination to ensure the latter, the government underestimated the former. In the process it failed on both.

Conclusion

The case study presented here is one of failure of initiative and response. Since 1997 a number of initiatives have been launched by the PASOK government in its struggle to provide solutions to the weaknesses of the Greek labour market. The 2000 reform was certainly the most ambitious. It was also the least successful. From an early stage the momentum for reform was fatally undermined by the government's failure to produce an agenda that provided both the unions and the employers with adequate incentives to remain positively engaged in the process. The Pareto sub-optimality of Greece's labour market regime made possible that reform could produce a win-win situation for all sides. The reform agenda, however, failed to seize the common ground. The distortions associated with the representation of organised interests in Greece made the construction of a 'winning' package deal an extraordinarily delicate task. This was one challenge too many for the politically inexperienced Minister of Labour. Under these circumstances, a game that had all the hallmarks of a prisoner's dilemma was soon to become a deadlock game, where strategies became increasingly focused on the potential threats, rather than the collective benefits, of the escape. This was an opportunity missed. As the government found itself involved in a trajectory of conflict with the social partners, the direction and purpose of its reform initiative became unclear. Giannitsis' last minute compromises chipped away much of the radicalism of his original ideas, but at the same time did little to appease his critics. The result was a reform that was neither radical nor consensual.

In addition to the strategic miscalculations in constructing a 'winning' package deal, the government's efforts to engage the social partners in co-operative behaviour were further undermined by low levels of trust. In 1997 the Simitis government flirted with the idea of building a new corporatist process, consistent with its modernisation project. The objective was to provide a breakthrough, creating consensus on a wide range of issues, including labour market reform. The Confidence Pact that followed marked an important breakthrough in the government's relations with the social partners, but its capital of good will was soon exhausted. During the course of the 1998 labour market reform the unions were outraged by what they regarded as the government's betrayal of the spirit of the Confidence Pact. The way in which the 2000 reform was orchestrated further undermined the credibility of the government's commitment to a more consensual policy-making style. Despite the significant advances of the 1990s, government and social partners alike have found it hard to reconcile their strikingly different expectations over the role and purpose of social consultation. It seems that decades of 'distorted corporatism' still cast a heavy shadow over the policy-making process in Greece.

During the summer of 2003 the weaknesses of the Greek labour market were once again at the forefront of the political agenda. Having failed to meet the employment targets it set itself during the election campaign in 2000, the Greek socialists are now paying a heavy electoral price for their ‘social deficit’, trailing behind their conservative opposition by a significant margin. With just over six months until the next general election Prime Minister Simitis has sought to revive the fortunes of his party by launching his Social Charter, an ambitious new plan for narrowing the economic gap between Greece and the European Union. At the heart of the Social Charter lays the government’s commitment to create 400,000 new jobs over the course of the next four years. Meeting this target will, no doubt, require further interventions to the Greek labour market. With the structural characteristics of the ‘labour market’ game having changed very little since 2000, the new would-be reformers have, therefore, much to learn from Giannitsis’ well-intentioned but ill-fated endeavour. Three years on, the prison of the Greek labour market has remained depressingly similar. The strategy for escaping it needn’t be.

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