

Annex III

THE LABOUR MARKET IN GREECE

Introduction

The major feature in the Greek labour market during the period of the 1980s has been an expansion in the influence of the State. It has been most apparent in the increasing weight of public sector employment in total employment and in the premium which job-seekers (especially young people) attach to working in the public sector. However, the numbers directly engaged in the public sector represent only a part of the influence of government upon employment patterns. The State has also engaged in subsidy and support of employment in enterprises, both through direct financing and through the lending activities of the banks.

The expansion in the influence of the State has augmented and emphasised structural rigidities in the labour market. The influence has been particularly important in the history of wage determination during the 1980s, in the administration of incomes policy and in the effects of legislation governing strikes. It has also been apparent in the costs of legislation governing hiring and firing practices and in the influence of pension legislation upon the supply of labour from both older and younger workers.

The effect of State influence has been to distort the pattern and distribution of pay settlements and to divorce enterprise performance from the level of reward. The labour market has ceased to function as an allocating mechanism because of the difficulties of both hiring labour (in competition with the public sector) and in releasing labour in the face of restrictive legislation. The consequences for macroeconomic performance can be measured by a worsening in the trend rate of growth of unit labour costs and a deteriorating relationship between output and inflation.

This annex investigates the foundations of structural rigidity in the labour market in more detail. It begins by presenting some of the special features to be found in the labour market statistics, concentrating upon those which distinguish Greece from the majority of the Member States. Several of the features are associated with a labour market which is heavily influenced by State direction and legislation and where labour market agents have turned to alternative forms of working in order to achieve the best rate of return. The special features are :

- the movement out of agriculture and into other sectors now appears to have stopped, and the numbers engaged in agriculture remain very high,
- numbers in self employment and family working are comparatively high and their share in total employment may now be rising,
- unemployment is rising in urban areas and under-employment is almost certainly rising in rural areas,

There is wide conformity in working patterns in the formal sector, with comparatively low levels of part-time working. The statistics describe a labour market where a high proportion of labour market agents are choosing informal and small-scale activity. The implication is a structural decline in productive potential, leading to a substantial constraint upon future growth in living standards.

1. The characteristics of the labour market

Employment in the formal sector.

The pattern of employment growth in the formal sector during the past decade has been in contrast to those which emerged across most Member States. The pattern is also in contrast to the policy priority across the Community, which has been to restrain the rate of growth of public sector employment (and spending) in order to encourage private sector expansion. Although Greece has managed to achieve employment growth during the past decade which has been comparable to the average for the Community, the growth has been dominated by public sector services. Employment growth in the broad services sector in Greece has been robust but it has been dominated by the civil service, the banks and by public enterprises and entities. Each of these parts of the service sector is either heavily dependent upon government financing, or the activities are directly guided and supported by State influence. In contrast, employment growth in manufacturing and private services has been generally weak. There was a dramatic (if temporary) reversal during 1988, following the end of the stabilisation programme, but State financing also appears to have influenced the trend in that year.

Agriculture and Informal working patterns.

The pattern of formal employment growth concentrated in the public sector has coincided with a deceleration in the movement out of agriculture and a slowing-down in the movement out of informal patterns of working. The proportion of total employment engaged in agriculture remained at above 25% in 1989, compared to an average of below 6% across the rest of the Community⁽¹⁾. The proportion had fallen from a figure of 30% in 1983. However, the trends revealed from the two latest Labour Force Surveys suggest that there might now be a reverse movement in progress and that the proportions engaged in agriculture may even be rising.

Two of the more unique features of the labour market in Greece are the large numbers of people in employment who declare themselves to be self employed or in family working. The proportion in self-employment was close to 35% for males in 1989, compared to 15% across the rest of the Community. The proportion of females who declare themselves to be family workers was above 31% in 1989, compared to 6% for the rest of the Community. The common feature across all patterns of working is the predominance of full-timers, as opposed to part-timers. The proportion who declare themselves to be part-timers in dependent employment is

(1) The data are derived from the Labour Force Survey (Eurostat, 1989).

Statistical description of the labour market in Greece

	1983	1988	1989
<u>Employment</u>			
1. Total numbers employed in agriculture, as a proportion of total employment	30.0 (7.7)	26.6 (6.3)	25.3 (5.9)
2. Status of males and females in employment, as a proportion of total male and female employment			
Males: Employer	7.7 (5.1)	7.6 (4.9)) 42.8 (18.8)
Self employed	37.2 (12.9)	36.2 (13.8)) 42.8 (18.8)
Employee ^a	50.2 (80.9)	51.4 (80.2)	52.1 (80.2)
Family worker	4.9 (1.2)	4.8 (1.1)	5.1 (1.0)
	100 (100)	100 (100)	100 (100)
Females: Employer	1.4 (1.8)	1.8 (1.8)) 18.5 (8.7)
Self employed	17.8 (6.2)	17.3 (6.8)) 18.5 (8.7)
Employee	44.6 (84.6)	48.7 (85.6)	50.1 (86.2)
Family worker	36.1 (7.4)	32.2 (5.7)	31.3 (5.1)
	100 (100)	100 (100)	100 (100)
3. Part-time employment, as a proportion of total employment, all sectors	4.9 (12.2)	4.0 (14.7)	4.4 (14.3)

		1983	1988	1989
<u>Male and female activity rates</u>				
Males, aged	14-24	45.5 (53.7)	40.2 (55.2)	41.4 (54.5)
	25-49	96.4 (96.1)	96.2 (95.4)	96.0 (95.4)
	50-64	78.0 (71.7)	71.0 (67.2)	70.0 (66.7)
	65 and over	19.8 (7.8)	13.6 (6.6)	11.7 (6.6)
	all ages		66.6 (68.5)	65.6 (68.3)
Females, aged	14-24	33.4 (45.7)	31.5 (48.4)	32.1 (48.5)
	25-49	45.1 (58.2)	52.6 (64.4)	54.3 (65.5)
	50-64	30.1 (32.8)	31.6 (33.3)	30.0 (33.8)
	65 and over	7.6 (2.6)	5.1 (2.0)	4.1 (2.2)
	all ages		35.2 (42.4)	35.1 (42.9)
<u>Unemployment</u>				
1. Unemployment rates by age group				
Aged	14-24	22.8 (19.7)	25.8 (17.4)	24.8 (15.5)
	25-49	6.5 (6.7)	6.2 (7.6)	6.0 (7.1)
	50-64	3.1 (5.1)	2.2 (6.1)	2.1 (5.8)
	65 and over	0.4 (2.4)	0.7 (2.2)	- (2.8)
	All ages	7.8 (8.9)	7.7 (9.0)	7.5 (8.3)
2. Long-term unemployment (distribution by age)				
Aged	15-24	46	59	
	25-45	40	30	
	45 and over	15	11	

Source: Labour Force Survey (Eurostat) and OECD.

Note: Figures in parentheses refer to the European 10.

very low compared to the rest of the Member States⁽²⁾. The Labour Force Survey of 1989 shows that the percentage in part-time working, as a proportion of total employment, actually fell between 1983 and 1988. The trend is in contrast to the rest of the Community. The latest Labour Force Surveys also suggest that the preference for self employment and family working is beginning to revive, at the expense of the growth in dependent employment.

Trends in unemployment and under-employment.

The concentration of employment in those sectors subject to public financing, the worsening of employment growth in the non-state sector, the revival of informal working and the weakening in formal part-time working has also coincided with a rise in the measured unemployment rate. The measured unemployment rate, despite some fluctuation, has been on a gradually rising trend during the past decade. The rise has begun to accelerate during 1991. The rate for 1990 was 7.5% of the labour force, compared to an average rate of 7.2% during the period 1981 to 1990 and 2.2% during the period 1971 to 1980. The latest data by region show that measured unemployment is heavily concentrated in the urban areas (a rate of about 10%) but is much lower and apparently stable in the rural areas. However, results from surveys indicate that rural areas are subject to much higher levels of under-employment.

Under-employment includes those workers who have entered involuntary part-time employment and voluntary part-time unemployment. It also includes those workers who have:

- entered hidden or discouraged unemployment, and have stopped searching for jobs, and those who
- are attached to particular jobs but are not working at the moment, or are working significantly less than their normal hours.

Attempts have been made to estimate a combined unemployment rate, which takes account of both under-employment and measured unemployment⁽³⁾. Estimates of this type are subject to wide margins of error, because of the difficulty of measuring actual hours worked in self employment and family working. There is (for example) evidence which indicates substantial multiple job-holding across agriculture, tourism and construction⁽⁴⁾.

The estimates by Vassilakopoulos indicate a composite index of unemployment of 10.8% in June 1985, at a time when the measured unemployment rate was 7.8%. The presence of substantial under-employment is supported by more recent survey evidence from OECD which shows that the proportion of those already in work who claimed to be seeking better working conditions was much higher than in most other

(2) Comparisons have generally been made with the European 10, which excludes Portugal and Spain.

(3) "Underemployment in Greece", D. Vassilakopoulos, (1986).

(4) The 1984 and 1985 Labour Force Surveys showed that the holding of two or three jobs was particularly common in rural areas in agriculture, restaurants and hotels work, construction and general services.

Member States. Also, the proportion of males in part-time work who are unable to find full-time jobs tends to be higher than in most European countries.

2. Structural rigidities in the labour market

The special features in the labour market in Greece are indicative of the existence of structural rigidities which have been operating in the formal part of that labour market. The choice of informal working patterns has been the rational response to the difficulties of entering the formal sector. The rise in unemployment, and rural underemployment, has equally been an outcome of the inability of the labour market to generate and sustain sufficient job opportunities within the constraints imposed by institutional rigidity.

The major structural rigidities have developed from, or been made worse by:

- the development and implementation of pay policy by government, and particularly the leadership rôle of public sector pay settlements,
- the bias in industrial relations legislation towards the interests of workers, and particularly some influential trade unions,
- the constraints upon the hiring and release of workers, the effects of these constraints upon the labour cost of production, and the resulting unwillingness to create jobs in the formal sector,
- the effects of the expansion in the volume and value of public pensions on the supply of labour and,
- the dominant attraction of public sector employment for job-seekers and the consequent effects on the education, training and skills markets.

The following investigates these structural rigidities in more detail, and identifies the way in which they might be expected to affect the choice of activities made by workers and the wider consequences of these choices for economic performance.

Wage determination.

During the past decade, wage determination in Greece has taken place at three important levels:

- automatic indexation of pay (ATA), increases under which have been dictated or directed by the State and which have been based upon movements in the consumer price index (CPI),
- pay increases over and above those dictated by ATA and which have generally been determined by free collective agreement, although with a strong leadership element from public sector settlements,

- agreements at the level of the individual enterprise, which may or may not be in addition to those negotiated at the level of the industry.

Government has also determined the level of minimum pay through the National General Labour Agreement, which has been applied directly in the private sector. Revalorisation of minimum pay has been set by government during each bargaining round.

The influence of this framework of negotiation has been considerable. Real wages trended upwards during the 1980s, although with occasional sharp reductions during periods of stabilisation. The rise in real wages has occurred during a decade when output per head has been in structural decline. Developments in wage trends appear to have been divorced from changes in the rate of measured unemployment. The outcome has been the development of substantial inflationary pressures in the labour market, pressures which have been accommodated by the conduct of monetary and fiscal policy. The development of inflationary pressures has itself been promoted by the State because of its central rôle in dictating the path of wages within incomes policy.

The influence of the State has extended to both the aggregate real wage and the dispersion of wages across occupations and sectors. The State exercised influence over the outcome of collective agreements both by its direct wage policy for the public sector and through its strategy for minimum pay. Agreements negotiated between government and trade unions in the public sector have set "guidelines" for similar pay increases in the private sector⁽⁵⁾. The effect of minimum pay policy was to introduce compression of wage differentials between the highest and the lowest paid.

Wage differentials were further compressed by the wage indexation mechanism (ATA). ATA was introduced in 1982 to safeguard the considerable real wage gains granted as a part of economic strategy in 1981 and 1982. ATA provided for cost of living adjustments for every worker covered by collective agreements. However, adjustments were full only in respect of incomes below a specified ceiling. The ceiling was comparatively low in relation to average earnings and effectively restrained the rate of increase in the total wage bill. The effect of partial adjustment for those earning above the ceiling was to reduce wage increases for the higher-paid. It also encouraged tax evasion and the acceptance of alternative sources of income. It presented an advantage to those whose income was from sources apart from direct income, thereby introducing an incentive to supply labour and allocate funds outside of the formal sector.

During the period from 1985 to 1987, ATA was used as an instrument in the stabilization programme. Collective bargaining was suspended and the ATA was adapted to give partial compensation for cost of living increases. Since 1982, cost of living adjustments had been retrospective and automatic every four months, based on movements in the Consumer Price Index during the previous four months. In 1985, a forward-looking indexation system was introduced, based on official projections of the CPI. A further innovation required that the effect

(5) The leadership rôle of the public sector in overall wage trends tends to be confirmed by empirical work in L.T. Katseli, "Structural Adjustment of the Greek economy", CEPR, discussion paper 374 (1990).

of the rise in import prices in the movement of the CPI should be subtracted. Wage increases above the target, official projection for the CPI were made illegal and discrepancies between actual and projected CPI were compensated at the end of the year.

The effect of the adaptation of ATA for stabilisation purposes was to achieve a very substantial fall in real wage growth. However, wage differentials continued to compress during this period, and the effect on the structure of real wage expectations appears to have been negligible. Following the relaxation of incomes policy in 1988, real wage growth surged again. ATA was now restricted to the Civil Service but nevertheless acted as a "guide" and a floor for other collective agreements. Free collective bargaining had now begun again, following the end of the stabilization programme, and the effect of imported inflation in CPI was no longer excluded for ATA uprating. In January 1988, the National General Labour Agreement provided for further substantial increases in minimum pay over and above the ATA adjustment. Public sector wages were also negotiated (between government and unions) at a level substantially above ATA. The non-state sector reacted positively to the "guide": In 1989, ATA was extended once again to the whole economy and large increases in negotiated pay settlements above ATA were granted. Substantial wage drift at the level of the enterprise now emerged.

The effects of incomes policy.

Looking at the period between 1982 and 1990, it is clear that ATA has not been used for the purpose of maintaining real wages set in 1981 and 1982. Instead, it has acted (particularly in 1988 and 1989) as a base for much larger increases in compensation through collective agreement (see table 1). It is also clear (table 2) that nominal increases in average earnings in the public sector have generally been in advance of the rate of increase in the private (non-state) sector since 1981. Although Katseli shows that there has been a leadership role exercised by the broad public sector, it seems that leadership has also led to the opening-up of a substantial differential between the public and private sectors.

The data in table 3 include the relative trends in minimum wages and average wages during the period from 1981 to 1984. The data show the strong improvement in minimum wages compared to average wages during this period, although part of that gain was eroded after 1985. However, the relative improvement in the position of the lower-paid was further enhanced by the effects of the larger increases given to the lower-paid through the ATA mechanism. The data in table 4 illustrate the effects of incomes policy on the evolution of wage differentials, across various sectors, for the period 1980 to 1988. Convergence has been across-the-board except for female manuals in manufacturing and female clerical workers in the mining industry. Further data collected by IMF and OECD suggest that the compression of wage and salary differentials has been particularly severe in the Civil Service.

The influence of legislation on strikes.

The trend of real wage growth during the past 10 years reveals considerable volatility, although the trend was generally upward from 1981 to 1989. The volatility reflects variation in government influence over wage negotiations, both directly because of the importance of government as a direct employer and indirectly because of the

indicative nature of public sector pay settlements. The volatility is likely to have had an important effect upon the perceptions of private agents, and, particularly the willingness of agents to make greater investments in human and physical capital. The willingness to invest should be expected to depend upon the stability of expectations about the future path of wages and prices, and the anticipated rate of return on the investment. Wage differentials for skill are very important in this process of estimating the expected rate of return on human capital investment.

The behaviour of real wages also emphasises a weakness in the legislative framework within which collective bargaining takes place. The legislative framework has generally favoured employees at the expense of employers at the bargaining table. The 1984 law governing the right to strike has rarely been enforced, and the provisions requiring majority voting of employees before a strike could be undertaken were only sometimes implemented, against less significant bargaining groups. The protected position of workers in the public sector⁽⁶⁾ has meant that the majority of strike activity has been concentrated amongst those workers, and that public sector unions have effectively acted as central negotiators for the formal sector workforce. The reform of the law on the mediation and arbitration of disputes in 1988 further strengthened the position of workers by abolishing the 45-60 day ban on strikes following the initiation of arbitration.

The arbitration system in place during the 1980s has also been used as an instrument of state influence. The disputes mediation system (provided by government officials) has presented unresolved cases to an arbitration court which has comprised three members representing government, labour unions and employers. The decisions of the arbitration court closely followed government guidelines and were binding. The decisions effectively imposed public sector pay settlements throughout the labour market, because most conflict was centred in the public sector. It is clear that resort to arbitration was very common throughout the past decade. The arbitration system effectively supported and promoted the leadership rôle of public sector pay settlements, and probably introduced considerable distortions into the pattern of pay settlements across sectors.

The analysis of the bargaining system and legal framework of industrial relations in Greece during the past decade illustrates an unwelcome combination of features. The bargaining system has effectively been highly centralised, with one or two public sector trade unions exercising monopoly power in pay negotiations. The power has been founded upon a biased legal framework (biased towards employees) and upon the willingness of government to subsidise public sector employment and activity. The inherent advantages of centralised pay systems are impossible to realise because the legal framework has been inadequate to exercise a constraint over one of the parties to negotiation. The combination of features contributes to segmentation in the labour market, and has been an important factor in both the resort to the informal sector and the rise in unemployment and under-employment.

(6) "Protected" particularly by security of job tenure.

The cost of hiring and firing.

State influence in the labour market has also been exercised through legislation governing the ability and willingness of employers to hire and release workers. The individual rights of workers in the event of a dismissal have been highly restrictive, and any dismissal can be challenged in a court of law. The decisions of the court appear to have been generally favourable towards the employee. Part-time workers have had the same rights as full-time workers in being able to challenge the decisions of employers. Redundancy payment entitlements for white-collar workers have been particularly generous, with a maximum entitlement of 24 months' pay in the event of employment termination.

The incentives for private firms to recruit labour are further eroded by regulations relating to employment policy and dismissal procedures. According to legislation operative since 1982, prior notification and consultation with the relevant trade unions and the Ministry of Labour has been required for dismissals of 5 or more persons in plants employing between 20 and 50 persons, and for dismissals of more than 2% of the labour force (or of more than 30 persons) in larger plants. However, the Ministry of Labour has the right of final veto. Dismissals of numbers beneath those limits are unregulated but in practice the Ministry of Labour has exercised a similar power of veto in many circumstances. The significance of these constraints for Greek firms in the past should not be overestimated, because the State has probably pre-empted the need for large-scale dismissals through its policy of maintaining employment in the broad public sector through State-funding and subsidy for firms in difficulty.

Costs of various employment patterns available to firms have also been distorted by legislation governing part-time work. Part-time work in the formal, industrial sector has not been prohibited but incentives to recruit part-timers have been impaired because the calculation of compensation by firms in the event of dismissal has been based on full-time equivalent pay. Employers' insurance contributions in respect of part-timers have been similarly based. The requirements have encouraged the use of overtime-working by existing workers, although overtime-working has also been subject to control. Trade unions have been opposed to the principle of formal part-time work and have been able to impose their preferences in negotiations within the protected public and state-controlled sectors of the labour market. Finally, hours of work (including overtime) have been the subject of strict government control. However, it is doubtful whether these regulations have been effectively enforced over the whole of the labour market, although the likelihood of enforcement is much greater in the formal sector.

The effect of this complicated framework of State legislation upon employer attitudes is very difficult to measure. However, it is inevitable that employers will have been constrained in their choice of production methods and that there will be strong disincentives to recruit labour. It has also introduced incentives to enter into informal working, both for employers and employees. Surveys conducted

by the Commission Services, and published in 1986 and 1990⁽⁷⁾, confirm the difficulties which confront firms in recruiting and releasing workers and the effect that these difficulties have upon willingness to raise employment levels.

Pensions and taxation.

The influence of the State in expanding pension provision has had wide-ranging effects on the labour market, although these effects are again very difficult to measure with available data. Greece probably has the highest pension expenditure to GNP ratio in the Community. It has been on an upward trend since 1980, compared to a broad stability or downward trend in the rest of the Member States. In 1989, about 15% of GDP was devoted to spending on all types of pensions, a figure which almost doubled over the course of the decade. The rise in real spending on pension provision has resulted in a very steep decline in formal activity rates amongst older people.

The pension system during the 1980s has included strong incentives for withdrawal from the labour market by older people. These incentives have comprised:

- low minimum contributions and low minimum ages for eligibility,
- the absence of restrictions on re-entry to regular employment for pensioners leaving jobs in the public sector,
- the indexation of many pensions to wages, implying a substantial increase in the real value of pensions per head.

The other major incentive has been the flexibility of regulations governing entry to invalidity pension, where growth in expenditure has been particularly large. In fact, disability pensioners now represent about 25 per cent of the total number of all pension recipients.

The quantitative effect of the expansion in pension transfers is very difficult to estimate. However, the size of the transfer of GDP to older people (which is effectively a transfer into extended family income) must have had substantial implications for labour supply and demand, and for general competition for vacancies in the labour market. One of the intentions of expanding pension provision was probably to create jobs for younger people. However, the difficulties of recruitment implied by the framework of employment legislation suggest that the potential for recruiting new workers to replace retirees would have been small, which further implies a reduction in effective labour supply and upward pressure upon real wages. The effects on extended family income are also likely to have affected the choices available to young people in those families. The most likely effect is to contribute to longer job search, and thereby to raise the structural level of unemployment.

(7) "Employment Problems: views of businessmen and the workforce", European Economy, n° 27, March 1986

and

"Developments on the labour market in the Community", European Economy, n° 47, March 1991.

The fiscal implications of pension-funding are also important. Expansions of pension provision requires an increase in the tax burden upon formal employment and a raising of corporate taxation. In the Greek labour market, the fiscal consequences lead to a distortion which encourages entry to the informal sector. The substantial growth in self-employment in the past two years indicates that the disincentive effects have become more severe and that labour market agents are turning more and more to the informal market.

Public sector employment.

The trend in total employment growth in the formal sector during the past decade has been strongly influenced by the provision of jobs in the State sector and particularly (until 1990) by the expansion of numbers in the Civil Service. (see main paper, page 26, table 7). The most recent European Labour Force Survey presents data which enable comparisons of trends in employment in public administration with trends in total employees in employment.

	Employment in public administration (thousands)	Employment in public administration as a percentage of total employees in employment
1963	181	5.2
1984	202	5.8
1985	211	5.9
1986	212	5.9
1987	213	5.9
1988	236	6.5
1989	246	6.7

Source, Eurostat, Labour Force Survey (1989)

The importance of public sector employment growth for overall employment trends was illustrated in 1990. The large-scale dismissal of temporary staff from the Civil Service was a major factor in the sharp fall in public sector employment and was also the major factor in the deceleration in growth of total employment.

The importance of public sector employment in the provision of jobs, and the influence of the State in product and capital markets, has supported the leadership rôle in wage determination. It has also exercised leadership over wider employee benefits, and human capital investment. Employment in the Civil Service and wider public sector, and in those enterprises enjoying State support or protection, has been outstandingly attractive to job-seekers. It has had the benefit of high security of tenure and has achieved (particularly during the years after 1986) the most significant rates of increase in real wages. The opportunity for a valuable pension transfer at an early age has been a further strong incentive to enter the public service, as well as incremental pay systems which give generous and automatic increases in salary irrespective of performance.

The effect of this leadership rôle in the provision of employment benefits has been particularly strong upon young people. The young job seeker has come to regard entry to the public sector as a first priority and this has encouraged queueing for such vacancies. The effect is to lengthen the period of job search and to raise the structural level of unemployment (or under-employment) amongst the young. Attitudes to education and training have also been influenced. The concentration upon general education criteria in selection for entry to the public service⁽⁸⁾, in preference to qualifications which are more appropriate to job performance, has encouraged the pursuit of higher educational qualifications rather than entry to vocational training. The attraction of higher qualifications has led to distortions in the allocation and use of labour. Many graduates appear to have been employed in jobs which could have been done by those with lower qualifications or those with qualifications which measure vocational ability rather than achievement in general schooling⁽⁹⁾. The unemployment rate for graduates has been trending upwards when the private sector has at the same time been signalling shortages of higher-level skills.

3. Conclusions and the areas for reform

Europe is embarked upon a period of considerable change. The major force for change is the rising level of competition in capital and product markets implied by trade liberalisation. The programme of liberalisation presents the prospect of higher rates of sustainable growth within a market of stable prices. Greece can most certainly share in the benefits which will arise for all Member States of the European Community. However, full participation in the benefits will be unattainable unless the new régime for monetary and fiscal policy is supported by the pursuit of structural reform in the labour market.

There is a need to open up the opportunities for individual choice for firms and workers. The analysis so far suggests that individuals have (quite rationally) chosen to undertake activities which, whilst the best available from the point of view of personal reward, have nevertheless led to a concentration of employment in sectors of low productivity. The concentration implies an imbalance in the distribution of economic activity and this imbalance will exert a decisive constraint upon the potential for higher growth and living standards in Greece in the future. The analysis also suggests that government has had a direct and powerful influence over the activities

(8) The law reorganising entry into the public sector in 1980 attached strong priority to family status (measured by family income and numbers of children) and place of birth as signs of suitability for entry. Professional qualifications and experience were considered to be of less importance.

(9) Evidence from the 1989 European Commission Survey, and from the 1989 Labour Force Survey (Eurostat), show that training and education is heavily concentrated in general education establishments. The volume of training and education inside the firm is very low indeed compared to most Member States.

of labour market agents. The outcome of that influence has been an expectation that government direction and financial support will always be forthcoming and this has cultivated dependency. The dominance of State direction in wage outcomes has been particularly important.

The decade of State influence has coincided with a gradual rise in unemployment. The level of unemployment has now begun to rise more steeply and the available evidence suggests that under-employment is beginning to increase in the rural areas. Particularly of concern is the survey evidence which shows that unemployment (and especially long-term unemployment) is increasingly concentrated amongst young people, which is in contrast to the experience of most of the Member States. The trend to inactivity amongst the young presents the prospect of low attainment of skill and experience and poor employment prospects for the future⁽¹⁰⁾. The following identifies where labour market reform has already begun and where more urgent reform might be introduced to enhance labour market flexibility.

Areas for reform.

Wage determination.

The problems arising from wage determination have been that:

- severe inflationary pressures have arisen from the three-tier system of collective bargaining, made worse because,
- public sector wage outcomes have exercised leadership over collective bargaining throughout the formal sector.

The system of industrial relations has promoted the transmission of inflationary wage outcomes throughout the formal sector. The wider effects of the bargaining system (and particularly ATA) have been to compress inter-industry wage differentials⁽¹¹⁾ and to distort the incentives for the acquisition of education and training (and the acceptance of higher individual responsibility) through the compression of wage differentials for skill. The effect of compressed inter-industry differentials has been to distort "signals" for job-seekers and to suppress the mechanism which allocates labour.

The Government has announced legal reforms and intentions which (if fully implemented) should be expected to bring about a significant improvement in the flexibility of wages:

- ATA has been abolished in 1991,
- an independent arbitration system has been introduced this year, to replace the present system of compulsory arbitration,

(10) The Survey by the European Commission in 1989 indicates that Greek enterprises will increasingly wish to recruit skilled labour in the future, in common with trends across all Member States.

(11) Work by Katseli claims to identify and measure a severe reduction in inter-industry wage flexibility in the past decade, with industry-relative wages increasingly failing to allocate labour.

- a new law (introduced in 1990) is intended to regulate the right to strike, enabling the dismissal of workers where strikes are declared illegal or abusive by the courts.

The two-year pay settlement negotiated in the private sector in 1991 indicates a substantial change in bargaining attitudes. However, the initiatives so far taken would be enhanced if,

- the intentions of the new law on strikes were supported by the decisions of the courts about the nature of strike activity which is considered to be illegal or abusive, and
- the new arbitration system is truly independent of State influence.

The independence of the new arbitration system would be endorsed by the thorough dismantling of the framework of State support for loss-making enterprises. It is the combination of State direction through compulsory arbitration, and State subsidy and financial support, which has contributed to the present distortions and inflationary tendencies in wage determination.

The prospects for employment growth would be much improved by revisions to minimum wage legislation. The relatively high level of minimum wages, and the imposition through ATA of faster than average growth in low-skilled pay, has led to low private sector demand for lower-skilled and unskilled workers. The disappearance of formal sector jobs for young people, and particularly training places inside firms, is linked with developments in minimum wages and the compression of differentials at the lower end of the pay range⁽¹²⁾. The problem of creating incentives for skill acquisition at the higher level of the pay range are also associated with the highly progressive system of personal taxation, which further distorts the incentives to accept higher-level responsibilities and to make greater investments in human capital.

The costs of hiring and firing.

The central analysis has identified some of the constraints on releasing and recruiting workers. The dismantling of the framework of state support in providing or maintaining employment now implies a substantial reallocation of labour across enterprises and sectors as new firms emerge and others disappear or decline in size. Government has already made legal innovations which (if fully implemented) will promote the process, as well as enabling a rise in productive potential by encouraging more flexible working patterns,

- new laws are intended to promote part-time working in the formal sector by requiring that wages, social insurance contributions and social security benefits be paid in proportion to hours worked,
- temporary working should be promoted by the enabling of new forms of fixed-term contract,

(12) The 1985 and 1989 surveys by the European Commission identified high starting pay (and insufficient training potential for new workers) as impediments to employment creation and a major factor in the reluctance to recruit new workers into the formal sector.

- fourth shift working is to be permitted, enabling greater flexibility of working hours and 24-hour working in factories.

New laws will also permit greater flexibility in overtime working. However, the laws on overtime working remain restrictive. Also, a minimum floor has been imposed on social insurance contributions in respect of part-time workers and this continues to distort the relative cost of part-time working. The lay-off rules and redundancy payment provisions also remain unchanged and it is unclear whether the Ministry of Labour veto on terminations continues to be exercised in the same way as during the past decade. The employment security provisions for part-time workers, which have in the past been identical to full-timers, also appear to be unchanged although the present state of this legislation is unclear.

Pensions and taxation.

The importance of the expansion in the volume and value of pensions for labour supply has already been identified. The importance of these distortions will magnify in the middle of the next decade because of demographic trends which will increase the numbers of people who will be eligible (under present rules) to enter retirement. Consequently, revisions to the system of delivering pensions (which is highly fragmented at present) are a crucial component in the strategy for labour market reform. Should reforms be successfully implemented, they would signal an end to the policy of expanding pension provision in order to reduce unemployment, the effectiveness of which has anyway been doubtful.

Public sector employment.

The terms and conditions of employment for those engaged in public administration, and particularly civil servants, remain considerably better than can be achieved outside of the broad public sector. Pension provisions remain very generous for the permanent civil service and it is not clear that numbers employed in permanent public administration will be easily susceptible to control. The decline in numbers in the civil service during the past year has been concentrated amongst temporary workers.

A new law of 1991 proposes substantial revisions to recruitment practices in the public sector. The law requires that the importance of educational and professional criteria should be upgraded and that mobility should be enhanced across government departments through a system of general recruitment into public administration. The reforms, if implemented, should certainly enhance the quality of candidature. However, there is evidence which suggests that too many young people stay in education for too long and that the propensity to stay in education is encouraged by the kudos which is attached to general qualifications in job selection. Recruitment practices for the broad public sector might be adapted to emphasise suitability for the job rather than the general requirement of more advanced qualifications.

The change in recruitment practices might thereby contribute to a new set of signals leading to a more efficient allocation of resources to various types of training and education. The 1989 survey by the European Commission indicates that the majority of education and training is delivered outside of firms and inside educational

European Commission indicates that the majority of education and training is delivered outside of firms and inside educational establishments. The 1988 and 1989 Labour Force Surveys show that the amount of young person and adult training delivered inside firms is very low indeed compared to most Member States. The revival of training investment inside enterprises will naturally require a return to profitability and will also depend upon the dismantling of restrictions which impose substantial additional costs upon the creation of jobs.

Table 1

DEVELOPMENTS IN ATA, PAY AND PRICES

	ATA (1)	Consumer price (2) index	Nominal compensation per employee (3)
1982	9.4	19.1	27.7
1983	19.9	19.9	21.4
1984	19.0	18.1	20.7
1985	17.8	25.0	23.4
1986	10.8	16.9	12.5
1987	9.9	15.7	9.8
1988	17.3	14.0	18.8
1989	16.2	14.8	19.0
1990	16.0	23.4	21.3
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Annual average; 1982-1990	15.1	18.5	19.5

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- (1) The figures represent the maximum uprating which an individual might receive through ATA, for that year. The higher-paid would have received lower percentage upratings.
- (2) The figures represent the CPI figure used for ATA uprating.
- (3) Average annual rate of increase.

Table 2

NOMINAL INCREASES
IN AVERAGE EARNINGS (in per cent)

Year	Public sector (incl. government, public enterprises and entitles, banks)	Private sector
1980	18.7	22.0
1981	24.8	23.3
1982	26.3	24.5
1983	17.5	16.1
1984	23.4	22.8
1985	21.9	20.5
1986	13.6	11.3
1987	11.5	10.2
1988	20.6	20.0
1989	20.4	19.9
Annual average	22.1	21.2

Source: Bank of Greece

Table 3

WAGES AND LABOUR COSTS
ANNUAL PERCENTAGE CHANGE

	<u>1985</u> 1980	1986	1987	1988	1989	1990 ⁽¹⁾
Average earnings (2)						
Total	22	12 1/4	11	20 3/4	19 1/2	21
Government	23 1/2	14 1/2	12 1/2	21 1/2	19 1/2	25 1/4
Banking	22 1/2	10	9	26 1/2	19	19
Private sector	21 1/4	11 1/4	10 1/4	20	19 3/4	18 1/2
of which:						
Manufacturing (3)						
Salaries	21 3/4	8 1/2	8 1/4	27	20	21 1/4
Weekly wages	24 1/4	12 1/2	9 3/4	24	20 3/4	20 1/2
Minimum wages	25 3/4	10 3/4	10	17	19	17
Unit Labour costs						
Total, excluding agriculture	22	10 1/2	10 1/2	16 1/4	16 3/4	21
of which:						
Business sector	21 3/4	11 1/4	11	19	18	20
Manufacturing	24	12 3/4	11	19 3/4	18 1/2	21 1/2
Real average earnings						
Total	2.1	-8	-4	5 3/4	4 1/4	1
Government	2.1	-6	-2 1/2	6 1/2	4 1/4	4 1/4
Private (incl. banks)	1.7	-9	-4 3/4	5 1/2	4 1/4	-1

Source: Bank of Greece; Data submitted by the national authorities to OECD (1991)

Note: The figures refer to non-agricultural sectors.

1. Provisional estimates
2. Estimates for non-agricultural sector, excluding earnings from abroad (Bank of Greece)
3. Plants with ten workers or more

Table 4

EVOLUTION OF WAGE DIFFERENTIALS: MANUFACTURING,
RETAIL TRADE, MINES, INSURANCE, BANKING
1980 - 1988

Category of gross earnings	Fourth quarter:		
	1980	1985	1988
Retail trade, white-collar workers, female	100.0	100.0	100.0
Manufacturing, blue-collar workers, female	102.6	109.1	107.7
Manufacturing, white-collar workers, female	138.5	127.4	129.4
Retail trade, white-collar workers, male	143.9	136.7	132.5
Mines, white-collar workers, female	141.9	155.3	155.5
Manufacturing, blue-collar workers, male	165.3	143.1	144.8
Mines, blue-collar workers (male)	213.2	196.3	199.7
Manufacturing, white-collar workers, male	243.3	193.4	195.3
Mines, white-collar workers, male	275.2	234.5	223.5
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Insurance, white-collar workers, female	-	140.4	137.6
Banking, white-collar workers, female	-	174.5	169.4
Insurance, white-collar workers, male	-	186.7	179.8
Banking, white-collar workers, male	-	229.6	211.6

Source : Bank of Greece

Note : All earnings are expressed in monthly terms.
 For blue-collar workers in manufacturing and mines, monthly earnings are obtained after multiplying weekly earnings by 4.357 (the average number of weeks in a month).