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## A socioeconomic evaluation of austerity and labour market reforms in Greece after the 2008 crisis

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## A socioeconomic evaluation of austerity and labour market reforms in Greece after the 2008 crisis<sup>1</sup>

### Abstract

*The Greek crisis of 2009, which was triggered by the wider global and European crisis, pointed out the long-standing weaknesses of Greece's accumulation regime. During the period of 2010-2018, several labour market reforms were applied, as part of the economic adjustment programme that accompanied the financial assistance provided to the country. The aim of the reforms was to increase productivity, enhance competitiveness and reinforce Greece's economic model.*

*These reforms led to the deregulation of labour market, the establishment of flexible forms of employment and the introduction of a new institutional frame in the wage-setting mechanisms. The present work seeks to evaluate these labour market reforms, by comparing their efficiency in achieving their aims to the social and economic cost that they created.*

**Keywords:** Greece, economic crisis, austerity, labour market reforms, internal devaluation.

### Résumé

*La crise grecque de 2009, déclenchée par la crise mondiale et européenne plus globale, a mis en évidence les faiblesses de longue date du régime d'accumulation de la Grèce. Au cours de la période 2010-2018, plusieurs réformes du marché du travail ont été implantées, dans le cadre du programme d'ajustement économique qui a accompagné l'aide financière apportée au pays. L'objectif de ces réformes était d'augmenter la productivité, d'améliorer la compétitivité et de renforcer le modèle économique de la Grèce.*

*Ces réformes ont conduit à la dérégulation du marché du travail, à la mise en place de formes d'emploi flexibles et à l'introduction d'un nouveau cadre institutionnel dans les mécanismes de fixation des salaires. Ce document de travail cherche à évaluer les réformes sur le marché du travail, en comparant leur efficacité dans la réalisation de leurs objectifs avec le coût social et économique qu'elles ont engendré.*

**Mots-clés:** Grèce, crise économique, austérité, réformes du marché du travail, dévaluation interne.

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## Introduction

In October 2009, following the change of government in Greece, it was revealed that the country's projected fiscal deficit would reach 12.5% of GDP. At the beginning of 2010, Greece officially entered a deep recession which evolved into a structural crisis of the whole economic model.

Subsequently, the Greek government asked for financial assistance from the European Union. To that purpose, a three-member committee, also called Troika, was created, composed by the European Central Bank (ECB), the European Commission (EC) and the International Monetary Fund (IMF). In May 2010, the first agreement, called Memorandum of Understanding (MoU), was signed between the Greek parliament and Troika, which provided a €110 billion loan “to help the country ride out its debt crisis, revise growth, and modernise the economy” (IMF, 2010). Since then, the country has signed three MoUs and borrowed €290 billion in total from both the European Union and the IMF.

The financial assistance program was accompanied by a set of austerity measures that aimed at ensuring Greece's ability to reimburse its loans. Many of these measures, included in those agreements, are to remain in force until the complete repayment of the loans. As a result, despite the fact that in August 2018, the third and last MoU expired, Greek government's public policies still follow the path of these agreements and are still being supervised by the European Commission (Enhanced surveillance reports on Greece for the years 2018-2020).

This study evaluates the impact of the Greek labour market reforms applied during the economic adjustment programmes (2010-2018), in relation to their objectives, but also goes a step further. We consider that those reforms were the mainspring of the socioeconomic transformation, which is underway since 2010.

To that end we mobilise a qualitative approach, emphasising the role of socio-economic and socio-political relations between agents. Our analysis, based especially upon the study of theoretical texts, positions the topic in the centre of the institutional and socio-economic dimension of the issue. We adopt a reading of the crisis approached from the scope of the individual processes that govern capital accumulation. This way, the phenomenon of the crisis in Greece can be studied in more depth, and its structural causes can be unravelled. The use of theoretical and analytical tools borrowed from the *Regulation theory* (Théorie de la Régulation) helps us to investigate aspects of the issue that other prevailing theories are missing out, or have not methodically formulated. Therefore, the theoretical frame of Regulation theory helps us to highlight the specificities of the Greek economic model and delve into them.

To that purpose, we mainly focus on the theoretical literature findings and we structure a theoretical scheme that is combined with an economic, social and political analysis upon an institutional configuration (Boyer, 1995 & Boyer, 2015). The theoretical part focuses on exploring the long-term effects of working conditions and the prospects of economic growth from a socioeconomic standpoint. Our qualitative research method, based upon the analysis of institutional arrangements<sup>2</sup> that influence the growth trajectory of an economy (Juillard,

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<sup>2</sup> “The projection of this relation in a purely macroeconomic field is described as an accumulation regime. In this sense, the accumulation regime provides the schema or growth model of a national economy in a particular era” (Juillard, 1995, p. 153).

1995), allows us to construct a framework of analysis for the Greek crisis. This analytical framework, is suitable for providing elements of explanation on the socioeconomic trajectory taken by the recent history of the contemporary Greek economic model that can be used in a larger study.

The empirical part of our research aims to supplement our main theoretical work, by trying to evaluate the adjustment of the labour market in response to the implementation of the austerity measures from a quantitative point of view. This analysis includes detailed demonstration of stylised facts collected from the Labour Institute of the General Confederation of Greek Workers (INE-GSEE), the Hellenic Statistical Authority and other European and international sources. We also use data from the LABREF database, which is a labour market reforms specific database of the European commission, the Mona database of the IMF and AMECO.

Thus, the current paper is organised as follows. Section 2 highlights some general fundamental characteristics and long-standing challenges of the Greek economic model and labour market. Section 3 investigates the labour market reforms of the period 2010-2018. This is then followed by a discussion of the effectiveness of the reforms on both a social and an economic aspect, on section 4. Finally, section 5 summarises the main findings and presents some forward-looking implications of this research.

## **I. General characteristics of the Greek growth model and labour market before the 2009 crisis**

Most studies on the Greek crisis of 2009 neglect or do not give a significant importance to the trajectory of the country's economic model. In general, the formation of economic models through time reveals important elements and helps us interpret subsequent phenomena. Of course, identifying Greece's economic model is a huge endeavour, difficult to accomplish here. To this effect, a brief presentation of the main characteristics of Greek economic model is attempted here, though by no means this is a comprehensive, in-depth study of its model.

Greece's production model started changing prior to the country's integration into Eurozone. Since 1975 an important emphasis on the reinforcement of tourism, of the constructive sector and on the development of a consumption-oriented demand was given. The Greek economy formed a weak productive base, with the prevalence of small and medium-sized enterprises<sup>3</sup>, which were mostly labour-intensive, and particularly expanded self-employment activities. Since Greece's entry into the Eurozone in 2001, those characteristics have been intensified. "For a number of decades, the principal sources of growth were rising private and public consumption expenditures (Chart 1) coupled with a rapid expansion of construction investment (Chart 2), largely financed by EU transfers, relatively cheap foreign borrowing and short-term capital inflows" (Katseli, 2016). These procedures significantly weakened country's productive base, deteriorated the country's productive potential, entrepreneurship and human resources (Giannitsis, 2013, p. 143).

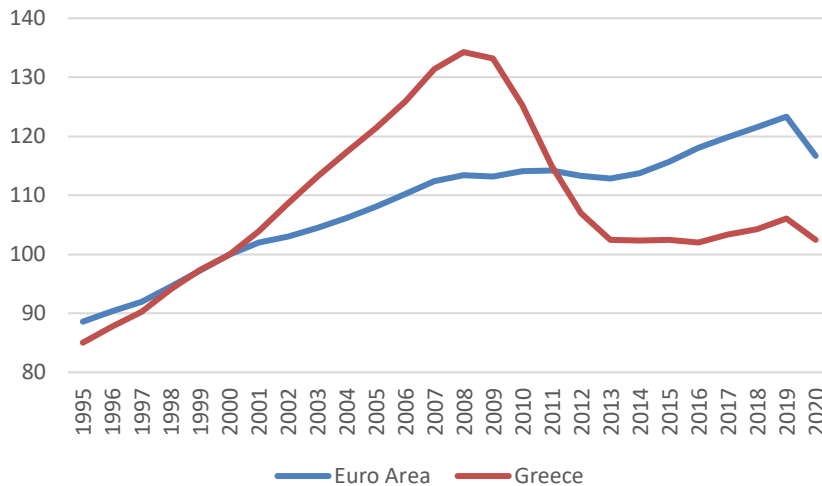
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<sup>3</sup> The small size of businesses is generally associated with problems of low productivity and high cost of services provided which makes them less competitive.

However for the significant period 1983-2008, employment in Greece “increased almost steadily (...). This trend was reversed in 2008, resulting in a sharp reduction in the overall employment level” (Dedousopoulos, 2013, p. 23).

### Chart 1: Total consumption

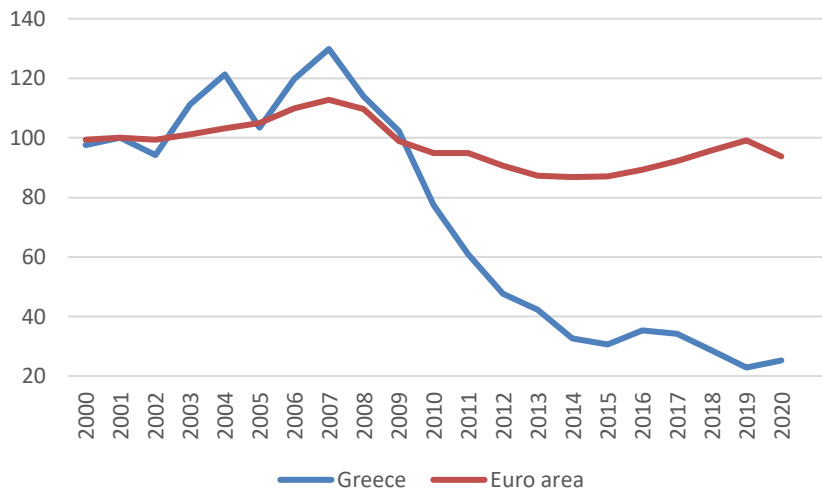
Constant prices, Base year 2000=100, 1995-2020



Source: Ameco

### Chart 2: Construction sector investment

National currency, Base year 2000=100, 2000-2020



Source: Ameco

Taking this analysis further, we investigate particular aspects of Greek capitalism that differentiate it from other corresponding social formations (Skagiannis, 1993, p. 117). We consider that all the above are the result of some historically constructed socio-political and economic compromises that operate as the rule of the social game (Amable, Palombarini, 2018, p. 31). According to Regulation theory, these compromises form, in the long term, some institutional specificities (*spécificités institutionnelles*) that construct a precise institutional frame. Namely, in the case of Greece, some of these institutional specificities are: the shadow

economy and informal forms of employment, fiscal fraud and fiscal evasion, and contraband of petrol, cigarettes etc. Altogether, these specificities hinder the smooth operation of the Greek economy and lead to an inefficient state.

Within that frame, as mentioned above, Greece gradually formed a weak productive base with a “labour market configuration [that] lacked the refinement and diversity which one might encounter in countries with a more diversified production system” (Mattoni, Vogiatzoglou, 2014, p. 59) and did not create a sufficiently fertile ground for the entrepreneurial expansion. As a result, the development and formation of labour relations in Greece are markedly delayed compared to the rest of Europe due to the delayed industrial development of the country.

## **II. Overview of the labour market reforms during the 2010 crisis**

Agreements signed between the various Greek governments and Troika during the period of 2010-2018 were structured upon a specific conceptualization of the crisis in Greece and its economic model. According to Troika’s analysis we can identify four main causes of the crisis.

To begin with, the mismanagement of the increase in wages, and incidentally in pensions, in previous years appears at first sight as one of the tight constraints on Greece’s smooth economic growth. The pension system in particular, was considered to be highly “fragmented across occupations, types of pensions and benefit rules” (IMF, 2021, p. 8). Apropos of the wage structure, it was characterised as “a complex collective bargaining system and generous minimum wage decoupled from productivity” (IMF, 2019, p. 4). Furthermore, revenues taxation was low in comparison with revenues taxation of other European countries. Those issues came along with lack of political support and political willing that drove the country to policy failures, such as lack of fiscal discipline, and created an unsustainable public debt mostly owned to external creditors (Thomsen, 2019).

In this context, several structural reforms have been enacted in practically all economic and governmental sectors. The general objective was to restore competitiveness and improve Greece’s position in the international and European labour division through internal price adjustment. Labour market reforms especially, “aimed at increasing labour market decentralization and flexibility” (IMF, 2019, p. 6) in order to adjust wages in line with productivity levels, and as such lower the unit labour cost (ULC).

However, this conceptualisation of the reforms’ structure was heavily criticised. Many economists denounced that this approach considered the crisis in Greece as a purely national one, and not as an expression of the global and European crisis (Dedousopoulos, 2013, p. 1). This rhetoric accompanied the economic adjustment programs until 2018 and formed the basis of the economic policies applied. As such, the measures were narrowly focused, giving a unilateral character in the crisis’ treatment. “Memorandum I was based on the assumption that the Greek labour market had been largely inflexible” (Dedousopoulos, 2013, p. 10). So, labour market reforms promoted during 2010-2018 aimed to increase flexibility of the Greek labour market<sup>4</sup> and introduce a greater degree of flexibility in the wage-setting mechanisms

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<sup>4</sup> Flexible working pattern were introduced in Greece in 1999 (two years before country’s entry to the Eurozone) but in a preliminary style (Dedousopoulos, 2013, p. 19).

(Dedousopoulos, 2013, p. 24) by changing its institutional frame (Filinis, Georgakopoulos, 2018, p. 130).

Thereafter, we will look at a critical policy domain: labour market changes. The entirety of the reforms applied are documented in the Labour Market Reforms Database (LABREF)<sup>5</sup>. This data helps us understand the changes in the institutions of the labour market. The LABREF data base is organised around nine broad policy areas:

1. Labour taxation
2. Unemployment benefit
3. Other welfare-related benefits
4. Active labour market policies
5. Job protection legislation
6. Disability and early retirement schemes
7. Wage bargaining
8. Working time
9. Immigration and mobility

Each of these points is of particular interest and has been at the centre of the public and scientific discourse. The reason the labour market reforms have caused so much ink to flow is because it has completely changed working conditions in Greece, as we knew them before. Thus, the reforms created conditions for flexible<sup>6</sup> working relations to make employment more competitive. Additionally, they aimed to stimulate the international competitiveness of the economy and create a model of growth based on exports and private investments (Filinis, Georgakopoulos, 2018, p. 126). The reforms also involved wide changes in individual and collective labour relations, with a direct impact on employment, the labour market and individuals' income. A series of important legislative changes and regulations have brought extremely crucial reversals in the current laws of collective bargaining, in the wage-setting mechanisms for public and private sector employees, and the protection of the employment (OECD, 2013, p. 90).

The LABREF database lists 169 reforms that have been applied in Greece in the aforementioned policy areas during the period of 2010-2018. These reforms concern both the private and public sectors. Among these 169 reforms we present five reforms components that prevail.

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<sup>5</sup> LABREF database is managed by European Commission in cooperation with the Employment Committee and follow the categorisation proposed by European Commission. For more information see: European Commission (n. d.), "Databases and indicators-LABREF and its use", available at <https://ec.europa.eu/social/main.jsp?catId=1143&intPageId=3193>.

<sup>6</sup> The concept of flexibility owes its first elaboration to neoclassical theory. It refers to the ability of prices to change in relation to the difference between quantities demanded and supplied, in order to ensure market balance. The balancing mechanism in neoclassical markets presupposes flexibility of prices in product market, wages in labour market and interest rates in money market, while the degree of flexibility depends on the competitive conditions prevailing in the market (Karamesini, 1993).



**Table 1: Types of labour market reforms**

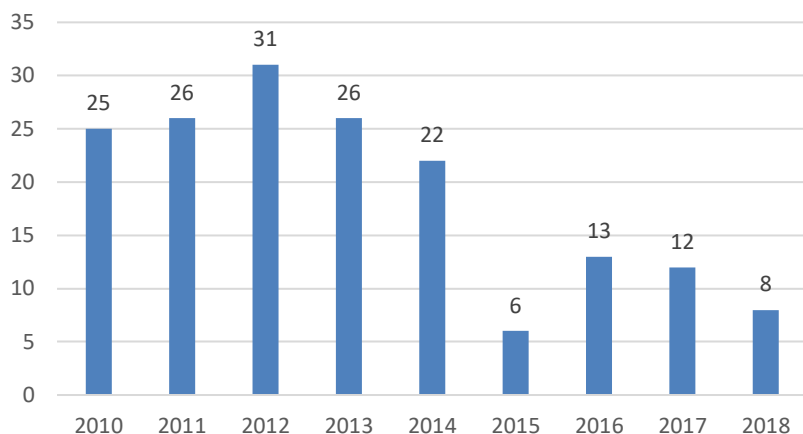
<b>Labour market reforms</b>	<b>Policy rationale</b>
Collective bargaining	Increase the system's flexibility and decentralization, to facilitate adjustment via wages rather than via employment levels.
National minimum wage	Reduce Greece's minimum wage to lower labour costs, keep the low skilled from being priced out of the formal labour market, and introduce new setting mechanism based on tri-partite consultation and evidence-based wage floor setting.
Employment protection	Reduce Greece's exit costs to foster employment.
Flexible forms of employment	Facilitate flexible forms of employment to increase labour participation rates and foster job creation.
Labour tax wedge	Reduce non-wage costs mainly through employers' social security contributions.

Source: Gatopoulos (2020), p. 10.

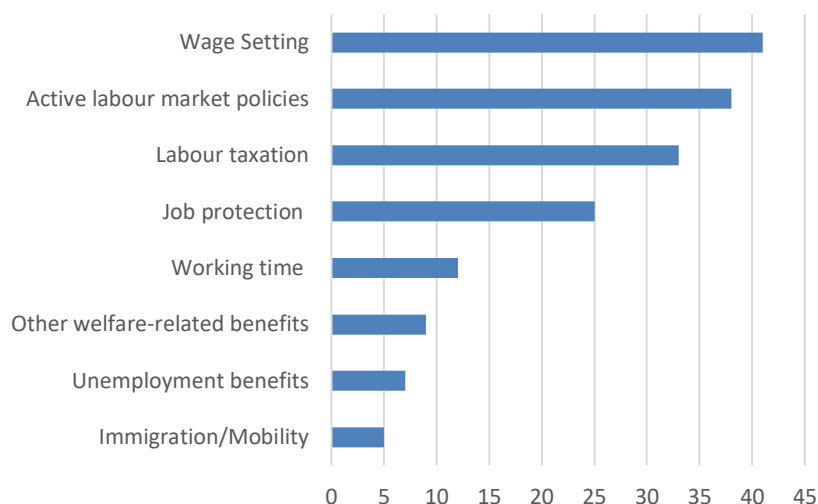
## **II.1. Assessment of the reforms**

During the period 2010-2011, when the first economic adjustment programme was underway, priority was given to the reform of employment protection legislation (Filinis, Georgakopoulos, 2018, p. 128). According to the LABREF database, the lowering of the thresholds for collective dismissals, the extension of the probation period, and general changes in the institutional framework governing the regulation of working time were the most significant changes. A great number of these reforms were part of the economic adjustment programmes.

In Chart 3, we can see that most reforms were implemented during the two first agreements that is to say between 2010 and 2014. This tells us that the most crucial reforms, the ones that radically changed the institutional setting of labour relations, were applied in a short period of around 5 years.

**Chart 3: Number of reforms per year**

Source: Data from LABREF database, Crisis Observatory, data processing

**Chart 4: Labour market reforms, 2010-2018**

Source: Data from LABREF database, Crisis Observatory, data processing

Chart 4 shows that ‘Wage setting’ and ‘Active labour market’ policies were the two most popular reforms for the years of 2010-2018. In terms of wage setting reforms, the focus was on reducing both the general minimum wage and the minimum wage for young employees under 25. Also, a great number of the wage setting reforms was related to the re-arrangement of the bargain regulation between employers and employees.

Regarding ‘Active labour market policies’, the objective of this policy area is to create opportunities and give access to labour force. In the case of Greece, these reforms mostly targeted people who were unemployed for a long period and, were registered in O.A.E.D.<sup>7</sup> lists. According to the database, there were no significant, long-term reforms aimed at the unemployed that were qualified, degree holders of all ages. Regarding reforms about young

<sup>7</sup> O.A.E.D. stands for Hellenic Manpower Employment Organization and is a public agent the operation of which is to promote employment, to insure unemployed people, to preserve social protection and to offer training and vocation education to those who seek employment.

people, these were temporary reforms, concerning very specific professional domains such as tourism.

More specifically, changes made to labour relations focused on reforms that undermined the role of full and stable employment, in favour of flexible forms of work. These changes involve the following: dismantling of collective bargaining and remuneration, adoption of a new model of collective agreement, flexibilisation of working time, easing the terms of protection against redundancies and, finally, the convergence of the employment status of the private and public sectors in terms of overall degradation (Kouzis, 2015, p. 9). These measures focus on layoffs, freezes and cuts in wages, pensions and cuts in general public spending, privatization and structural reforms, including structural restructuring of the labour market.

## **II.2. The effects of the austerity and the impact of the reforms**

Both labour market reforms and the more general reforms implemented under the economic adjustment programmes, belong to the frame of austerity policies. Political authorities in the EU and the Euro-area (EA) argued that only austerity policies were in a position to tame the crisis and to promote ‘competitiveness’ and a process of export-oriented growth.

However, “austerity has been criticized by many prominent economists as an irrational policy, which further deteriorates the economic crisis by creating a vicious cycle of decreasing effective demand, fall of GDP, recession and over-indebtedness. Moreover, European austerity policies have been accused of dragging the global economy into a recession and a liquidity trap, by exacerbating global imbalances” (Milios, Lapatsioras, Sotiropoulos, 2017, p. 10).

Especially in the case of Greece, the implementation of austerity policies aimed at reorganising “the relation of forces between capital and labour on all social levels to the benefit of capital” (Milios, Lapatsioras, Sotiropoulos, 2017, p. 20). This was obvious in Greece, as most of the reforms aimed at reducing entrepreneurial costs and enhancing capital investments and economic competitiveness, through the reduction of labour costs and the budget cuts of the public revenue (Milios, Lapatsioras, Sotiropoulos, 2017, p. 10).

Austerity policies resulted in internal devaluation. More broadly, internal devaluation was one of the two main tools used by the European Union to deal with the 2008 crisis. The second tool was that of fiscal tightness. As devaluation of the country’s national currency<sup>8</sup> isn’t possible when a country belongs to a monetary union, internal devaluation was chosen for Greece. Thus, the mechanism of internal devaluation is activated when the economy is in a state of imbalance and it undertakes to restore its state of equilibrium. This mechanism is the competitiveness channel which consists of the process of wage setting, the process of price setting and the impact of price competitiveness on the aggregate demand. More precisely, the theoretical scheme of internal devaluation suggests that an economy can improve its competitiveness through reducing wages, increasing its exports and stimulating aggregate

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<sup>8</sup> The debate over the currency devaluation process in Greece has taken on a major dimension. In the situation where a country devalues its national currency, a series of chain reactions are created in the economy. If the country is in a deep recession like Greece in the period 2010-2018, a devaluation of the currency will increase the demand for domestic products and reduce imports of consumer products because they will be more expensive. For more see Ioakeimoglou (2015), «Η αλήθεια για τις νομισματικές υποτιμήσεις», [The truth about monetary devaluations], Rproject, available at <https://rproject.gr>, (accessed on 04/12/2020).

demand, and therefore production, and drive the economy to a new level of equilibrium (Ioakeimoglou, 2012, p. 11). This process, however, entails the transformation of labour relationships as well of the process of accumulation that is the entire growth model is under transmutation.

Hence, the primary objective of the internal devaluation applied in Greece was to reduce labour cost in order to enhance the country's competitiveness. According to the pursued economic policy of the Eurozone the internal devaluation was the main adjustment mechanism (Rathgeb, Tassianri, 2020). This was formed towards wage reduction and public spending shrinkage. But this had also serious implications, in particular on the labour relations, the working conditions and the social consensus of the country.

### **III. Socioeconomic impact of the internal devaluation**

The Greek crisis is one of the longest and most severe crises recorded in peacetime (Dianeosis, 2016, p. 30 & Milios, Lapatsioras, Sotiropoulos, 2017, p. 7). According to the research center Dianeosis, Greece is also one of the European countries that suffered the most significant GDP loss (Dianeosis, 2016, p. 30) during the economic crisis. Both level of reduction of GDP and duration of the crisis aren't random factors or random characteristics. They express the depth and severity of the phenomenon. Thus, the ramifications of this crisis are correspondingly serious.

As we mentioned in the beginning of the paper, to unravel the root causes of the crisis one needs to study the evolution and the conditions under which, the Greek economic model was created. Therefore, the Greek crisis can be interpreted as the result of the gradual and chronic weakening of the country's productive base. This significant weakening made the economy unable to support and finance its own needs. This raises the question of how can a country cope with its loan obligations when it does not produce enough financial and economic surplus? In Greece, this deficiency was never really addressed at its core, as instead the consistent policy solution chosen was that of excessive borrowing.

As such the three economic adjustment programmes constituted arrangements that in the long term were aiming for institutional changes. Each of the three arrangements corresponds to an attempt of a structural transformation of Greece's growth model or, in other words, of its accumulation regime<sup>9</sup>. However, we consider that this attempt wasn't applied in

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<sup>9</sup> Regulation theory provides as a detailed definition for the term "accumulation regime" (régime d'accumulation). "The set of regularities that ensure the general and relatively coherent progress of capital accumulation, that is, which allow the resolution or postponement of the distortions and disequilibria to which the process continually gives rise. These regular patterns relate to:

- a. The evolution of the organisation of production and of the workers' relationship to the means of production.
- b. The time horizon for the valorisation of capital, which offers a basis for the development of principles of management.
- c. A distribution of value that allows the reproduction and development of the different social classes or groups.
- d. A composition of social demand that corresponds to the tendencies in the development of productive capacity.
- e. A manner of articulation with non-capitalist economic forms, when they hold an essential place in the economic formation under study (Boyer, 1986a: 46, trans. Charney, 1990: 35–6)". For more see Boyer, R. (ed.), Saillard, Yv. (ed.) (2002), *Regulation theory. The state of the art*, London: Routledge.

a rational manner<sup>10</sup> that respects the pre-existing significant characteristics of the country and only changes those that are incorrect. The Greek governments who were engaged in bringing those programmes to play, in collaboration with the country's dominant social bloc (*bloc social dominant*, Amable, Palombarini 2018) chose to apply the reforms based on the criterion of reducing the associated political cost (Milios, 2013).

However, what is considered as cost for a specific socioeconomic group is living standard for another. Thus, these policies had multiple and multilevel socio-economic consequences. The selection of the examples mentioned below is based on the consequences of the labour reforms as well as the sources that we had at our disposal during the research so far. This does not mean that we do not take into account other significant social or economic consequences that we do not mention directly here.

### III.1. Precarity

First and foremost, the condition of internal devaluation led inevitably to the increase of precarious employment. The term "precarity" covers a number of phenomena. Precarity refers to forms of employment that present minimal guarantees for the employee, in terms of having or maintaining in the near future an "acceptable" standard of living, which leads to a deep sense of uncertainty about the future and a sense of insecurity. They describe, in other words, a negative present and an uncertain future regarding the working conditions and labour relationships. Regardless of the individual definitions and classifications, precarity is related to a person's financial situation (low and / or unstable income); job satisfaction; recognition and status; employment uncertainty (temporary employment or increased likelihood of job loss); job prospects (reduced chance of finding a new job); working conditions (unstable hours, income or other elements/items) (Nicos Poulantzas Institute, 2020, p. 8). Due to the high level of the phenomenon complexity, measuring assessing the conditions and empirically measure the phenomenon isn't easy<sup>11</sup>. There is no specific statistical category at national level that reflects this social reality and its multifaceted aspects. In short, precarious employment situation in a country is a combination of various factors that compose working conditions in that country.

Since 2010, Greece has shown high levels of labour market insecurity<sup>12</sup> and scores at the bottom of the OECD indicators about job quantity due to high unemployment and underemployment rates among the OECD countries, as we can see from Chart 5. We can also observe that Greece scores low across all indicators in comparison to the average OECD levels.

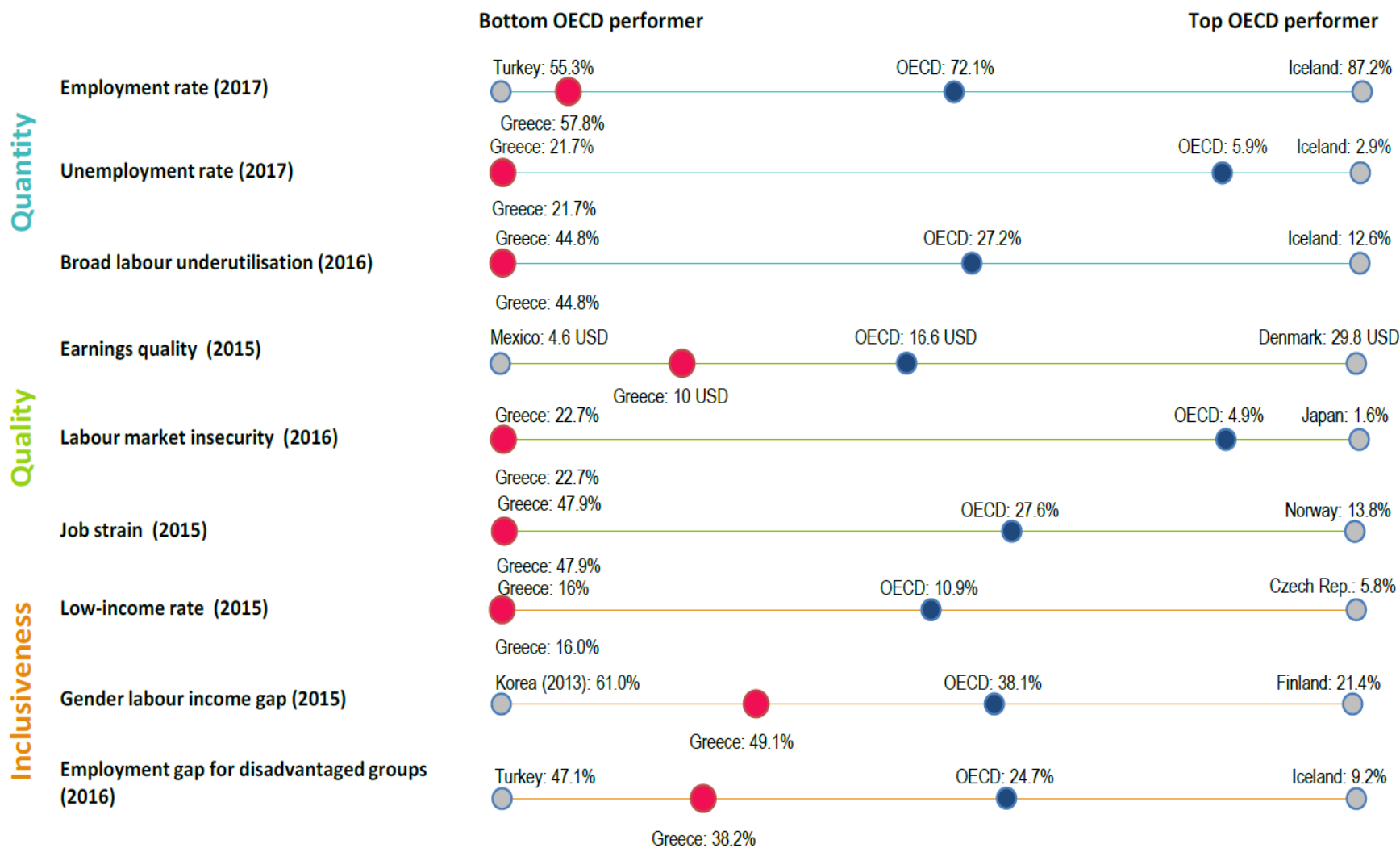
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<sup>10</sup> Rational evolution based on the criterion of long-term and at the same time smooth reproduction of the growth model.

<sup>11</sup> Guy Standing has identified a number of categories and criteria regarding the insecurity and precarity that comes out as a result of the flexibilisation of the labour market. For more see Standing, G. (2011) indicatively we refer some of Standing's criteria for assessing the precarious employment: labour market insecurity, employment insecurity, job insecurity, work insecurity, skills reproduction insecurity, income insecurity, representation insecurity etc. (Kennedy, 2018, pp. 261-262 & Standing, 2011).

<sup>12</sup> Labour market insecurity data refer to the average expected monetary loss associated with becoming and staying unemployed, as a share of previous earnings. For more see OECD ilibrary.

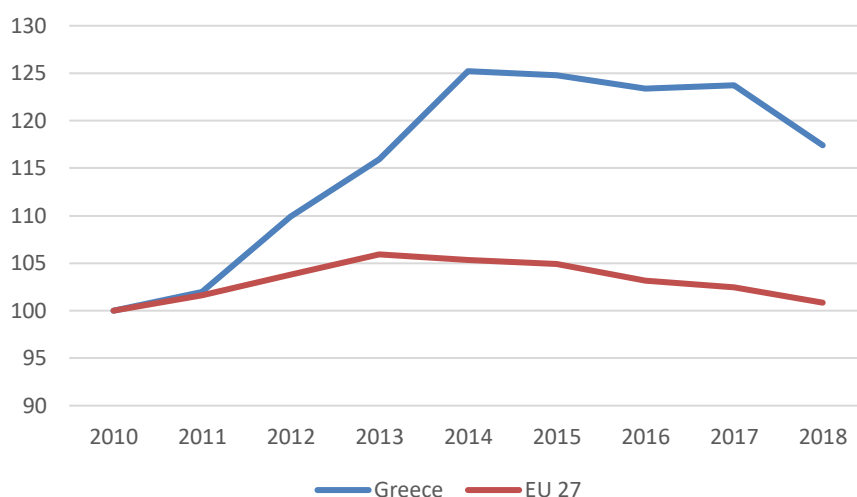
**Chart 5: Dashboard of labour market performance for Greece**



The high levels of labour market insecurity go with a prevalence of temporary work (Chart 6) and substantial levels of insecurity. Long-term unemployment, which climbed from around 47% in 2008 to 72% in 2016, according to ELSTAT<sup>13</sup> data and Dendrinou (2018, p. 48), is particularly concerning. This phenomenon is directly linked to the stagnation of productive activity and the escalation of economic and social uncertainty that induces to a problematic accumulation regime. ELSTAT data shows that the number of people living in families with low labour intensity (unemployed or underemployed) grew, indicating a serious deterioration of families affected in various ways by the effects of unemployment. As Dendrinou points out, this also includes the problem of youth employment, especially in terms of the transition time from education to the labour market. In general, the major problem faced by young people in Greece is their entrapment in backward and insecure paths between unemployment, underemployment and withdraw (Dendrinou, 2018).

### Chart 6: Part-time jobs index

Base year 2010=100, 2010-2018



Source: OECD (2021), author's calculations

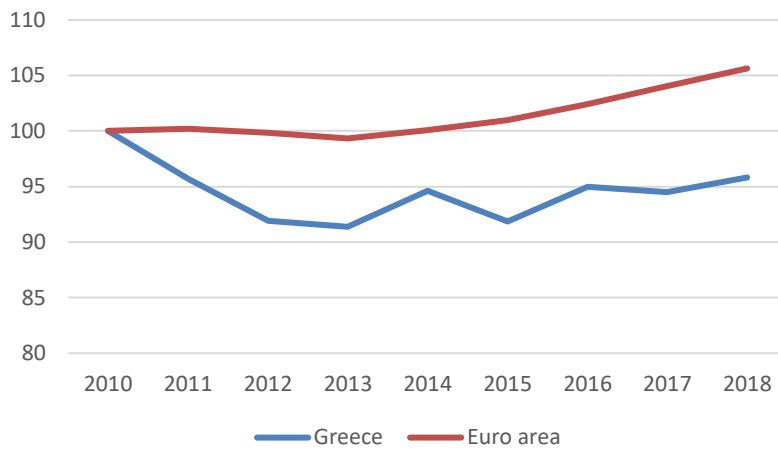
Reforms have also promoted the increase of flexible work patterns<sup>14</sup> such as temporary work, part-time jobs, hiring-out of employers, employment under the form of “independent services provision”, remote working etc. This goes hand by hand with the significant rise of unemployment (Chart 7 & 8). “Between 2008-2013, unemployment rose from 7.8 per cent to over 27 per cent while “the fall in employment accelerated with the implementation of Memorandum I” (Dedousopoulos, 2013, p. 32). In this context it is estimated that an immediate consequence is the increase in migration at productive ages. As a result, the form of social cohesion as it was known until then alters progressively.

<sup>13</sup> Hellenic Statistical Authority (Ελληνική Στατιστική Αρχή, ΕΛ.ΣΤΑΤ.).

<sup>14</sup> The major issue with part-time jobs, as Dendrinou points out, is that it is a forced decision for workers, rather than a free choice as part of a purposeful entry into the labour market (over 70%, while, at European level, ranges below 30%) (2018, p. 50).

**Chart 7: Employment index**

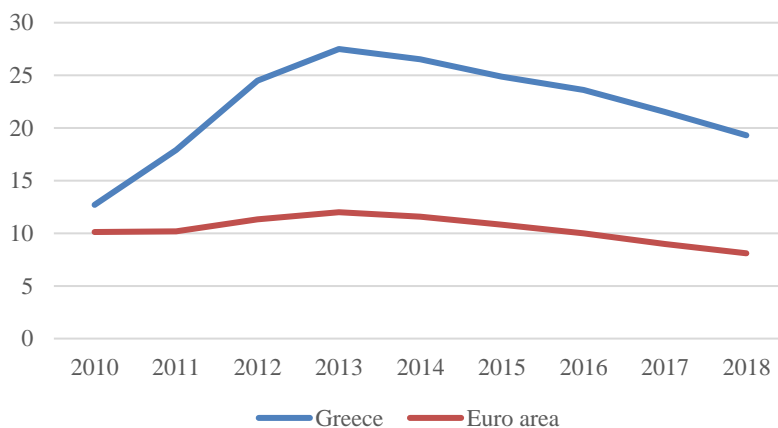
Base year 2010=100, 2010-2018



Source: AMECO (2021), author's calculations

**Chart 8: Unemployment**

Percentage of active population, 2010-2018



Source: AMECO (2021)

**III.2. Weakening of collective bargaining, limited social protection and fall in wages**

As seen above, numerous labour market reforms adopted during the period of investigation, limited the social protection of employees and led to a cut in wages. Wage flexibility was one of the main goals that occurred through the reduction of minimum wages and the decentralization of collective bargaining which led to "... more unemployment and failed to boost new recruitment as it was envisaged by the Troika" (Petraikos, 2014).

In addition, the internal devaluation also had severe implications on the real economy (Bozani, Drydakakis, 2015, p. 133). Real unit labour costs (ULC) fell by 11.8 percentage points between 2010 and 2013, compared to a reduction of just 0.1 percentage points for the Eurozone over the same period (Bozani, Drydakakis, 2015, p. 133). An unforeseen consequence of the massive reduction in ULC, was a drastic reduction in domestic demand, But, as a further



extension of the ULC fall the purchasing power, internal demand have been drastically reduced, (as household disposable incomes dramatically fell).

More specifically, the agreements drove the country towards an increased supremacy of enterprise bargaining over sectoral collective bargains and contracts, following the belief that labour costs would be reduced and the demand for labour would increase. Until then, under the law 1876/1990<sup>15</sup>, the whole system of collective bargaining was based on sectoral collective agreements, and the enterprise bargaining prevailed only if they offered better terms to the employees. This reform marked the radical change of the system of collective agreements in Greece after 20 years of existence.

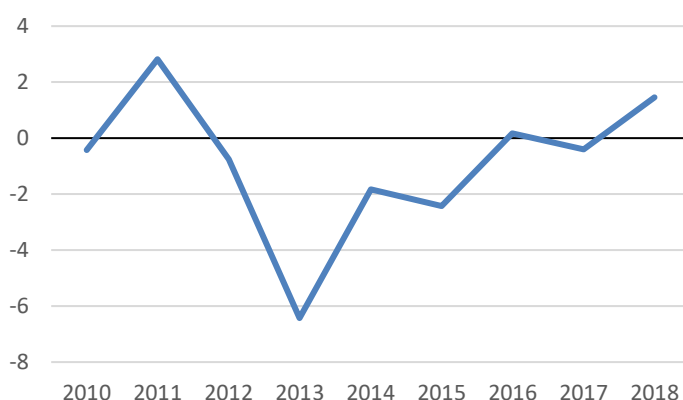
### III.2.1. Labour productivity and competitiveness

Like most policies, internal devaluation is judged by the result. The ultimate goal was to improve price competitiveness and increase the contribution of exports to GDP growth (Greek Labour Institute, 2012, p. 55 & Dedousopoulos, 2013, p. 39). But the question is the following: Have labour market reforms improved labour productivity and enhance competitiveness of Greek economy and expand Greek exportations?

#### A. Unit labour cost and labour productivity

##### Chart 9: Unit labour cost<sup>16</sup> (ULC)

By persons employed, Percentage change, previous period, 2010 – 2018



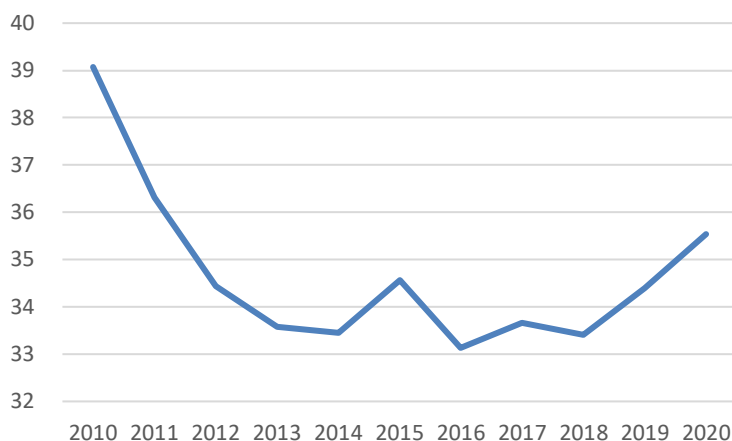
Source: OECD (2021)

<sup>15</sup> The law 1876/1990 concerns the free collective bargaining and other provisions. “Recognizes the principle of voluntary negotiation of collective agreements. Collective agreements are now intended to deal, in addition to questions relating to individual labour relations, those concerning all collective labour relations. Branch collective agreements and company collective agreements now have a legal existence. The system of compulsory arbitration established by the 1955 law is replaced by a range of voluntary dispute resolution procedures (conciliation, mediation and arbitration). Mediators and arbitrators will belong to a special body, placed under the authority of an independent body: the Mediation and Arbitration Body.” (ILO, NATLEX Database of national labour, social security and related human rights legislation, available at [https://www.ilo.org/dyn/natlex/natlex4.detail?p\\_isn=20025&p\\_lang=en](https://www.ilo.org/dyn/natlex/natlex4.detail?p_isn=20025&p_lang=en)).

<sup>16</sup> “Unit labour costs are often viewed as a broad measure of (international) price competitiveness. They are defined as the average cost of labour per unit of output produced. They can be expressed as the ratio of total labour compensation per hour worked to output per hour worked (labour productivity). This indicator is measured in percentage changes and indices” (OECD, 2021a).

### Chart 10: Labour productivity<sup>17</sup>, Greece

GDP per hour worked, constant prices, 2010 PPPs



Source: OECD (2021)

As we can see from graphs 9 and 10, even if ULC had been reduced drastically due to the internal devaluation, it didn't improve directly labour productivity. In graph 9 labour productivity had a sharp downward trend and a drop of 6% during 2010 and 2013. The reduction of labour costs, mainly through the reduction of direct and indirect earnings of employees, affected the productivity level.

As explained in previous sections, the main ambition of the policies implemented during the period considered, was to promote an environment favorable to entrepreneurial investments by reducing the ULC and enhancing labour productivity. However, this hides a contradiction. The fact that productivity growth and earnings growth weren't in line, drove to a lack of sustainable aggregate demand which by extension hinders the attraction of national investment and creates a climate of doubt for foreign direct investments influencing competitiveness.

#### ***B. Lack of competitiveness and trade deficit***

In general, competitiveness refers to the ability of an economy to increase aggregate demand and exports. It's true that the lack of competitiveness is a chronic problem and is/was reflected in many economic variables, one of which was the huge external deficits, the accumulation of which created a large external debt.

The European Union recognized the declining competitiveness as one of the main and long-standing problems of the Greek economy that contributed to the emergence of twin deficits<sup>18</sup> and one of the most critical causes of the crisis. The need to enhance competitiveness

<sup>17</sup> Productivity, in general, is considered a crucial driver of long-term economic growth. Labour productivity is an index which help us to measure how effectively labour is combined with the other factors of production. OECD uses GPD per hour worked to measure labour productivity. "Labour productivity only partially reflects the productivity of labour in terms of the personal capacities of workers or the intensity of their effort. The ratio between the output measure and the labour input depends to a large degree on the presence and/or use of other inputs (e.g. capital, intermediate inputs, technical, organisational and efficiency change, economies of scale)" (OECD, 2021b).

<sup>18</sup> Twin deficit is a macroeconomic phenomenon in which a country has a deficit in both its budget and its balance of payments. That is, government expenditure exceeds its income, and imports of goods and services pass exports.

was raised in the very first memorandum. Though, the emphasis was given in the cost competitiveness.

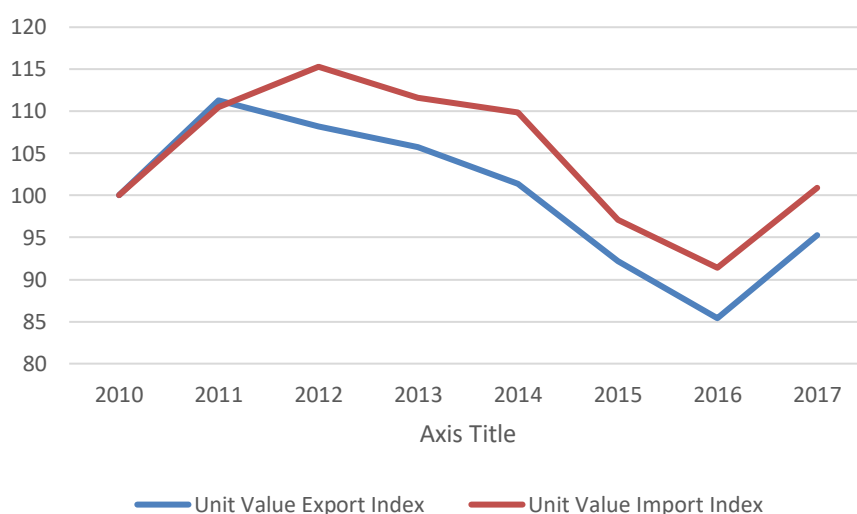
Particularly, the second economic adjustment program called for expanding labour market flexibility and lowering the minimum wage, as necessary conditions for restoring competitiveness (IMF, 2012). The reduction of labour costs in the private sector in combination with the large wage reductions in public sector wages and pensions aimed at attracting investment by enhancing cost competitiveness. Troika was convinced that the reduction of public and private consumption would contribute to a beneficial restructuring of GDP, in which consumption would have a smaller share. At the same it would create a fertile ground for privatizations, would permit the expansion of the spheres of placement and profitability of private capital, would revive investment, and net exports.

However, the immediate and most obvious result was, as analysed above, the significant drop in the consumption, aggregate demand and by extension in GDP. As a result, the factors of quality competitiveness came second, as well as the structural characteristics of the Greek economy, many of which adversely affect its ability to produce competitively. In Greece, “competitiveness is enhanced, not as a result of increases in productivity, but rather as a result of reducing wages and benefits” (Kennedy, 2018, p. 276).

This policy direction was strongly criticized. According to the Labour Institute of Greece (2015, pp. 9-11), this can be described as short-sighted for some reasons. The foremost reason is that labour productivity is not equally taken into account as an equilibrium factor in improving cost competitiveness. In fact, any efforts to increase productivity in the private sector are made mainly through the expansion of flexible forms of work and also through the condition of dismissal and replacement of existing workers by the large number of unemployed. However, the increase in productivity through the intensification of labour is limited, which are determined by the physical endurance of the workers. “Consequently, the violent transition of the Greek economic model, which was based on the increase of wages and consumption to a model based on the increase of profitability, had meager macroeconomic results” (Paitaridis, 2015, p. 9).

### Chart 11: Unit value export and import index

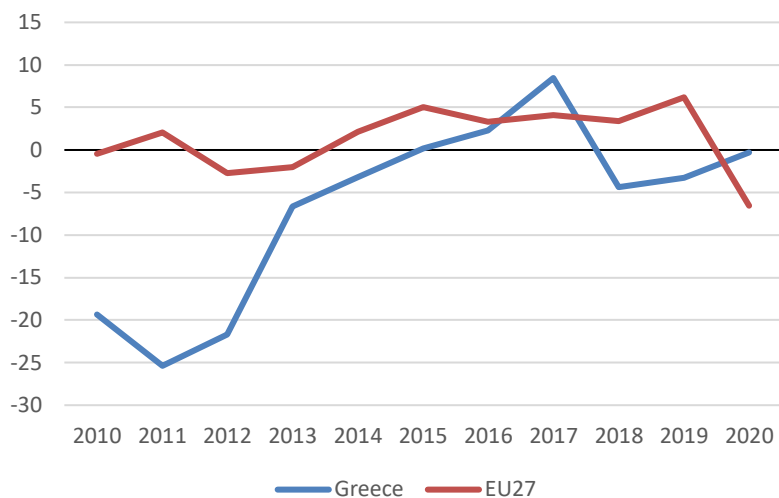
Average value, Base year 2010=100



Source: Hellenic Statistical Authority (2021)

**Chart 12: Gross fixed capital formation (investment)**

Annual growth rates (%)



Source: OECD (2021)

As we can see in Chart 11, between 2011 and 2016, the unit value of both imports and exports declined significantly at the height of the economic crisis. From 2016 an improvement begins to appear but the gap between imports and exports remains the same.

Since the beginning of the crisis, gross fixed capital formation also called investment (graph 12) has declined significantly. “In Greece the fall in real investment was larger and more prolonged than other euro area countries” (OECD, 2018, p. 6). Also reduced the stock of productive capital which in line with total factor productivity are behind the weak potential output growth.

The principal indexes analysed previously, can be summed up in the following table.

**Table 2: Indicative socio-economic indexes**

Index	2010	Trough point	2018	Rate of change (2010-2018)
Annual GDP growth	-9,9%	-11.2% (2011)	1.3%	8.62%
Unemployment	12.75%	27.49% (2013)	19.31%	5.1%
Material Deprivation (ages 18-64)	10.3% (2009)	22,2% (2015)	21,1% (2017)	11.8%
Population at risk of poverty	19.7%	23.1% (2013)	20.2%	0.02%
Labour Productivity <sup>19</sup> (PPS: EU-15 = 100)	64.2	52.5 (2018)	52.5	-0.18%
Unit Labour Cost	105.8	100.0 (2017)	101.7	-0.04%

Source: Hellenic Statistical Authority, AMECO

<sup>19</sup> At current prices, relative to a country or aggregate (HVGDR).

## Conclusion

As we can understand from both Greek and international literature, the promotion of structural reforms during the crisis in Greece is a topic that divided scholars, and continues to do so. The question is both theoretical and quantitative, and in order to be fully answered it must be considered from all angles using combined methodological approaches. On the one hand, there is a need to quantify the effects of reforms to be more easily evaluated (Katsikas et al., 2018, p. 9) while on the other hand, a strong theoretical examination of public policies and their impact is particularly vital for the success of the evaluation.

Our work's initial theoretical hypothesis was that the application of the internal devaluation and the austerity policies had the opposite of the expected effects. To test that, we investigated the relationship between the choice of labour market reforms and their social and economic impact. Even though these two factors are often examined separately, we tried to show their in-between articulations and dynamics.

According to our study, despite the implementation of economic adjustment packages and labour market reforms, the most important problems of the Greek economy still exist. These are associated with the persistent structural weaknesses of the Greek economic model, which we argue were not addressed sufficiently during the period of 2010-2018. The above analysis suggests that the main issues with the Greek economic model, such as the systematic increase of public debt and the weak productive base, still persist. Furthermore, we show that, the internal devaluation policies deteriorated the situation, through their negative impacts on unemployment, labour productivity, employment, etc.

Our results show that by drastically changing the institutional framework of labour relations, the bargaining power of employees is reduced and creates conditions of unemployment and insecurity. Thus a new type of worker is gradually constructed. Elements that surround this type, whose main characteristic is that of flexibility, are very different from those with which it was historically formed. This procedure reconstructs the macroeconomic dynamics of the country and has significant repercussions on social cohesion and influence the unimpeded and smooth reproduction of the accumulation regime. This happens because, the reproduction of an accumulation regime is always a social process that involves and regulates conflicts and compromises. The reproduction of a social and economic structure is possible if the accumulation of wealth and that of political power, framed by institutions, are mutually reinforcing (Amable, Palombarini, 2018, p. 31). In the case of Greece, this did not occur as the reforms were not oriented towards a change of the country's accumulation pattern on the basis of more efficient use of the country's potential.

Consequently, the Greek economic model is changing and tending to adapt to the European one but with many doubts on the procedure and by extension on the result. However, when this procedure doesn't take into account the country's potential and dynamics, it doesn't mean that it will de facto create a long-term sustainable model. Thereby, the question that is raised is: what else can be done? Substantial matters such as activating of Greece's productive base; increasing in the number of good-quality jobs (OECD, 2020, p. 36); and even enhancing the public sector, as well as the private, to widen the professional opportunities are crucial and extremely interesting topics that should be investigated further.

In this context, this endeavour aspires to fuel the reflection on the evaluation of such policies. As a consequence, the subject of this research provides the opportunity for several

research extensions and opens the space for debate in pursuance of alternative public policies that can be implemented to improve the course of the country.

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