

Employment Policy and the Greek Crisis



**A Tool for Managing Social Destruction or
an Element of an Alternative Exit Strategy?**

MARIA KARAMESSINI
Panteion University

“The Eurozone Crisis, Greece and the Experience of
Austerity”, Levy Economics Institute of Bard College
November 8-9, 2013, Athens

Introduction



Structural crisis triggered by the sovereign debt crisis of end 2009

Exit strategy: fiscal consolidation of 18.5% of GDP in 2015 (OECD) internal devaluation of 20-30% (IMF) to promote export-led growth

Greece is a test case for the assumptions of dominant economic thinking worldwide

- **Austerity** can be expansive

- **20-30% devaluation** of wages and assets can generate export-led growth

Failures:

State-led recession of historical dimensions – a 46% decline in investment - depression-level unemployment at 28% – over 40% of the population is living in poverty – real wages fell by 22% - fall in wages was not transmitted in prices – failure of internal devaluation - no substantial growth of exports

Dominant discourse: **no alternative** to mass destruction of production capacity, devaluation and evacuation of human resources and impoverishment – It is the task of progressive social and political forces to open the space for alternatives.

Role of employment policy in austerity



The Economic Adjustment Programme for Greece + deep and protracted recession have changed the role of employment policy and its different components in the crisis from that in 'ordinary times'.

Labour market flexibility = tool to enable the rise of unemployment.

Unemployment benefits, commonly thought as economic stabilizers and social shock absorbers, have been lowered and entitlements have become stricter.

Active labour market policies (ALMP) politically important since the only policy instrument for managing exploding unemployment. However, the character of policies is defensive and compensating, passive not pro-active.

- Context: Unemployment and wage reductions in the EAP
- Different kinds of ALMPs, their timing and particular role
- Relationship with and challenge for European Employment Strategy
- Employment policy as an element of an alternative growth strategy

Labour market deregulation to reduce labour costs

Drastic reduction in the protection of permanent employees against dismissals – employment insecurity

Weakening of collective regulation of pay, reduced coverage by collective agreements and individualization of bargaining

Lowering of the minimum wage by 22% and by 32% for youth

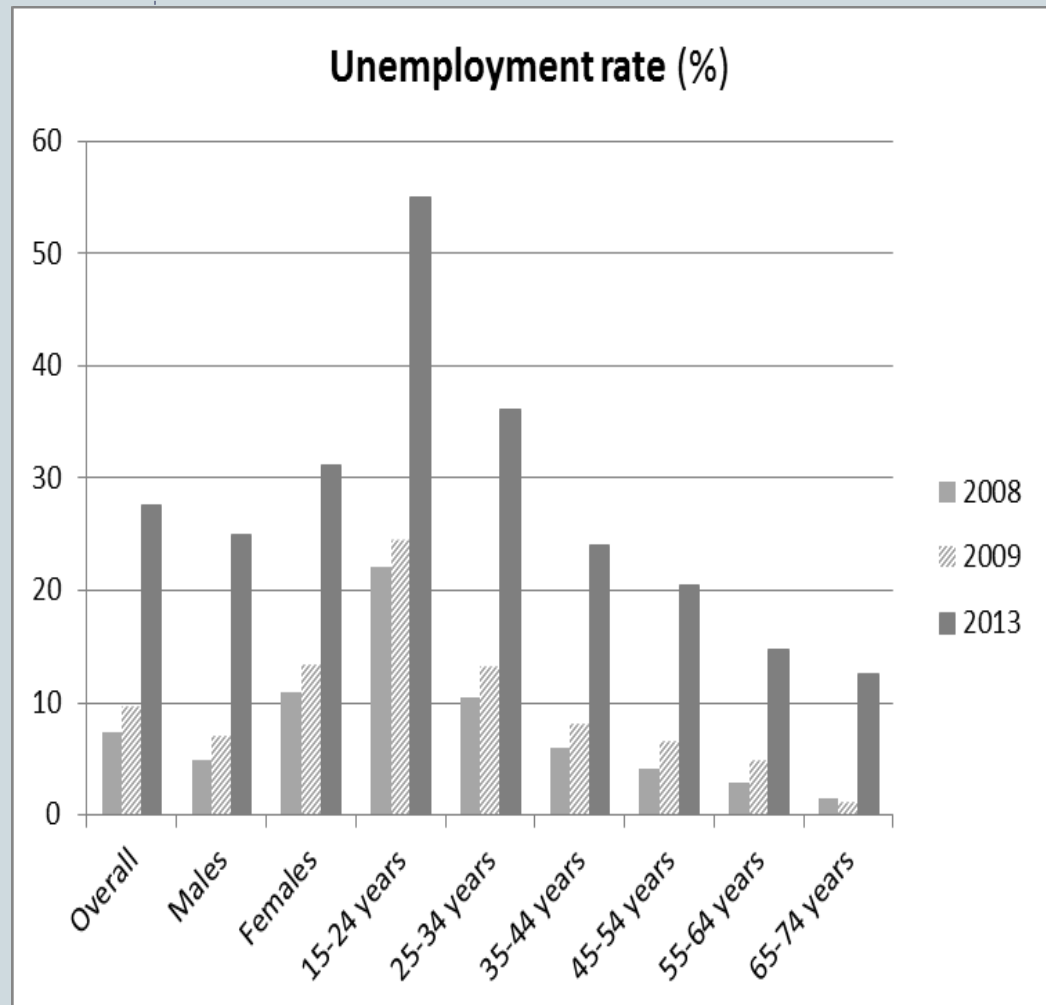
Nominal wages fell by 20% and labour costs by 23% in the business sector between 2009 and 2013 but exports rose only by 6%.

Wage and labour cost developments (%)					
	2009	2010	2011	2012	2013
Mean gross wages (nominal)					
Total economy	4.6	-4.6	-1.7	-6.6	-7.7
Banking	3.7	-1.8	0.1	-7.5	-10.0
Private sector, excluding banking	2.8	-2.9	-1.7	-9.3	-7.8
Nominal unit labour costs					
total economy	6.4	-2.1	-1.1	-8.0	-7.3
business sector	4.4	-1.1	-3.5	-12.1	-8.0

Role of unemployment in economic adjustment



- Skyrocketing of unemployment not only the side-effect of depressed activity resulting from fiscal consolidation and internal devaluation
- Active variable for pushing labour costs downwards along with labour market reforms aiming to increase flexibility (natural rate of unemployment, NAIRU frameworks)
- Unemployment is a unavoidable medium-term cost in anticipation of a long-term benefit.



Unemployment benefits: a poor social shock absorber

- Overall coverage rate around 18%
- Only 26% of the unemployed who worked before becoming unemployed
- Long term unemployed and previously self-employed did not have access to unemployment benefits.



Coverage of unemployed who worked before (2012Q4)

DURATION OF UNEMPLOYMENT	Coverage
Will now start looking for a job	56.6%
Up to 2 months of unemployment	54.4%
3-5 months	48.9%
6-11 months "	44.9%
12-23 months "	18.9%
2 years and more	3.3%
All unemployed	25.6%

Mobilization of active labour market policies

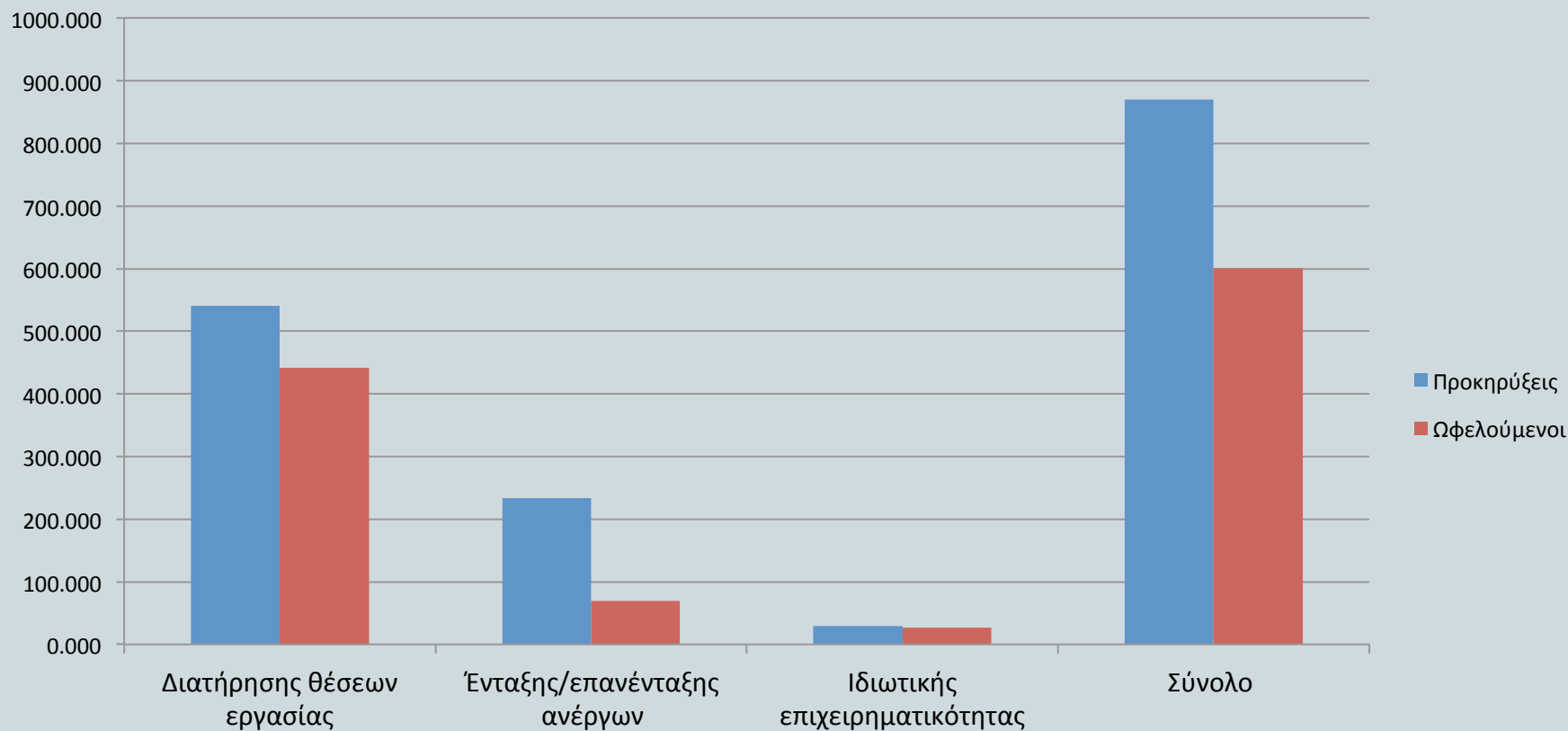


- Great increase in beneficiaries in the first half of 2011 – stabilisation afterwards
- Renewed increase in the second half of 2012 with schemes of community employment (55,000 beneficiaries)
- Launch of new schemes for traineeships

ALMP by type



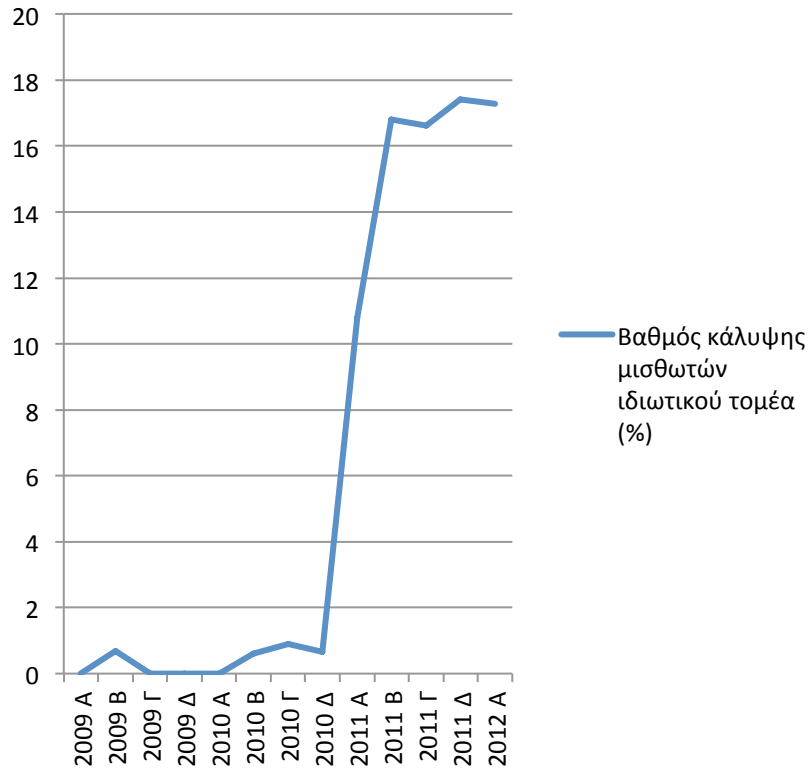
Ενεργητικές πολιτικές απασχόλησης ΟΑΕΔ Αριθμός θέσεων και ωφελούμενων*



***Από Ιανουάριο 2009 έως Μάρτιο 2012**

Job maintenance schemes before lowering minimum wage

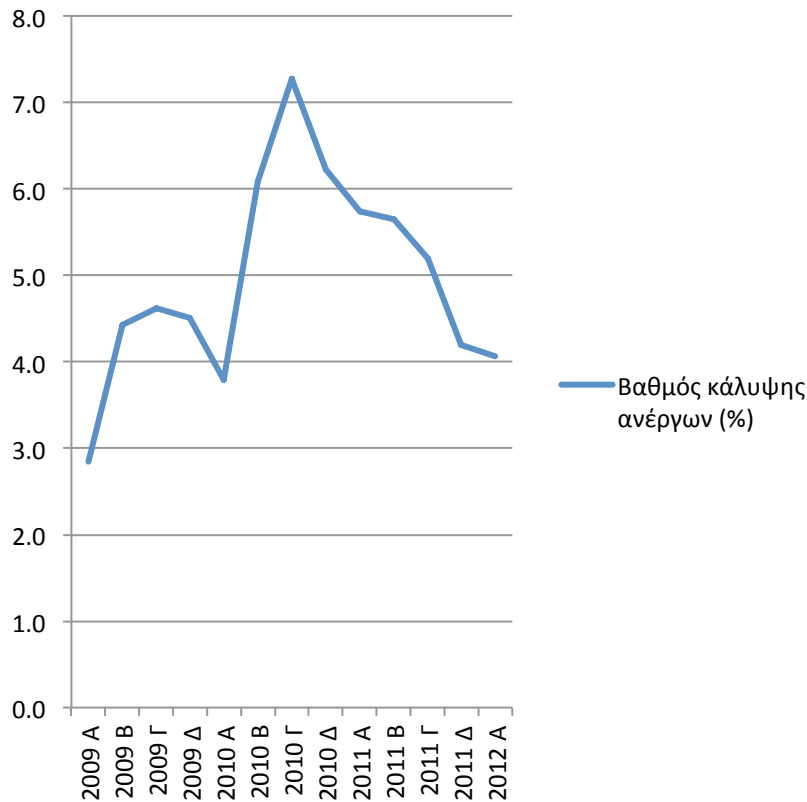
Διείσδυση προγραμμάτων διατήρησης θέσεων εργασίας



- Mass subsidization of labour costs so that firms maintain jobs before the reduction in the minimum wage in March 2012
- Between mid-2011 and the first quarter of 2012 16-17% of all employees in the private sector were working on subsidised jobs
- Containment of dismissals
- Unable to absorb unemployment created by lack of job opportunities

Job creation schemes in private sector – no impact on unemployment

Διείσδυση προγραμμάτων απασχόλησης για ανέργους



- Job creation schemes in firms had very low participation
- Difficulties of firms in creating additional jobs and maintaining them for three years during a period of falling demand
- Great deadweight – firms do not create new jobs because of the subsidy
- Entrepreneurship schemes very small in scale with little effectiveness when thousands of firms have closed down
- No schemes for social entrepreneurship

Other schemes - Assessment

Community employment schemes: very short duration (5 months) compensates for the drastic reduction in temporary jobs and now also of permanent jobs in municipalities.

Training vouchers leave the trainees alone to find a job after the end of training in the firm – cheap labour that substitutes for hiring ordinary employees especially in industries with high turnover e.g. hotels

- In spite of the rise in the number of beneficiaries, ALMPs are unable to swim against the tide of mass unemployment caused by recession.
- The fall in labour costs seems unable to generate recovery through exports. Thus, labour market flexibilization has not led to a reduction of unemployment, as expected by the troika.

Irrelevance of EU employment policy



- Greece and Eurozone periphery = challenge for European employment policy and for the economic and social cohesion of the EU
- EU employment policy recommendations can be summarized as: flexicurity and supply-side measures (investment in training and higher education). Hiring subsidies for job creation have recently (re)appeared next to entrepreneurship schemes to tackle labour demand deficiencies.
- Non of these measures are relevant in an economy that is caught in a recessionary spiral and a debt trap and its firms face a credit crunch. The underutilization of the credit lines of the European Investment Bank to finance small and medium enterprises is a telling example.
- There is no way of tackling unemployment in Greece if austerity is not arrested and the recessionary spiral deactivated. If primary surpluses are not used to resume growth and finance the upgrading of the production system but used to repay the lenders.

Challenges ahead



- Adjustment through the destruction of productive capacity and immiseration is not economically and social sustainable for Greece and other countries.
- An alternative growth strategy is needed based on a substantial reduction of the debt burden, a redistribution of income at home and an ‘investment shock’ from abroad. In this strategy, employment policy would find the place it deserves in combating long-term unemployment and adjusting the labour force to the needs of the new growth model.

Broader questions-challenges

- Is the EU going to address the divergence of the European South from the countries of the core and social dumping from labour market deregulation ?
- Are EU employment policy-makers ready to question the doctrine of “expansive austerity”?