Notes on Labour Market Flexibility and Informality in Greece

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Abstract
The paper explores the flexibility and informality in the Greek labour
market during the pre-crisis period. This issue is still very controversial in Greece when the high unemployment in the years of prosperity (the period of 2006-2007) is taken into consideration. The main query is whether the Greek labour market was flexible enough, according to international standards, in the prosperous years and reforms were not necessary. According to OECD statistics, Greece has one of the highest percentages in self and family employment (which inflates informal employment) as well as one of the lowest percentages in part-time employment (as are other southern European Union countries). Finally, this study focuses on labour reforms, such as laws on employment protection legislation and minimum wages which have taken place during the recent economic recession (2009 till present) and discusses whether Greece’s labour market can become more competitive.

Keywords: Industrial relations, labour flexibility, informal employment, Greece

JEL Codes: J2, E26 and D0

Introduction
This paper explores flexible contracts in the Greek labour market during the pre-crisis period. This issue is still very controversial in Greece if the high unemployment during recession was taken into consideration. The main query is whether the Greek labour market was flexible enough, according to international standards, in the prosperous years and reforms were not necessary.

This paper is structured as follows. The next section investigate the Greek labour market performance and furthermore its labour flexibility in an international context. In the third section we analyse the legal framework of flexible employment in Greece focusing in part time temporary, family and subsidised employment. A summary of labour reforms, such as laws on employment protection legislation, minimum wages, flexible working arrangements which have taken place during the
recent economic recession is presented in the fourth section. Conclusions are discussed in the last section.

**The Features of Labour Market Flexibility**

Labour markets, in the international context, have been going through dramatic changes over the post-war period. Low rates of economic growth, as a result of the recession in the European Union (EU) countries in the first half of the nineties, have brought about changes in the management of production and the role of employment (Rompolis and Chletsos, 1995). Generally, the problem of unemployment has been at the centre of discussions for many years within Europe and elsewhere. Despite its decrease in Europe in the pre-crisis period, unemployment is still considered—especially in nowadays cause of the financial crisis—not only an economic but also a major social issue in the EU.

Flexibility is considered the key element in the organisation and greater labour flexibility, in particular, has become of vital importance to firms. This term—"labour market flexibility"—was generated as a new concept which attracted much interest in the mid-80s (Burgess, 1992) and it has been the cause of public debate in most countries (Voudouris, 2004). This covers a wide range of work styles and employment practices. Broadly speaking, it is used to describe all kinds of employment, which differ from the traditional 09.00–17.00 full time work with a permanent contract (Avramidou, 2001). The use of flexible forms of employment (part-time, shift work, temporary work, fixed term work, sub-contracting, seasonal work, tele-working, home working, and subsidized employment) was one of the main recent underlying employment trends in European Union (EU) countries. The majority of job openings in the EU in the 1990s have been part-time positions, rather than full-time (Voudouris, 2004). Thus, it seems that the overall level of flexible work was clearly increasing. Labour market adjustment and employment issues were at the top of the European social policy agenda (Mihail, 2003).

This concept was also created because unemployment had risen especially in the European Community (EC) more than anywhere else, from 3 to 11 per cent, between 1973 and 1986 (Layard et al, 2005) and new ideas were expected to solve this problem. Blanchard (1999) claims that explanations for the persistence of high unemployment for more than two decades were based on labour market rigidities. In other words, the high unemployment rate together with the mass of rules and regulations in the European labour markets at that time created the term "Eurosclerosis".

Thus, flexibility appears in the early 80s due to the rapid technological change and increased integration of the world’s economies. Although the United States could rely on its flexible markets for the accommodation of this change, European countries suffered from anachronistic institutions that slow down this change (Pissarides, 2001). Under these circumstances, the OECD (Jobs Study 1994, Employment Outlook 1999, 2004) encouraged European countries to increase flexibility in their labour markets by reducing employment protection. Even though other EU countries followed the OECD guidelines, "flexible" measures in the Greek labour market were delayed in application as we see below.

**The "Flexible" Situation in Greece**

In Greece, at the end of 1974, after the seven year military dictatorship which had suppressed union activity, wages increased dramatically in both the government and private sectors while the
unemployment rate was at a low of about 3 percent. However, during the 1980s and early 1990s, the performance of the Greek labour market deteriorated sharply (Demekas and Kontolemis, 1997). The unemployment rate increased to an average of 8 percent in the 1980s and close to 10 percent in the 1990s (Bank of Greece, 1998 – see Figure 1). This development reflected fundamental changes in the supply and demand for labour.

![Figure 1: Unemployment rates in Greece - EU - OECD countries](source: OECD Employment Database: Oecd.stats.org - LFS by sex and age)

According to the OECD (2001) "performance has been poor and labour market rigidities still need to be tackled". Even though a new package of labour market reforms were introduced in 2004, further reforms will be necessary (OECD, 2005). The standardized unemployment rate has fallen from 12 percent of the labour force in 1999 to around 9 percent in 2006, but still remained the highest among OECD countries (OECD 2007) even though those years of prosperity in Greece. Moreover, the Greek labour market was still characterized by low employment and participation rates, and a high level of unemployment, particularly among youth and women. The labour market situation became worse: from 2009 onwards the unemployment – as we can see in the Figure 1 – rose dramatically (27%) as a result of the sovereign debt crisis in Greece.

Flexible forms of employment were later introduced to the Greek labour market in an effort for the Greek State to keep up with the tendencies that prevailed in the rest of Europe (Gavroglou et al, 2001). Based on the National Institute of Employment study (1997) the delay in expanding employment flexibility is due to (i) Greece’s effort to promote internal and functional flexibility with an emphasis on training and (ii) significant increases in illegal flexibility in conjunction with an increase in the “informal” or “submerged” economy.

Reports on Greece by international organizations conclude that flexibility is still a vital issue for the Greek labour market during the years of prosperity. To begin with, the OECD (Economic Survey, Greece, 2007) mentions that “much of the poor labour market performance can be explained by relatively rigid labour market institutions” as well as the index of the strictness of employment protection law (EPL). Greece is considered the fourth strictest out of the 26 OECD countries with many regulations (Employment Outlook,
Moreover, the IMF (2007) states that broader labour market reforms are essential for regaining lost competitiveness and reducing the unemployment rate (which still remains among the highest among OECD countries). Furthermore, in the World Bank's latest Doing Business report of 2008, Greece is ranked 143 among 181 countries with regard to the employment index of rigidity. Finally, the Global Competitiveness Report 2008-2009 gave a high score to Greece, which placed 114th out of 134 and was characterised as one of the countries which was impeded by hiring and firing regulations.

Types of Labour Flexibility

Following the above analysis we focus on the distinction of labour market flexibility given by Atkinson. (Atkinson, 1984; Atkinson and Meager, 1986). However, at the firm level, many diverse classifications have been identified during all these years: we conclude to the following three principal means of securing flexibility:

(1) Numerical flexibility defined the process which the employer - based on the changes in the demand for their products/services - react respectively by adjusting the number of employees. It may be achieved using working arrangements such as part-time, short-time, temporary time (fixed-term contracts, seasonal, etc), outsourcing, homework, telework etc (Michie, 2001).

(2) Functional flexibility can be defined as “the ability of companies to improve their operating efficiency by reorganising the methods of production and labour content (multiskilling, decreases in job demarcations, increased employee involvement) in order to keep pace with changing [demand conditions or] technological needs” (Koshiro, 1992 and Monastiriotis, 2003).

(3) Wage flexibility is achieved where wage levels are not decided collectively and there are more differences between the wagers of workers (Chung, 2006).

All the above provides a general outline of the Greek labour market within the European framework.

The Legal Framework of Flexible Forms of Employment

The Greek employment protection legislation was drafted principally with permanent, full-time employees in mind (Michail, 2003) and as mentioned earlier labour flexibility was later introduced to the Greek labour market in an effort for the Greek State to keep up with the tendencies that prevailed in the rest of Europe (Gravoglou et al, 2001).

Furthermore, additional laws on labour relations and regulations to try to provide better protection of atypical workers, while at the same time attempt to record the size of atypical employment. More analytical information about non-standard forms of employment is provided below:

Part-Time Employment

Greece has very few part-time workers, males represent only 4% and females 12.9% (OECD Employment Outlook, 2007:261), which is quite different from the rest of the EU countries (see Figure 2). Thus, while part-time employment as a proportion of total employment in the
EU-15 has been increasing during the last twenty years, reaching 18% of total employment, in Greece it has stagnated at about 7.5 percent (OECD 2007: 262).

Part-time employment should be possible in Greece based on the fundamental principle of freedom to conclude a contract (article 361, Civil Code). However, empirically, up until the end of the 1980s part-time employment contracts were rare in the labour market (Institute of Employment/Greek General Confederation of Labour (INE/GSEE), 2002). In fact, it was only officially recognised in 1990 (under law 1892/1990, article 38). Two other additional laws in the late 90s (2639/1998 and 2874/2000) implemented an institutional framework for part-time work in Greece based on the guidelines of the European directive in 1997 (Council Directive 97/81/EC). These latter laws were introduced for “better social protection” of part-time workers as well as for the obligatory registration of this type of employment at the Labour Inspectorate for the better monitoring of the system.

Moreover, employers have to increase the remuneration of this category of part-time employees who work less than 4 hours per day (by 7,5%) and are paid minimum wage (article 6, 2874/2000). In the Bielenski et al. (2002) study, the part-time category was divided into marginal (up to 19 hours per week) and substantial (20 to 34 hours per week) part-time work. Based on these categories, it is obvious why Greece presents very low percentages in marginal rates. Additionally, when a part-time employee has given his/her consent to work overtime (following employer’s request) he/her is entitled to overtime pay increased by 10%. Employers are discouraged from hiring part-timers since part-time work is regulated, especially in the marginal part-time category. This is the reason why Greece has one of the lowest part-time rates in Europe. However, during the recent recession (2009 – till nowadays), the part-time work has increased gradually not only in Greece but in many EU countries. Based Eurostat statistics report (EIRO, 2013) “this upward trend can be found more strongly for involuntary part-time employment (that is, people work part time because they cannot find a full-time job)”. They also suggest “this is an indication that the rise in part-time employment can largely be
attributed to a lack of full-time employment possibilities during the crisis”.

**Temporary Employment**

Temporary employment is the most “popular” form of employment in Greece and represents 10.9 per cent of the total workforce in Greece (EIRO, 2007 and Figure 3). However, there is a lack of definition of temporary employment while the institutional framework in which this operates is not clearly defined. According to OECD (2002) the distinction between temporary and permanent jobs is complex and differs significantly between countries. This may be the reason why Greece doesn’t have a clear legal framework for temporary employment. However, OECD (2002) considers as temporary jobs those forms of dependent employment, which, by their nature, do not offer workers the prospect of a long-lasting employment relationship.

![Figure 3: Incidence of temporary employment in dependent employment](source: OECD Employment Database: Oecd.stats.org)

These temporary contracts can be separated into two categories. Fixed-term contracts are the most common form of temporary employment. A series of clauses in Chapter 180, Articles 648-680 of the Civil Code and also law 2112/1920 and law 2639/98 define the fixed-term labour agreements. What is characteristic of this contract is that the termination of this kind of job is determined by objective conditions. The EU directive 70/1999 has been adopted by the presidential decree of the Greek government in April 2003. According to this, the longest duration of the continuing contracts is two years. In any other case (over two year’s duration) the fixed-term contract is transformed into an indeterminate duration contract.

Another important issue is that the regulations lengthen the interval between two successive employment contracts to 45 days (EIRO, 2004), which in practice is very difficult to monitor. A sub-category could be introduced at this point. Seasonal work “differs” from fixed-term contracts because it includes only the seasonal activity of a company in specific time periods of the year. Seasonal employment has high proportions in the Greek tourism industry (restaurants and hotels) and
in the food-processing industry, trying to cover the seasonal needs of the workforce.

Temporary Agency Work (TAW) is the other category of temporary employment in Greece. The state passed a law (2956/2001) in 2001 which for the first time laid down specific rules on the establishment, operation and obligations of temporary work agencies (EIRO, 2001). However, it seems that its development is limited, since as we will see below, TAW is clearly a regulated form of employment in Greece. One of the main characteristics of this type of employment is the maximum limit of an eight month contract with the possibility of only one renewal while the total length of the contract cannot exceed sixteen months.

Furthermore, two ministerial decrees (30342 and 30343/2002) in 2002 filling in the gaps of the previous legislation (EIRO, 2008) together with law (3144/2003) provide a heavier regulatory framework for this type of employment. Mainly, issues deal with strict requirements in setting up a temporary working agency which has to be in the form of a société anonyme with share capital of at least 176,000€. In addition, in order to get an operating licence one is required to (a) submit to governmental organisations two letters of financial guarantee of 200,000€ which need (b) to be authorised by the special Temporary Employment Monitoring Committee.

Subsidised Employment

In the field of active labour market policies, the main types of intervention continue to be subsidised employment (wage subsidies and start-up incentives) and training. Such employment provides another avenue of flexibility, and is thus relevant for my inquiry. The management and the application of these subsidised employment schemes come from the Public Employment Services (OAED) under the supervision of the Ministry of Employment and Social Protection. This is characterized by a highly centralized structure; however, the last decade other governmental departments have been involved both in the engagement and the delivering of pro-active labour market policies (Karantinos, 2006).

Wage subsidies as a category of subsidised employment was initially applied in 1982 in Greece under a programme called Subsidies of the New Posts while in 1998 a new measure of employment, the so-called Stage, was introduced (acquisition of professional experience for post-secondary and tertiary education graduates). Both measures are occasionally offered and announced by the government to the participants (businesses and the unemployed). The goal is to try to motivate businesses to hire new employees (under this flexible employment) for a specific duration. Thus, unemployed people (especially long-term or other members of vulnerable categories) gain work experience and become more competitive in the labour market. In addition, Public Employment Services (OAED) offers wage subsidies under trainee schemes for the work placement or internship of students of technical high schools or tertiary education institutes.

“Family” Employment

Family workers are important in Greece and provide another method of flexibility for Greek enterprises. These include parents, siblings and extended family members working in family businesses (Sardeshmuck, 2005). They are mainly females, especially housewives and the workplace in these Greek businesses is considered as a kind of
extension of the family relationship (Vaiou, 1997). These workplaces are mostly micro-enterprises with a strong family character.

According to the law (1846/1951) on “Social Security” – which determines the regime of Social Security in Greece – in 1951, family members who worked in a family business were not clearly specified as persons to be subject to social security tax contributions. However, this tax was introduced later, in 1988, (law 1759/1988 – KAMO articles 1-7), when family members, such as spouses or relatives of the first and second degree, were obligated to be registered just as any other type of employee under depended employment contract. Furthermore, a number of circular ministerial letters clarify and enable those businesses with individual legal status – and not any other legal type of business – who have hired family workers to pay lower labour costs (less employer and employee contributions at 8%) and some other conveniences.

However, this type of employment admittedly is still considered grey. The main question arising is whether family workers are paid the legally-required nationally agreed rates. According to the European Employment Observatory Review (EEOR, 2004) undeclared work (paid or unpaid) in Greece is bound to be higher in activities with a high incidence of family workers and the self-employed. Moreover, the same report also mentioned that a large number of family workers are also found – apart from agricultural activities – in distributive trades, tourism, manufacturing activities and construction (EEOR, 2004:89).

It is important to note, that taxation is more lenient for family enterprises, as it was formerly mentioned (which might explain why they comprise the majority of businesses in Greece). The controls from IKA officers or Labour Inspectors in these family businesses – sole proprietorship status – are not as rigidly enforced as with larger businesses. It is common not to give a penalty to the employer when officers find a family member working in the workplace and s/he is not insured (my interviews with IKA officials – see also OECD, Regulatory Reform in Greece, 2001, p 33). The implication is that this favourable tax treatment of the family business could itself contribute to unemployment, since large-scale enterprise in Greece is discouraged.

Flexible Working Arrangements in Post-Crisis

The need of labour reforms in Greece was vital. “Problems were identified in particular in the wage bargaining system, minimum wages for the young, employment protection and flexible working time arrangements” (OECD, 2011, EC, 2010a, IMF, 2010). Since the beginning of the sovereign debt crisis in 2009, Greece undertook to reform its labour market relations based on the Memorandums of Economic and Financial Policies by IFM-EC-ECB. The governmental policies during the last six years have intended to (a) promote an institutional and legal framework with more labour flexibility allowing employers to face the recession (b) tighten the rules and introduce a system of penalties for labour law infringements. In this context the state includes flexible measures in order to preserve jobs during this economic downturn (a summary of the reforms undertaken is presented in Table 1).

One of the main reforms that Greek government has introduced is the reduction of gross national minimum wages by 22% (from 751€ to 586€ monthly rate). Moreover, has lowered the minimum wages for young people (below 25 years) by 32% (510€ monthly rate). According to OECD (2013) this “should foster gains in competitiveness, and boost employment especially among young people”. In addition, there is a
move to decentralize Greece’s system of industrial relations: a new law makes enterprise agreements more powerful than sectoral ones and consequently this type of agreement can be signed by a firm even with a few employees.

Another significant measure defined by the Greek government is on labour flexibility. With regard to part-time employment a new law has abolished two main rigidities (see above section 3.1): (a) the additional remuneration (7.5%) for those workers who work less than 4 hours per day (b) the extra 10% (for each hour) to those part-timers who work overtime (following employer’s request). As far as temporary employment and fix-term contracts, it has introduced a longer probationary period (from 2 months to 1 year). It has also extended the maximum cumulated duration of fix-term contracts to 36 months (previously 24 months). Furthermore, employers have the permission to extend to three renewals of such contracts during 36 months, but additional contracts automatically give the contract at the open-ended status.

More flexible measures were launched in temporary agency work: the maximum cumulated duration of these contracts was increased from 16 months to 36 months, and the permitted circumstances in which they could be renewed were widened. Also, at long last in 2012, the onerous TWA regulations were relaxed including the requirement for capital of €176,000 (see LABREF – European Commission, 2014 and Anagnostopoulos and Siebert, 2014). Finally, the state has also launched reforms on flexible working arrangements. The employer has the right – in case of a slowdown in activity – to introduce short-time working arrangements on a daily, weekly or other basis, for a period up to 9 months.

Table 1: Main reforms in the Greek Labour Market During the Financial Crisis

<table>
<thead>
<tr>
<th>Reforms</th>
<th>Outcome</th>
<th>Pre-Crisis</th>
<th>Post-Crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent Contracts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INDIVIDUAL DISMISSALS</td>
<td>Extension in Probation</td>
<td>2-month probationary period</td>
<td>1-year probationary period</td>
</tr>
<tr>
<td></td>
<td>Period</td>
<td>Compensation was obligatory for employees who work at the same employer since 2 months and over</td>
<td>There is no obligation of paying severance payment - in case of dismissal- for the first completed yr.</td>
</tr>
<tr>
<td>Permanent Contracts</td>
<td>Reduction Of Notice</td>
<td>15 yr tenure → 11 months pre-notification</td>
<td>15 yr tenure → 6 months pre-notification</td>
</tr>
<tr>
<td>INDIVIDUAL DISMISSALS</td>
<td>Periods For White-Collar Workers</td>
<td>25 yr tenure → 21 months pre-notification</td>
<td>25 yr tenure → 6 months pre-notification</td>
</tr>
<tr>
<td>Permanent Contracts</td>
<td>Lowering Of Severance</td>
<td>Notice period prior to dismissal reduces substantially the total severance payment for the salary earners (white collar)</td>
<td></td>
</tr>
<tr>
<td>INDIVIDUAL DISMISSALS</td>
<td>Payment For White-Collar Workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collective Dismissals</td>
<td>Increase The Limits Of</td>
<td>Employer, within 1 month, can dismiss</td>
<td>Employer, within 1 month, can dismiss</td>
</tr>
<tr>
<td></td>
<td>Collective Dismissals</td>
<td>- 4 employees between 20-200 staff</td>
<td>- 6 employees between 20-150</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- 2-3% of the staff,</td>
<td>staff, or</td>
</tr>
</tbody>
</table>
### Temporary Contracts

<table>
<thead>
<tr>
<th>Type</th>
<th>Increased The Cumulated Duration</th>
<th>Maximum cumulated duration</th>
<th>Maximum cumulated duration to 36 months</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FIXED TERM CONTRACTS</strong></td>
<td></td>
<td>24 months</td>
<td></td>
</tr>
<tr>
<td><strong>TEMP WORK AGENCIES</strong></td>
<td></td>
<td>18 months</td>
<td></td>
</tr>
</tbody>
</table>

### Statutory Minimum Wages

<table>
<thead>
<tr>
<th>Reforms</th>
<th>Outcome</th>
<th>Pre-Crisis</th>
<th>Post-Crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction of minimum Wages</td>
<td>- White-collar gross base monthly wage: 751€</td>
<td>White-collar gross base monthly wage: 586€ (reduction 22%) - (Law 4046/2012)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Blue Collar daily gross wage: 33,57€</td>
<td>Blue-collar gross daily wage: 26,18€</td>
<td></td>
</tr>
<tr>
<td>Wage Allowances</td>
<td>- Maturity (tenure) allowances increased (every 3 yrs) by 10%</td>
<td>Maturity allowances frozen (Law 4046/2012)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Marital Status allowance / Children allowance</td>
<td>The other allowances are still valid</td>
<td></td>
</tr>
</tbody>
</table>

### Collective Agreements

| Firm-Level Agreements Are In Power | Firm level agreements may be enforced when a firm has over 50 employees - Sectoral agreements dominate the Greek labour market | Firm level agreements are eligible in firms with less than 50 employees and may be enforced when 3/5 of the company staff are given the right to the employer to enforce the agreement (Law 4024/2011) |

**Source:** The Authors (2015)

**Conclusions**

We have mentioned that the Greek labour market is performing badly, more specifically, being third last in the OECD both for its high proportion of long-term unemployment (over 50%), and for its high youth unemployment (over 40%) just before the recession “arrived”. We have seen that the Greek labour market is also highly regulated as reported by international organisations. It is apparent that the state during the years of prosperity (2006-2007) needed to introduce flexibility and reform the Greek labour market.

During the crisis, a shift from full-time workers to flexible employment (mainly to part-time) or probably to informal employment has taken place, as firms found this as an escape to survive. However, this time employers have to deal with the overregulated labour...
environment but also with the recession. The state strongly interferes with general reforms in the context of labour relations. They reduce minimum wages, loosening the employment protection legislation and reduce bureaucracy. Thus, the firm has the opportunity to adopt flexible human resource practices in its workplace in order to avoid downsizing; however, under these conditions it is required that firms have to obey the labour laws otherwise they have to deal with stricter inspections and pay extremely high fines.

All the measures mentioned above (2009 till nowadays) create a better business environment, trying to “unlock the economy from its low level of development” (OECD, 2004) and “allow” businesses becomes more flexible to businesses in order to survive the recession. However, these reforms cannot be evaluated because they were taken place during the crisis, when the overall economy goes downwards.

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