DOI: 10.1007/s10272-009-0302-2

Michael Mitsopoulos* and Theodore Pelagidis**

Economic and Social Turbulence in Greece: the Product Markets are a No-Brainer, the Labour Market is Not

Since the 1990s the Greek economy has posed a unique international paradox, combining relatively strong growth rates with a very weak performance on many other fronts ranging from poor labour and product market institutions and low competitiveness to poor environmental protection and high levels of corruption. The recent economic and social turbulence in Greece is a result of this paradox. What is the explanation for this situation? What reforms are necessary to change it?

Three nights of street battles, arson and looting across central Athens, generally major street incidents/riots that became headlines in the international press. This is what we had in Greece in December 2008. Since then, extended violence, attacks to the stores in downtown Athens and almost daily illegal and lawless activities within University campuses have become an everyday reality. As students, and generally the youth, are the main "street riot protagonists", we shall proceed to a detailed analysis regarding this social and political turbulence by focusing on its economic roots and causes.

It has to be pointed out that the young protesters are not all unemployed but among them are many young Greeks who feel generally desperate, experiencing exclusion, or who feel like outsiders from a political and business establishment that puts family links and clientelistic relations before qualifications and meritocracy. That explains, as we shall argue below, the relatively massive participation of young people in violent and aggressive incidents.

In this context, this paper deals with the current economic and social turbulence in Greece. It examines, analyses and presents in brief Greece's economic paradox, which combines relatively strong growth rates and weak institutions. We connect the dots regarding the puzzle of the weak labour markets in particular, in the context of the growth model over the last two decades. We come up with an explanation of the double-digit youth unemployment and generally the lack of a career avenue – with professional and personal success – faced by Greek youth. Last but not least, we deal with some proposals for reforms that are based on the findings of the paper.

The Paradox in Brief

The Greek economy since the 1990s poses a unique international paradox. It combines relatively strong economic performance, i.e. a rapid GDP growth rate and strong productivity growth, with a very weak performance on many other fronts, ranging from poor labour/product market institutions and low competitiveness to poor environmental protection and high levels of corruption. As a result of this rapid growth, Greece today is a country with a prosperity almost matching that of the most advanced countries, while its performance on a wide range of issues such as competitiveness, the quality of governance and social coherence is closer to that of a developing country. A brief presentation of the available evidence helps to provide an initial explanation of this paradox, which is closely entangled with what can only be called a weak labour market which, among other things, treats young people as outsiders and deprives them of hope and optimism, providing, in the process, fertile ground for violent protests and riots. It also helps to describe and reveal the way in which state capture by powerful and numerous rent-seeking groups keeps product and labour markets closed and distorted, creating significant rents for these groups at the cost of excluding the young from the labour force as well as ensuring that the quality of governance in Greece remains poor and reluctant to adopt any kind of reforms.

Factors Leading to Rapid Growth

The OECD[1] accurately documents the picture of modern Greece (Figure 1) and points out certain positive developments that led to the strong growth rates

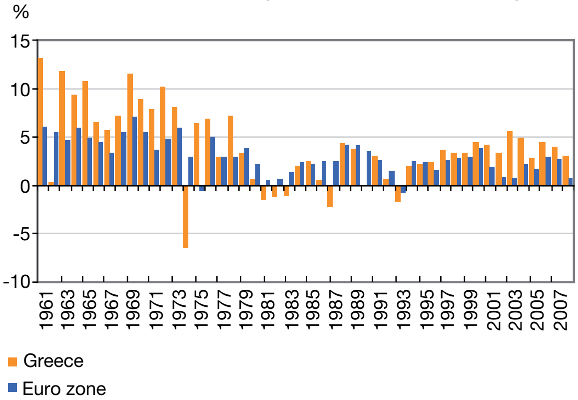
* Lecturer, Athens University of Economics and Business, Greece; mmitsopoulos@sev.org.gr.

** Professor, University of Piraeus, Greece; pelagidi@unipi.gr.

The authors wish to thank the participants of the conference "The Challenge of Reform in Greece, 1974-2009: Assessment and Prospects", Yale University, 8-9 May 2009 for useful comments. Any remaining errors and omissions are their own.

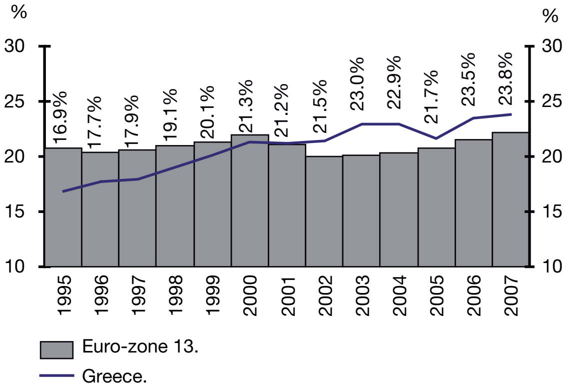
[1] See OECD: Survey of Greece, May 2007.

Figure 1
Real GDP, Percentage Year-on-Year Change



Source: AMECO.

Figure 2
Ratio of Investment to GDP at Current Prices



Source: Eurostat.

observed since the mid-1990s and the strong per capita growth of GDP. It is easy to see how Greece clearly outperformed the benchmark euro zone economy since 1995-96, as it did from 1961 till the first oil shock.

The driving force behind this very strong performance of the past decade is properly assigned to a number of factors, prominent among which are:

- The liberalisation of the financial markets at the beginning of the 1990s which was completed by the end of the 1990s with the removal of the last administrative barriers. At that time, the effect of this liberalisation was coupled with membership of the European Monetary Union, thus creating a unique coincidence of financial market liberalisation and macroeconomic stabilisation which led to a steady increase in private credit after 2000.
- This effect was further enhanced by an improvement in the regulation of product markets, and especially the market for telecommunications, which was reduced from a very high level, despite the fact that this reduction was the smallest among all the OECD countries and as a result it still remains very high compared to the other OECD countries.
- The fiscal stimulus as well as the efficiency gains that followed certain major investments in infrastructure facilities – some of which were accelerated and completed due to the 2004 Olympic Games – which further added to the size of this stimulus.
- The steady inflow of funds from the European Union, which also contributed greatly to the financing of the improvement in infrastructure facilities.
- Inflows from tourism and shipping, which partly compensate for the persistent deficit in the balance of trade.
- The renewed demonstration of extrovert dynamism by certain Greek companies that expanded in the broader Balkan regions together with Greek banks which capitalised on the strength of the expansion of the domestic credit market.

Low Competitiveness

The one side of the paradox is formed by the strong growth performance already mentioned, which is backed up by other evidence of a strong performance, such as the rapid increase in investment, shown in Figure 2, which had increased steadily to a much higher level than the euro zone average, and the rapid growth of productivity, which is measured by GDP per worker. On the other hand, a wide range of very important factors still persist in contributing towards the *poor* performance in certain other areas of the Greek economy.

Distorted Model of Development

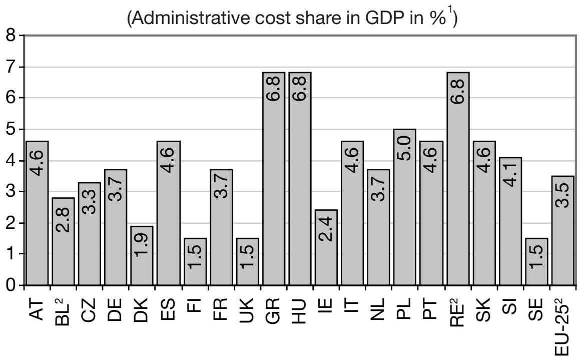
The following four facts document that Greece's economy features certain severe weaknesses:

- first, the persisting inflation differential with the euro zone (around 1.5-2.0% during 2008), which is observed for both goods and services;
- second, the continuous and persisting excessive trade balance deficit of around 12-14% of GDP;
- third, the consistent disproportionally low ranking of Greece by all competitiveness and governance surveys[2] when compared to its per capita GDP and its productivity measured by GDP per worker;
- finally, the low level of foreign direct investment that flows to Greece, which was actually practically zero in 2006-2008.

[2] Like the World Bank's "Doing Business" and "Governance Indicators", and the World Economic Forum's "Competitiveness Index".

Figure 3
Administrative Costs by Member State

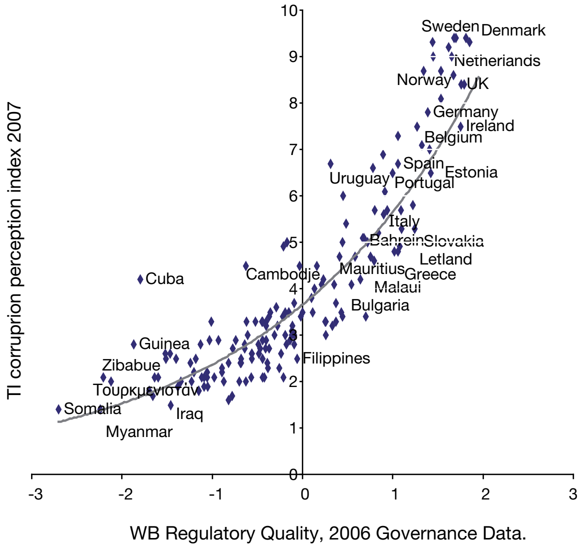
(Administrative cost share in GDP in %[1])



[1] Based on Henk Kox: Intra-EU differences in regulation-caused administrative burden for companies, CPB Memorandum 136, CPB, The Hague 2005.

[2] BL combines Belgium and Luxembourg; RE combines the Baltic Member States, Malta and Cyprus; EU25 figures are GDP-weighted averages.

Figure 4
Corruption und Regulation



These pieces of evidence make a compelling case for the argument that the competitiveness of the Greek economy is low in spite of the strong growth performance of recent years.

The OECD Regulation Database, the World Economic Forum competitiveness survey, the World Bank "Doing Business" and "Governance Indicators" and European Commission estimates, to name a few, all find that in Greece the administrative burden is exceptionally high (Figure 3), the regulation of markets is excessive, government intervention limits competition as well as resource allocation and pricing decisions in crucial network industries, the regulation of professional services is high as far as entry and price setting is concerned, but at the same time qualitative standards are excessively lax, and the business environment, as an aggregate, is unattractive. These findings are complemented by more general statements that indicate weak institutions, poor governance and high levels of corruption (Figure 4). The latter in turn seems to be a consequence of the high administrative burden and the poor governance, which allows powerful and well-connected interest groups to capture the state and create rents for themselves as a result of exactly those regulations and burdens. In a similar way, almost all of the other pieces that describe the weak performance of the country fit the picture, ranging from research and innovation to the protection of the environment, the quality of public health services and schools and the performance of the higher education system. Even the weak performance of the judiciary can ultimately be linked to this pattern.

The detailed presentation of numerous pieces of evidence indicates that the wide range of institutional weaknesses that prevail in Greece account, as a whole, for its dismal performance regarding not only competitiveness but also the quality of governance, the level of corruption and the distrust of the Greek electorate towards the market economy. This performance can be labeled "dismal" not because of its absolute level, but because of the sharp discrepancy between the performance of the country in all these areas and the per capita GDP that it has achieved in recent years.

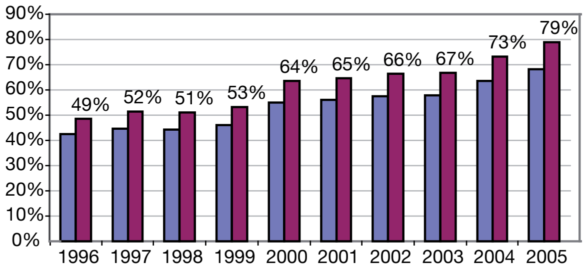
A Weak Labour Market

It is unlikely that the wide range of competitive disadvantages that is documented for Greece by such an impressive array of sources would leave the labour market unaffected, and in turn itself be unaffected by the significant weaknesses of the labour market.

Yet while the work of the World Bank Doing Business, the International Transparency, the World Economic Forum, the World Bank Governance indicators and the European Commission, to name a few, clearly document the detrimental contribution of weak governance, stringent product market regulation and high administrative costs, and while it is clearly documented that the performance of the labour market is weak, there is so far insufficient insight into the failings that are particular to the Greek labour market and which may further compound the negative effects of the other failings on the employment prospects of Greek youth.

It is relatively easy to document that the Greek labour marker mirrors the above-mentioned contradic-

Figure 5
Wage Earnings in Greece as an Average of EU15 Comparable Households

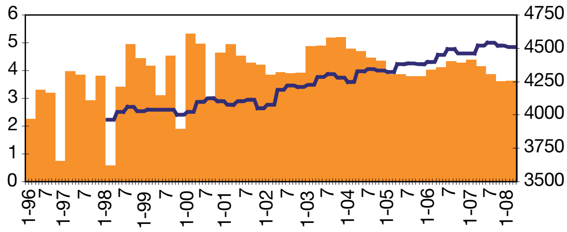


■ One person household, 100% of average wage.

■ Household with two parents, one at 100%, the other at 33% of average wage, with two children.

Source: Eurostat.

Figure 6
GDP and Employment



% YoY change GDP. ESYE according to ESA 95. At 1995 prices till 2000, then prices from 2000.

Employment, thousands. ESYE.

Source: ESYE.

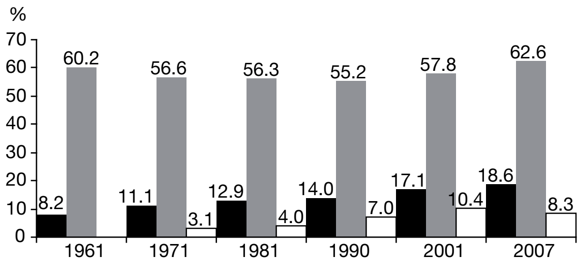
tions emerging from the combination of fast growth that has led to high per capita GDP and, on the other hand, weak institutions and stringent product market regulation that hold back the competitiveness of the Greek economy. The Greek labour market has to be labeled "weak" in spite of the documented increase in employment in recent years, as in absolute terms its performance still lags significantly behind the performance of the other benchmark countries that are members of the OECD and the European Union.

It also has to be stressed that the fiscal stabilisation at the beginning of the 1990s marks the end of the period in which per capita income in Greece declined relatively to the respective European average, and that after 2000 per capita GDP and average family earnings converged to the European averages in coincidence with the increase of the private-sector driven financing of domestic demand, in the given context of reforms and strategic choices that has been described (Figure 5). This period of strong growth performance is also paired with data on employment that shows how after 2000 the employment rate starts to increase for the first time in decades, albeit at a rate that seems very slow when compared to the explosive growth of GDP (Figure 6).

Comparing the performance of the labour market with the growth performance of the economy we can see how from 2001 till 2007 the performance of the labour market has improved markedly as far as the employment of the population aged 15 to 65 years is concerned (Figure 7). But in spite of this significant improvement, the situation differs from the last time Greece had such employment to population ratios in this age bracket. That is because a significant proportion of the population is now aged over 65, and as a result monitoring the performance of the labour market in the age bracket of 15 to 65 years does not present the full extent of the problems associated with an ageing society.

Furthermore, the low capacity to employ the young, and especially young women (Table 1), indicates that the rise in employment in the age bracket 15-65 and the fall in the unemployment rate mainly indicate the improvement in the trend in the labour market, and not the achievement of a well-functioning labour market.

Figure 7
Population and Employment



■ Percentage of population over 65y of age.

■ Employed over 15y to population of over 15y to 65y of age.

□ Unemployment rate.

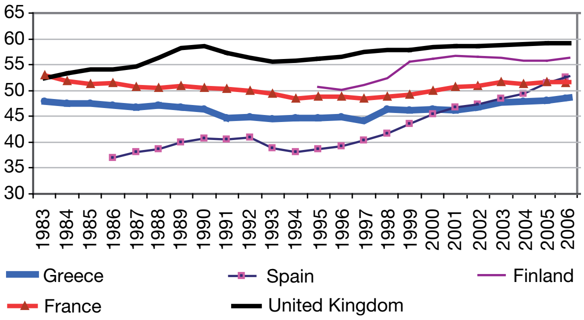
Sources: ESYE and Eurostat.

Table 1
Harmonised Unempoyment Rates

	Greece	EU15	USA
Males, under 25 yrs	17.7	15.5	11.2
Females, under 25 yrs	34.7	15.9	9.7
Total population, male and female, all age groups	8.9	7.7	4.6

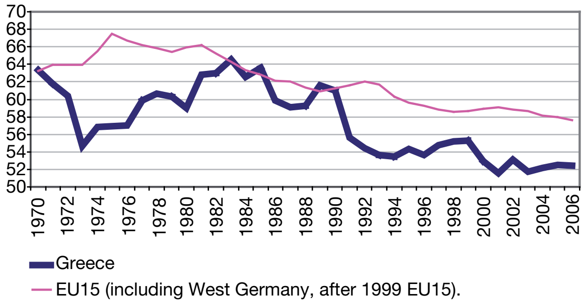
Source: Eurostat 2006.

Figure 8
Employment Ratio of the Population over 15 Years of Age



Source: OECD.

Figure 9
Compensation per Employee as a Percentage of GDP at Market Prices per Person Employed



Source: AMECO database.

It can be seen how in spite of these recent improvements the low employment to population ratio, relative not only to the euro-zone average but also to the US average, is disproportionally linked to the low employment of the young and especially young women, and therefore seems to indicate the persistence of some serious qualitative failures in the workings of the labour market in spite of the gradual decline in the unemployment rate. It is this array of attributes that warrants the labeling of the Greek labour market as "weak".

In particular, we can see (Figure 8) how the improvement in the labour market in recent years has not been able to reduce the significant gap, as far as employment is concerned, vis-à-vis the other major EU countries. The weak performance of Greece becomes especially obvious when compared with the significant progress of, say, Spain. Looking at the employment rate for all the population above 15 years (Figure 8), and not the 15-64 age brackets, we can also see the burden posed on the Greek economy by both the ageing population and the practice of allowing employees of, mainly state controlled, companies and public sector branches to retire early and generously, a burden that is not revealed sufficiently by the evolution of the unemployment rate in the 15-64 age bracket. But, keeping in mind how the weak labour market performance mainly concerns the young, and especially young women, we can see a failure of the labour market to create new jobs that will employ those that enter the labour force for the first time, a fact that seems to be in accordance with the lack of dynamism of the economy which seems to be caused by the excessive regulation and administrative burden.

As a result this attribute seems directly related to the observation that the competitiveness of the economy is low. An economy that is not competitive will first shun the least productive workers, i.e. the young who have not acquired any work experience, and an economy that does not expand its production base will not be able to offer new jobs to those that enter the job market, i.e. again the young, as is now documented by an extensive literature. Also, in the case of Greece, as the population ages and the part of the population that is over 65 years old increases, and as a large number of the older workers are offered attractive packages by state controlled companies and entities to retire early, the unemployment rate declines as an overall index in spite of these fundamental weaknesses that seem directly related to the documented low competitiveness of the economy. Therefore, in order to monitor correctly the ability of the economy to create jobs one needs to monitor closely the employment rate among the young, which still reflects the existence of deep and widespread problems.

The low ability to employ the young is not the only indication of the weak performance of the Greek labour market. The rapid rise of per capita GDP during recent years happened at the same time that employment, and in particular that of salaried workers, remains low. This observation is accompanied by a failure to reverse the long-term trend of a declining wage share in the Greek economy (Figure 9), well below the levels of the EU15 average which is already low compared to the USA. The rise of investments as a proportion of GDP that has already been documented previously matches well with the picture of an economy that increasingly uses capital as an input and that tries to limit the use of the input of "salaried workers" as much as possible.

The picture of low employment and a shrinking income share of wages is accompanied by impressively long working hours that emerge primarily from the long workdays of a large population of self-employed (Table 2). Nevertheless, these long workdays suggest an effort by the economy to limit the number of employed

Table 2
Average Annual Hours Actually Worked per Worker

	2000	2001	2002	2003	2004	2005	2006
Australia	1 777	1 748	1 727	1 730	1 728	1 719	1 714
Austria	1 632	1 630	1 632	1 642	1 650	1 656	1 655
Belgium	1 554	1 577	1 579	1 575	1 549	1 565	1 571
Canada	1 768	1 762	1 744	1 734	1 752	1 738	1 738
Czech Republic	2 092	2 000	1 980	1 972	1 986	2 002	1 997
Denmark	1 554	1 562	1 556	1 552	1 558	1 574	1 577
Finland	1 750	1 734	1 728	1 720	1 724	1 718	1 721
France	1 591	1 578	1 536	1 530	1 555	1 559	1 564
Germany	1 473	1 458	1 445	1 439	1 442	1 437	1 436
Greece	2 080	2 086	2 087	2 087	2 060	2 053	..
Hungary	2 061	2 019	2 026	1 997	1 996	1 994	1 989
Iceland	1 885	1 847	1 812	1 807	1 810	1 794	..
Ireland	1 719	1 709	1 695	1 671	1 668	1 654	1 640
Italy	1 861	1 843	1 831	1 826	1 826	1 815	1 800
Japan	1 821	1 809	1 798	1 799	1 787	1 775	1 784
Korea	2 520	2 506	2 465	2 434	2 394	2 354	2 305
Luxembourg	1 662	1 646	1 634	1 614	1 585	1 570	1 604
Mexico	1 888	1 864	1 888	1 857	1 849	1 909	1 883
Netherlands	1 372	1 372	1 348	1 363	1 362	1 375	1 391
New Zealand	1 830	1 817	1 817	1 813	1 827	1 810	1 787
Norway	1 455	1 429	1 414	1 399	1 417	1 421	1 407
Poland	1 988	1 974	1 979	1 984	1 983	1 994	1 985
Portugal	1 765	1 769	1 767	1 742	1 763	1 752	1 758
Slovak Republic	1 811	1 799	1 746	1 673	1 708	1 741	1 749
Spain	1 815	1 817	1 798	1 800	1 799	1 769	1 764
Sweden	1 625	1 603	1 580	1 562	1 585	1 588	1 583
Switzerland	1 685	1 646	1 629	1 639	1 629	1 659	..
Turkey	..	..	..	..	1 918	1 918	..
United Kingdom	1 711	1 714	1 696	1 677	1 672	1 676	1 669
West Germany	1 451	1 439	1 428	1 422	1 426	1 422	1 421
United States	1 841	1 819	1 814	1 806	1 809	1 804	1 804

Source: ILO.

people, and in particular salaried workers, while at the same time stretching to the limit the use of each individual that is actually employed, and in particular the self-employed that account for most of the difference in working hours that is observed in Greece relative to the other peer countries.

A number of further details provide further insight into the peculiarities of the Greek labour market. It follows from the tax database of the European Commission that the social security contributions of the self-employed in Greece constitute the same percentage of GDP as the European average, in spite of the fact that compared to the number of wage-earners they are the most numerous in the European Union. Furthermore, the annual tax data published by the Greek Ministry of the Economy reveals how an unnatural amount of personal income tax returns are below the threshold for tax-free income. In addition, salaried labour, according to the data provided by the National Institution for Social Security (IKA), is mainly concentrated in income brackets that lie between the minimum wage and a bracket that is a little higher than the threshold for tax free income, after which the tax burden on salaried labour increases rapidly. Overall, a picture emerges in which the labour market uses salaried labour for low and middle levels of earnings and then avoids salaried labour in favour of self-employment, which is burdened by much lower social security contributions and in blessed with the opportunity to avoid declaring income and paying the related taxes. The result, besides fewer tax and social security contributions for the government, which is actually documented once again by the European Commission tax database, is that the labour market sheds salaried labour and that the bulk of the distribution of salaried labour is very close to the minimum wage. This means that new entrants to the job market, who mainly aim for salaried jobs, face a labour market that has numerous attributes that are especially disadvantageous to them. Furthermore, it should not be underestimated that self-employment has a higher entry cost than the acceptance of a salaried position, which further contributes to the reduction of employment (see overall Table 3, Figures 10, 11).

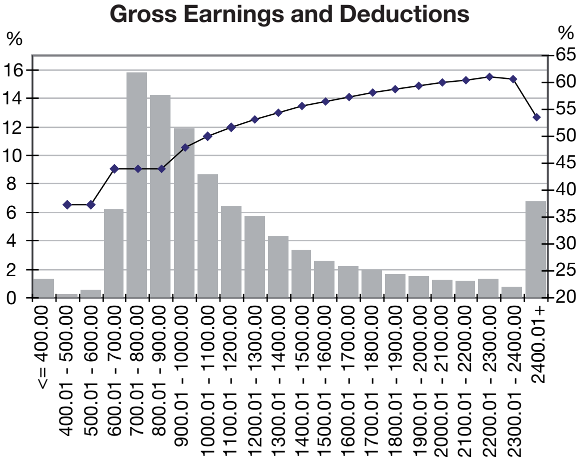
Table 3
Taxation Trends in the EU

	2000	2001	2002	2003	2004	2005	2006
	total taxes, % GDP, excluding ss contributions						
Greece	24.1	22.5	21.9	20.5	20.1	20.3	20.3
Euro Zone*	26.7	25.9	25.5	25.3	25.2	25.5	26.2
	indirect taxes, % GDP						
Greece	14.2	13.7	13.2	12.5	12	11.8	12.2
Euro Zone*	13.9	13.5	13.5	13.5	13.5	13.7	13.9
	VAT. % GDP						
Greece	7.2	7.4	7.6	7	6.8	6.7	7.1
Euro Zone*	6.9	6.8	6.7	6.6	6.6	6.7	6.8
	direct taxes, % GDP						
Greece	10	8.8	8.7	8	8.2	8.6	8.1
Euro Zone*	12.9	12.5	12.1	11.9	11.7	11.9	12.4
	direct taxes (personal income tax), % GDP						
Greece	5	4.5	4.5	4.4	4.4	4.6	4.6
Euro Zone*	9.2	9.1	9	8.8	8.4	8.5	8.7
	direct taxes (corporate taxes), % GDP						
Greece	4.1	3.3	3.4	2.9	3	3.2	2.7
Euro Zone*	2.6	2.4	2.2	2	2.3	2.5	2.8

* 15 Countries – weighted average.

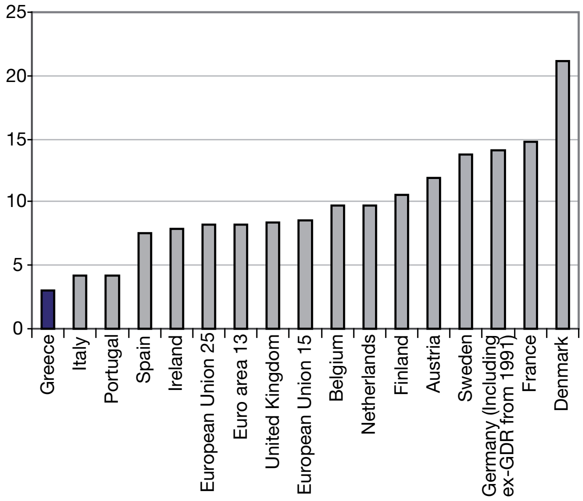
Source: European Commision: Taxation trends in the EU, 2008 edition.

Figure 10
Gross Earnings and Deductions



Sources: IKA, June 2006 data, and Ministry of Finance.

Figure 11
Wage-earners to Self-employment (not Employers) (Q1 2007)



Source: Eurostat.

As a final piece of evidence it has to be stated that the regulation of the labour market in Greece for permanent contracts is about average compared to the other OECD countries, according to the latest data available for Greece, which is for the year 2003. At the same time the regulation for temporary contracts emerges as very stringent, but it should be noted that the merits of liberalising part-time and temporary labour contract regulation relative to the regulation of the permanent labour contracts has not been fully assessed so far, especially as there is always the risk of creating a two-tier labour market. Having said this, the regulation of temporary employment may indeed be very relevant for the young who want to share time between education and work, as well as for parents, especially when they have young children.

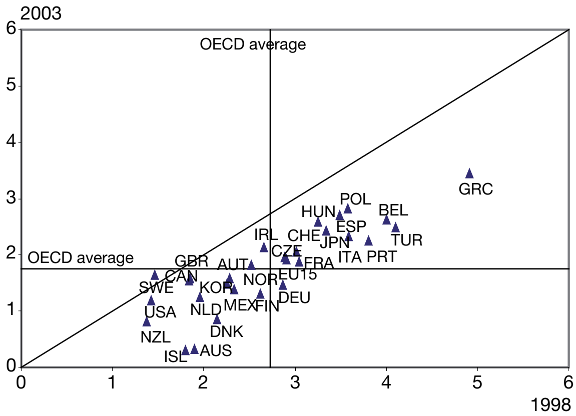
Such an extreme contrast, so many hours with so few employed and so many self-employed that declare such low income, strongly suggests the existence of some very strong incentives for the labour market to behave in this peculiar way, which exceed the impact from the torpor of the innovation rate and entrepreneurship of the economy that follows as a result of the stringent regulation of product markets and the high administrative burden.

Last but not least, it has to be stressed that Greece's continuing avoidance of the implementation of the services directive means that a whole range of professional services is not open to the new entrants to the labour market, adding further gloom to the employment prospects of the young.

Summarising these findings, we draw the picture of an ageing and uncompetitive society that fails to create the jobs needed to employ the young, limits as much as possible the number of people working but, at the same time, has an impressively large number of self-employed. The latter, it should be noted, do not face legislative restrictions on the hours worked; and work very long hours. At the same time, the high investments and the low income share of salaried labour complete the picture of an economy that avoids the use of the input "salaried labour" to an impressive degree. Our analysis demonstrates that before considering the reduction of labour market regulation in Greece, significant gains can be achieved in labour market performance by:

- deregulating product markets and reducing administrative burdens in order to increase the rate of innovation and to allow the creation of new jobs that are accessible to the young through the increase of value and job creating private sector activity in an improved business environment;
- equalizing the tax and social security contributions on self-employment with those of salaried labour in middle and higher incomes to encourage the growth of salaried labour as this has a lower barrier to entry, as well as to encourage an increase in the median salary resulting in a bigger distance between the median salary and the minimum salary; this is desirable because the proximity of these two hurts the attractiveness of new entrants to the labour market.

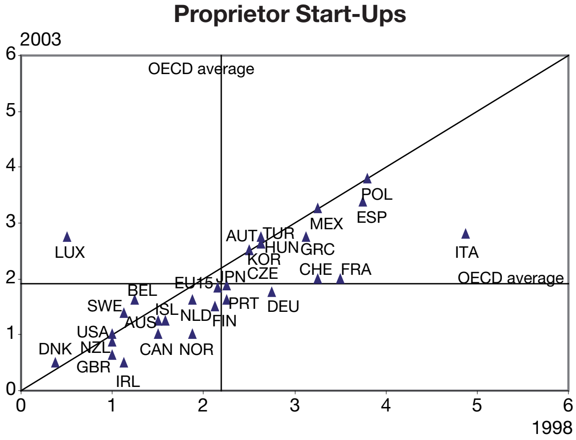
Figure 12
Restrictiveness of Regulatory Burden on Business Procedures



Note: Index scale of 0-6 from least to most restictive.

Source: OECD: Going for Growth, 2006.

Figure 13
Barriers to Entrepreneurship: Administrative Burdens on Corporations and Sole Proprietor Start-Ups



Note: Index scale of 0-6 from least to most restictive.

Source: OECD: Going for Growth, 2006.

- adopting the services directive to facilitate the entry of the young to high quality jobs;
- potentially introducing a reduction in the social security contributions of new job market entrants for a limited period of time that ranges from one to two years;
- examining a reduction in the stringency of the regulation for temporary employment for parents with young children and students as well as new job market entrants, but which will not lead to a level of regulation that is significantly below the level of regulation for permanent contracts.

A Rigid Labour Market?

We shall document below the low performance of the Greek labour market, directly and indirectly through the level of labour market regulation and the stringent regulation of product markets. A depiction of regulatory and institutional rigidities in Greece's economy that is based on the OECD Structural Indicators Database reveals the pattern of state intervention, institutional sclerosis and high administrative costs that secure these rents. The indicators included in Figures 12 to 15 also tie down the definition of business and product market regulation[3] and thus tie down "structural/institutional reforms" as changes in these indicators.

Figure 12 concerns the state involvement in business operations via price controls or the use of command and control regulation. "Command and control" includes a lot of administrative mechanisms for the hindrance of entrepreneurial activity/organisation, in sectors such as "road and railway transports" and retail trade. Greece holds by far the most stringent regulatory burdens on business procedures.

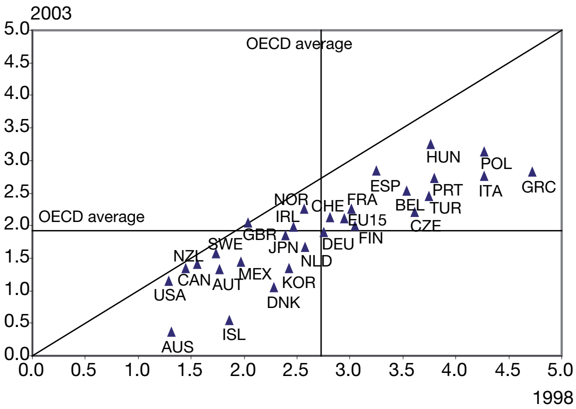
Regarding administrative burdens for start-ups (Figure 13), the picture is also unfortunate for Greece.

The regular outcome of the above figures is the one depicted in Figure 14 which measures total product market regulation in sum. Greece, after Poland and Hungary, has the most regulated product market, with numerous harmful microeconomic effects such as price distortion and the inability to generate enough employment opportuities.

As far as indicators recording the regulation of job markets are concerned, Figure 15 shows Greece as having the highest employment protection legislation (EPL) for temporary employment among the OECD countries. It should be noted here that the market for non-permanent, temporary employment in Greece is the main reason for the exceptional rigidity of the Greek labour market overall, as the market for permanent contracts is a little more rigid that the average level observed in other OECD countries. However, we would still like to emphasise that the biggest deficit observed in Greece is documented with regard to temporary contracts, which concerns very much the youth and especially young women, but which as an issue has to be approached separately from the regulation of permanent contracts.

[3] OECD summary indicator of regulatory impediments to product market competition. Sectors included are: gas, electricity, post, telecoms, passenger air transport, railways and road freight. Unfortunately Greece is one of the very few countries that have provided no update of these indicators for the year 2008.

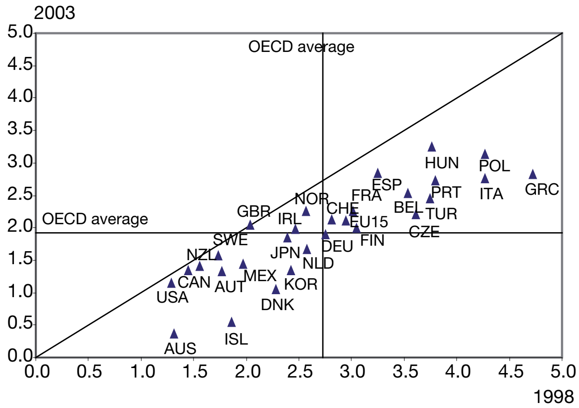
Figure 14
Product Market Regulation:
Degree of Restrictiveness of Regulation having an Impact on Economic Behaviour



Note: Index scale of 0-6 from least to most restictive.

Source: OECD: Going for Growth, 2006.

Figure 15
EPL: Restrictiveness and Diversion of Protection Legislation on Temporary Employment



Note: Index scale of 0-6 from least to most restictive.

Source: OECD: Going for Growth, 2004.

Reform Ideas and Conclusions

The current situation requires a group of reform-minded politicians who will not yield to the pressures of the interest groups and that will have sufficient knowledge to use the significant powers of the government, in spite of the fact that the administration is a weak tool for policy implementation.

Greece definitely appears to be an international paradox: a country that has achieved strong growth over a long period of time, in spite of having weak institutions, pervasive state intervention in the economy and poor governance. Yet this paradox can be reconciled with certain peculiarities of the Greek case, and in the end it is revealed as a typical case where certain reforms secure rapid growth in spite of the weakness of the institutions that are needed to ensure the long-term growth and prosperity of society. Explaining these contradictions is not only a rewarding academic exercise. It allows us to focus on the true nature of the weaknesses of the Greek economy and society, and to abstain from the crude and contradictory positions that either dismiss completely the performance of Greece or claim that all is well. In particular, it allows us to examine in a constructive way the performance of the economy compared to the performance of the labour market, and understand how a weak labour market that excludes the young in particular can persist in a fast growing economy.

Our analysis based on a careful presentation of all the details of the Greek case allows us to document how the limitations the state imposes on competition in product markets, the high administrative burden that the administration actively introduces, the corruption that this burden invites, and finally the unattractiveness of salaried jobs relative to self-employment and the intensive use of capital all contribute to limiting the dynamism of the labour market, and in particular the employment opportunities for the young. In particular, all the strings of the closed markets and systems are pulled by insiders, which means that outsiders, like new job market entrants, are unable to obtain any of the limited job opportunities that are becoming available. Our analysis gives us the ability to identify the implications that the applied policies have had on the Greek labour market, in spite of the rapid growth of the past years. Doing so permits us also to identify the causes of the rise in social polarisation that we document in Greece, the deteriorating level of social coherence and the extreme levels of exclusion from the job market and the social and political networks suffered by the Greek youth. Finally, an analysis of the political equilibrium explains how the state intervention in the markets secures rents, which the political system then allocates in exchange for political support. It emerges as a result that the opening of markets to competition and the fair treatment of salaried labour compared to self-employment and capital will on the one hand remove some of the sources of the weaknesses of the Greek labour market, and therefore the economy. At the same time it will also require deep changes in the Greek political system, which will have to take decisions that benefit unorganised groups like the young unemployed rather than the usual organised interest groups that influence political decisions.