

## **The Transformation of Employment Regulation in Greece: Towards a Dysfunctional Liberal Market Economy?**

### **La transformation de la régulation de l'emploi en Grèce : une économie de marché libérale dysfonctionnelle?**

### **La transformación de la regulación del empleo en Grecia: ¿una economía de mercado liberal disfuncional?**

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Résumé de l'article

Depuis l'avènement de la crise de la dette européenne, les conditions de sauvetage financier imposées à la Grèce ont graduellement déplacé leur cible d'un « resserrement » des finances publiques à l'« amélioration de la capacité concurrentielle » de l'économie. Au cours de ce processus, la négociation collective a été ciblée comme domaine de réforme prioritaire, avec pour résultat un démantèlement graduel du système. L'objet principal de cet article est d'analyser les changements survenus dans le cadre institutionnel de la régulation de l'emploi, à partir des éclairages nous provenant de la littérature sur les types de capitalisme. On y argumente que l'injection d'éléments du libre marché dans le système d'emploi de la Grèce s'avère susceptible de transformer le pays en une économie de libre marché dysfonctionnelle.

Les changements apportés dans la régulation collective de l'emploi ne tiennent pas compte des spécificités et des particularités du modèle méditerranéen de capitalisme et, ce faisant, risquent de laisser le pays avec le « pire des deux mondes » : une performance économique sous-optimale et une cohésion sociale diluée. L'article est structuré de la façon suivante. D'abord, le débat sur les types de capitalisme est considéré à la lumière de la crise globale. Ensuite, les caractéristiques principales du modèle de relation d'emploi grec sont discutées. Puis, la transformation de la régulation de l'emploi dans la foulée du sauvetage financier est examinée. Enfin, l'évolution vers une économie de libre marché dysfonctionnelle est analysée. La dernière section présente notre conclusion.

# The Transformation of Employment Regulation in Greece: Towards a Dysfunctional Liberal Market Economy?

Andreas Kornelakis and Horen Voskeritsian

Since the eruption of the European sovereign debt crisis, the bailout conditions imposed on Greece have gradually shifted their emphasis from “tidying up” public finances towards “improving the competitiveness” of the economy. The employment relations system has been targeted as one of the priority areas for reform, which resulted in its gradual dismantling. The article analyses this transformation in employment regulation, using insights from the varieties of capitalism literature. It is argued that the on-going injection of liberal market elements is likely to transform Greece into a dysfunctional Liberal Market Economy. The changes ignore the specificities and idiosyncrasies of the Greek production model and are likely to leave the country with the “worst of both worlds”: suboptimal economic performance and diluted social cohesion.

**KEYWORDS:** Greece, Crisis, Unions, Collective Bargaining, Varieties of Capitalism.

## Introduction

The on-going Global Economic Crisis has the potential to destabilize models of capitalism, and especially arrangements in the employment relations system. Nevertheless, there is little consensus on where the countries are heading, or how to conceptualize the current trajectories of change. Before the advent of the crisis, institutional change appeared to be slow and incremental (Streck and Thelen, 2005) and the pressures of global markets unfolded gradually over time. Instead, we now observe that changes are swift and abrupt; global financial markets seem able to impose their will on national politics, forcing governments to take austerity measures and adopt neoliberal reforms. Thus, the current junc-

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ture poses important questions for the varieties of capitalism (VoC) literature. For example, how did actors in different models of capitalism respond and how were these models recalibrated? Were these trajectories of change in line with earlier expectations? Is there a reversal or acceleration of the trend towards convergence to neo-liberalism? What are the implications for sub-systems such as employment regulation?

The answer to these questions differs depending on the case at hand. Despite the progress in the literature, there is still considerable debate on the impact of the 2008 Global Crisis on institutional arrangements across models of capitalism (Hassel, 2012; Heyes *et al.*, 2012; Lallement, 2011; Streeck, 2010). A number of recent contributions started examining the impact of the crisis and the politics of austerity on public and private sector employment relations in a variety of national contexts. Recent articles considered cases such as Ireland (McDonough and Dundon, 2010; Roche and Teague, 2012), the United Kingdom (Bach, 2012), Australia (Colley, 2012), and the United States (Cantin, 2012).

The article contributes to these debates by examining the transformation of employment regulation in Greece. The relevance of this case selection is justified on several grounds. Greece is one of the countries that felt the repercussions of the Global Crisis very violently. Since the transformation of the US sub-prime crisis into a European sovereign debt crisis, the country was forced to follow Washington consensus-type policies by the European Union, the International Monetary Fund, and the European Central Bank (the so-called Troika), going through an abrupt liberalization process, especially in the labour market realm. It is not the purpose of this article to provide a detailed empirical account of these changes, because these shifts have been documented elsewhere (see Ioannou, 2012 and 2013; Karamessini, 2012; Koukiadaki and Kretsos, 2012). Instead, the distinctive contribution of this article is to analyse these changes within the conceptual frame offered by the varieties of capitalism literature.

Methodologically, the article follows a single case-study research design (George and Bennett, 2005). Evidence will be drawn from a variety of secondary sources to present the transformation in the employment relations' realm. The case study shows that the institutional changes comprise an increase in "hire-and-fire" flexibility, a reform of the mediation and arbitration system and a shift towards decentralized collective bargaining. The timeframe of the case study involves the period right after the first bailout between 2010 and 2012. The reforms in this period transformed radically the institutional framework governing employment relations. On the basis of this analysis, it is argued that the injection of liberal market elements in the Greek employment system is likely to transform the country to a dysfunctional Liberal Market Economy. The changes in the collective regulation of employment ignore Greece's specificities and idiosyncrasies

and, thus, are likely to leave the country with the worst of both worlds: sub-optimal economic performance and diluted social cohesion.

The rest of the article is structured as follows. First, the debate on varieties of capitalism is considered in light of the Global Crisis. Second, the basic features of the Greek employment relations' model are discussed. Third, the transformation of employment regulation after the bailout is examined. Fourth, the evolution towards a dysfunctional Liberal Market Economy is analysed. The final section concludes.

## Global Crisis and Varieties of Capitalism

Hall and Soskice (2001) suggested that there are two main models of advanced capitalist economies: Coordinated Market Economies (CMEs) such as Germany, Austria and Sweden, and Liberal Market Economies (LMEs) such as the United Kingdom, United States and Ireland. According to the VoC framework, the two "institutionally coherent" models of capitalism were capable of high economic performance, because their institutional arrangements were characterized by harmonious "institutional complementarities" (Höpner, 2005). The concept denotes tightly coupled institutional arrangements between sub-systems. Thus, the employment relations system was not held to operate in a vacuum, but was intimately linked to other institutional spheres such as the training system and corporate governance.

Admittedly, this neat conceptualization might not hold very well in light of the crisis. There is little consensus on where the countries are heading, or how to conceptualize the current trajectories of change. Liberal Market Economies, such as the UK and the US, responded with Keynesian-style stimulus packages. The Lehman Brothers bankruptcy of 2008 and the "nationalizations" or bailouts of financial institutions in the US and the UK blurred the boundaries between different models, and global capitalism entered into uncharted territory. Even the trajectory of typical Coordinated Market Economies, such as Germany, appears puzzling. Streeck (2010) argued that Germany is steadily converging to the Liberal Market model, shifting from a liberalization mode to a fiscal consolidation mode. By contrast, Hassel (2012) interpreted the change as a more subtle recalibration of the model, since it quickly recovered with decreasing unemployment rates and increasing exports. Notably, working time arrangements absorbed most of the pressure on employment. More generally, Lallement (2011) argued that the crisis reinforced the differences across models of capitalism, and the national responses were in line with established mappings. Conversely, Heyes *et al.* (2012) argued that the responses to the crisis defy established categories and that the VoC framework is unable to account for the changes.

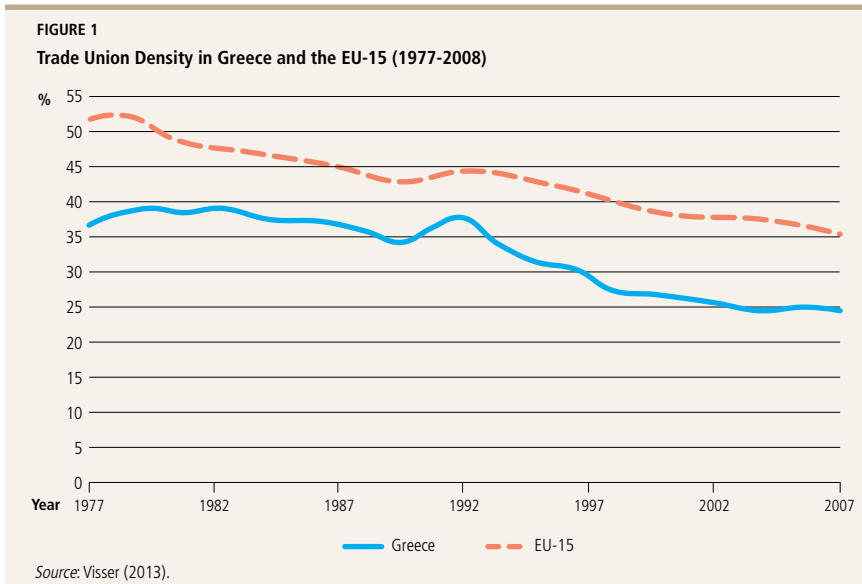
The present article contributes to this debate by focusing on the Greek case and the changes in the employment relations system. Greece has been a country typi-

cally grouped under the category of the Mediterranean/Southern European model of capitalism (Amable, 2003; Hyman, 2004; Karamessini, 2008) alongside Italy, Spain and Portugal. However, this ideal-type operates at a higher level of abstraction and might obscure some of the national-specific features and idiosyncrasies. Arguably, Greece is a case that does not sit comfortably among the conventional typologies of capitalist or employment models. Zambarloukou (2006) assigns Greece to the “State Capitalism” model, whereas Featherstone (2008) critically discusses the relevance of various ideal-types for the case of Greece, and sees the “Mixed Market Economies” conceptualization as the most relevant one. Finally, Karamessini (2009) offers a detailed historical account of the Greek employment model, including the employment relations system, training system and welfare regime. She employs the term “liberal de-familiarized capitalism” to characterise the current trajectory, and the changing role of the state in the economy. In this context, the next section elaborates on the historical features of the Greek employment model, before examining the recent changes in employment regulation.

### **The Greek Employment Relations Model**

With regards to Greek employment relations, the State’s direct intervention in the management of the system is well documented. The attempt of the State to control the trade unions dates back to the late 1920s and persisted—in different forms—throughout the Post-War period, thus creating a subversive union mentality (Koukoules, 1995; Livieratos, 2006). Although a large number of tripartite consultative bodies were successively introduced in the Post-War period, their influence in shaping economic and social policy remained marginal (Ioannou, 2000). National collective bargaining agreements were sanctioned by the State and disagreements were settled through compulsory arbitration. The employment relations system in the Post-War Era was dubbed as “State Corporatism” albeit “asymmetric” (Lavdas, 2005: 306). Even after the collapse of the military junta, in 1974, and the subsequent democratization of the trade union movement in the early 1980s, the organic relationship of the unions with the political parties remained intact. The political manipulation of the unions was further accentuated by the fact that they never achieved economic independence, since their activities were partially funded by the State (Koukoules, 1994; Kouzis, 2007).

Additionally, high levels of industrial conflict characterized the Greek employment relations system. Although since the mid-1990s strike frequency has decreased (Karamessini, 2009), Greece still remains the country with the highest number of general strikes in the EU, attesting to the system’s militant nature (Hamann *et al.*, 2013; Lindvall, 2013). This militancy, however, is usually observed in the public sector and in particular segments of the private sector. Trade union density in Greece remains rather low, and certainly below the EU-15 average, as Figure 1 shows.



Since 1980, union membership experienced a slow but steady decline. The low membership can be partly explained by the productive structure of Greek capitalism. The plethora of employees in small and micro-firms in Greece cannot be formally represented by unions, merely due to the legal prerequisite for union establishment, which is to have at least 21 members. As a result, employees in about 97% of private firms are not eligible to establish a trade union (Kouzis, 1998; Matsaganis, 2007). Other explanations for the low membership and density is perhaps the weakness of union organizing strategies, as well as the unions' strategic choice to concentrate their pressure on the State, reflecting the State-dependent development of trade unionism in Greece.

While union density in Greece has steadily fallen since the 1990s, the collective bargaining coverage is estimated to stand at 65% (Table 1). In other words, the *erga omnes* extension of the collective agreements means that employees from a wide range of sectors and occupations are *de facto* covered by the terms and conditions of collective agreements, even without being formally members of any affiliate union.

The data in Table 1 paint a picture of the institutional characteristics of Greek employment relations. Indices of wage bargaining centralization rank quite high, reflecting CME-levels of centralization. Similarly, collective bargaining coverage is also high, reflecting the automatic extension of collective agreements. However, these characteristics fall short of producing any notable "institutional complementarity", due to the prevalence of SMEs, the persistence of the informal economy, and the weak institutions of workplace representation.

**TABLE 1**  
**Collective Bargaining Coverage and Centralization (1991-2006)**

|   | 1990  | 1995  | 2005  | 2008  |
|---|-------|-------|-------|-------|
| GR - Collective Bargaining Coverage (%)     | 65%   | 65%   | 65%   | 65%   |
| GR - Collective Bargaining Centralization   | 0.292 | 0.344 | 0.334 | 0.334 |
| EU15 - Collective Bargaining Centralization | 0.410 | 0.422 | 0.437 | 0.422 |

Source: Visser (2013).

1 The collective bargaining centralization index (CENT) is a summary measure of centralization of wage bargaining, taking into account both union authority and union concentration at multiple levels. It is derived from Versen's centralization index, taking values between 0-1 and is given by the formula:

$$\sqrt{[(C_{\text{authority}} * D_{\text{EME}} * H_{\text{cf}}) + (A_{\text{authority}} * D_{\text{EMI}} * H_{\text{aff}})]}$$

The index weights the degree of authority or vertical coordination in the union movement with the degree of external and internal unity, and union concentration or horizontal coordination, taking account of multiple levels at which bargaining can take place (see Visser, 2013).

Indeed, workplace representation has been almost inexistent until recently. In the post-1974 period, a movement of "factory councils" emerged spontaneously, but collapsed in the following years, as it encountered hostility both from the Communist Party and the peak employers' confederation (SEV) with "victimization and blacklisting of unions activists" (Kritsantonis, 1998: 514). The ratification of the 1971 ILO convention No. 135 giving the right to employees to form works councils was delayed until 1988 (Jecchinis and Koutroukis, 2001). Additionally, the ambitious scheme of "socialization" that the PASOK socialist party introduced in the 1980s, aimed at boosting employee participation in public sector enterprises, but ended up in total failure (Lyberaki and Tsakalotos, 2002: 103-106).

Notwithstanding, many aspects of the Greek employment relations system have changed in recent years. Compulsory arbitration was abolished, and since 1992 an independent Arbitration and Mediation Organization (OMED) dealt with dispute resolution. At the same time, "free collective bargaining" was institutionalized, while the sectorial level of bargaining was officially recognized. The main piece of legislation that reformed the collective bargaining system was *Act 1876/1990, Free Collective Bargaining and Other Provisions*, which established a strict hierarchy of collective agreements. The national collective agreement set the minimum wage and other terms and conditions of employment and was applicable by default to all workers and employees. Next the national and regional sectorial and occupational agreements determined terms and conditions at the national (or regional) sectorial and occupational levels. The Minister of Labour could extend (by Decree) the collective agreements so that they apply to all workers and employees in a specific sector or occupation (irrespective of

whether they were members of the respective trade unions), if the employers who had signed them represented the majority of employment in the said sector or occupation. Finally, company unions negotiated firm-level agreements. The “favourability principle” was applied across the different levels of collective agreements.

The national biennial collective bargaining agreements “operated as functional equivalents to social concertation” (Karamessini, 2008: 49), and the establishment, in 1994, of an Economic and Social Committee provided the primary venue for social dialogue, although its role remained mainly consultative. Trade union representatives participated in 140 Committees and Councils, while representatives from the employers’ associations were involved in more than 60 permanent national level structures (Aranitou and Yannakourou, 2004). These changes encouraged commentators to speak of the “Europeanization effect” on social dialogue structures (Tsarouhas, 2008).

Despite these institutional changes that updated the employment relations model during the 1990s, several of the specificities of the Greek model persisted alongside subtle processes of liberalization. The extent of undeclared work in the underground economy remained exceptionally higher than in CMEs or in LMEs. Estimates of the underground economy ranged from 20% to 29% of the GDP (Katsios, 2006; Schneider, 2005; Seferiades, 2003: 196), while undeclared work is well-over 20% of GDP (Renoy *et al.*, 2004). The segmentation of the Greek labour market along three segments (public, private, and informal sector) is a widely accepted reality (Karamessini, 1997) and as Zambarloukou (2006:220) puts it, the large unofficial economy offered “exit mechanisms” for the firms not willing to abide by the institutional framework. Additionally, Greece’s process of subtle liberalization can be traced back to the early 1990s with the privatization of public sector enterprises and the slimming of the Welfare State. As Karamessini (2009) argued, Greek capitalism was transformed from a “State-led familistic” capitalist model to a more “liberal and de-familised” one.

Contrary to the previous period, institutional change in the current juncture is rapid and abrupt. The bailout conditions and the subsequent monitoring by the Troika follow the typical neoliberal Washington-consensus conditionality. Undoubtedly, these conditions have vast implications for different institutional domains such as the welfare regime, the employment relations system or product market regulation. These measures pushed Greece towards a deep recession with negative growth rates and unprecedented levels of unemployment (Table 2). At the backdrop of this macro-economic environment, the next section examines the radical changes that took place in the regulation of employment relations.



**TABLE 2**  
**The Crisis of the Greek Economy (2008-2012)**

|                                   | 2008  | 2009  | 2010  | 2011  | 2012  |
|-----------------------------------|-------|-------|-------|-------|-------|
| Real GDP Growth Rate (% change)   | -0.2  | -3.1  | -4.9  | -7.1  | -6.4  |
| Labour Cost Index (% change)      | 5.5   | 0.2   | -0.6  | -6.0  | -9.5  |
| Public Debt (% of GDP)            | 112.9 | 129.7 | 148.3 | 170.3 | 156.9 |
| Total Unemployment (%)            | 7.7   | 9.5   | 12.6  | 17.7  | 24.3  |
| Youth Unemployment (%)            | 22.1  | 25.8  | 32.9  | 44.4  | 55.3  |
| Population at risk of poverty (%) | 28.1  | 27.6  | 27.7  | 31.0  | 34.6  |

Source: Eurostat.

## The Transformation of Employment Relations Regulation in the Era of the Crisis

In the run-up to the entry to the Economic and Monetary Union (EMU), there were several attempts to alter the existing regulation via social dialogue; however, the proposed measures were quite moderate compared to the austerity-era policies (Featherstone, 2011). The 2010 Memorandum, signed by the Greek government for the bailout, outlined in general terms those fundamental changes in the labour market. The overall aim was to reduce labour costs and introduce greater flexibility in the labour market, thus allowing for “cost moderation for an extended period of time” (IMF, 2010: 59). Wage reduction was relatively more feasible in the public sector, because wages were unilaterally determined by the Minister of Finance and not negotiated with the unions (see Christopoulou and Monastiriotis, 2013: 3-5). However, an analogous intervention in the private sector would constitute a breach of free collective bargaining processes, and could not be achieved without a fundamental restructuring of individual and collective labour law.

The changes in the institutional framework can be divided into two broad categories. First, some measures attempted to indirectly moderate labour costs through alterations in individual labour law, aiming at the reduction of overtime cost and the cost of firing employees, while at the same time introduced provisions for the promotion of flexibility and modified the upper limits regarding collective redundancies. The second category targeted the collective employment relations' institutions, leading to the decentralization of collective bargaining and the reform of the mediation and arbitration process. The common implication of the injection of liberal market elements into the Greek model was to reduce labour costs in pursuit of “competitiveness”.

## Introducing Flexibility in Labour Law

The first phase of the institutional changes in employment regulation was marked by the attempt to modify the rules governing the individual employment contract, and thus, prepare the ground for further deregulation in the labour market. The legislation that ratified the bailout was *Act 3845/2010, Measures for the Implementation of the Support Mechanism to the Greek Economy from Eurozone Member States and the International Monetary Fund*. This included several changes in areas such as the compensation of young employees, the policies on dismissals, and on overtime compensation. Moreover, and contrary to existing regulations, the Act allowed for the terms and conditions of occupational or firm-level collective agreements to deviate from the ones prescribed at the industry or national levels. The wording of the provision could effectively abolish the national collective agreement and render the industry-level agreements redundant (Mpakopoulos, 2010). However, the rulings of the law were quite vague and were further specified in later laws or presidential decrees.

The first such specification came through *Act 3846/2010, Guarantees for Employment Security and Other Provisions*, which introduced elements of the so-called “Flexicurity model”. Its primary focus was the re-regulation of the nature, conduct and compensation of part-time work, providing on the one hand increased security for various flexible forms of employment and, on the other, making it cheaper and easier for an employer to use this non-standard employment form, as well as the services of temporary employment agencies. Moreover, the law also dealt with the management of working time, conferring the right to negotiate working time changes not only to the unions, but also to “associations of employees”. Before this change, this body had quite a restricted remit compared to a trade union, as it did not have any rights to negotiate wages or to call strikes, and may not have been a representative structure. Under the new regime, however, in a company that employs at least 20 employees, an association of five employees, (i.e. one-fourth of the staff), can negotiate changes in the working time for the whole workforce.

Greater flexibility in working time arrangements was a central concern of the employers’ associations. Legislation introduced in 2012 (*Act 4093/2012, Approval of the Medium Term Fiscal Strategy 2013-2016*) allowed the extension of the working week from five to six days and the increase of the working time without an increase in compensation for retail employees. Additionally, *Act 4152/2012, Urgent Measures for the Implementation of Acts 4046/2012, 4093/2012 and 4127/2012* included a similar working time provision for teachers working in secondary education.

Although *Act 3846/2010* laid the ground for the adoption of flexible forms of employment, subsequent legislation (*Act 3863/2010, New Pension System and*

*Related Provisions, Regulations in Employment Relations*) adopted more direct measures. The overtime pay rates were significantly reduced, and the law introduced several provisions regarding the compensation of young employees: under the new framework, an employer is allowed to hire apprentices aged 15-18 at wage-rates 30% below the National Minimum Wage, or to hire young workers aged 18-25 at 84% of the National Minimum Wage. These practices were reminiscent of the *Contrat Première Embauche* that was attempted to be introduced in France in 2006 (GSEE, 2011).

The employment protection framework was also altered, making it easier and cheaper for companies to lay-off employees. Towards this end, two fundamental changes were introduced. First, there was an increase of the upper boundary regarding group dismissals. Prior to the new law, companies employing between 20 and 150 employees were allowed to lay-off up to four employees per month, whereas companies with more than 150 employees were allowed to lay-off up to 2% of their workforce per month. Under the new framework, the former group may lay-off up to six employees per month, and the latter group may lay-off up to 5% of their workforce per month (but not more than 30 employees). Second, the new law introduced important changes in the calculation of dismissal compensation, rendering the whole process much cheaper for the employer. In fact, *Act 4093/2012* (mentioned above) further simplified and economized the redundancy process.

The majority of the above changes reflected attempts to restrain and control labour cost by altering several provisions of the existing structure of individual labour law. However, they were perceived as inadequate to control the major source of labour cost increases. That is why a substantial wave of re-regulation targeted the collective bargaining system.

### **The Decentralization of Collective Bargaining**

The ultimate aim of the institutional changes in the collective bargaining system was to reduce labour costs through controlled decentralization. To this end, the government followed two paths: the first focused on the decentralization of collective bargaining, whereas the second concerned its attempt to control the level of the National Minimum Wage.

As mentioned above, the framework governing collective agreements supported a centralized bargaining structure. The Troika thus urged for the adoption of measures that would decentralize the process and would provide greater opportunities to individual employers to manipulate and control the labour cost at the company level. Initially, the government adopted *Act 3899/2010, Urgent Measures of Implementation of the Greek Economy Support Mechanism*, which introduced a new type of collective agreement called the "Special Operational

Collective Agreement” (SOCA). The SOCA could be signed either by a firm-level union or by the local sectorial trade union or sectorial federation, in companies that faced financial strains, and allowed for the derogation of wages from the ones agreed at the sectorial level. The rationale behind the SOCA was to provide the opportunity to a company facing financial problems to adjust its employees’ terms and conditions of employment to the market conditions (Leventis, 2011: 98). The ultimate goal was to assist companies in the verge of bankruptcy to survive and, consequently, to preserve jobs.

However, this measure was short-lived. In October 2011, amidst a political crisis and under the Troika’s pressures pending the loan’s sixth instalment, the government voted another law that radically changed the employment relations system and paved the way for the abolition of sectorial agreements (*Act 4024/2011, Pension System Regulations, Unitary Salary and Grade Scales, and Other Provisions Implementing the Mid-Term Framework of Fiscal Strategy 2012-2015*). The SOCA was abolished, and any firm (not only the ones facing financial strains) now had the option to sign a firm-level agreement for the duration of the Medium Term Fiscal Strategy (i.e. until 2015) that could prevail over the sectorial agreement, even if the former contained worse terms and conditions of employment than the latter. In other words, the favourability principle was abolished. The firm-level agreement, however, could not contain provisions worse than the ones agreed at the national level. Moreover, the sectorial or occupational agreements can only be applied to the employees whose employers are members of the respective employers association, and cannot be extended to all employees of the said sector or occupation, as was the practice thus far.

These two provisions set the basis for the full decentralization of collective bargaining, as they allow companies to sign firm-level agreements that are not in any way bounded by the wage levels agreed at the sectorial level. To further facilitate this move, the new law extended the right to sign collective agreements to companies employing less than fifty employees, or to companies with no firm-level trade unions. In this case, a firm-level agreement may be signed by an association of employees, representing at least 3/5 of the company’s employees, a right that until now was reserved either for the firm-level unions, or for the local or national sectorial unions. Through this provision, the legislation ensured that the sectorial unions would be absent from the process, and the employers would be able to negotiate the derogation in the terms and conditions of employment from the sectorial agreement in the “protective environment” of their companies. The establishment of a second negotiating party at the firm level—the “association of employees”—further simplifies the process. In cases where a trade union is already established in a company, the association of employees may constitute an intra-firm rival to the existing structure and prove to be a more “reliable” partner to the employer.

As regards the minimum wage, the government exerted indirect pressure to the social actors to negotiate miniscule pay increases for the next three years, which ultimately accounted for a three-year real pay-freeze. The negotiations for the signing of the 2010-2012 national collective agreement were rather turbulent, but at the end, the social partners agreed that the “13<sup>th</sup> and 14<sup>th</sup> salary” would be retained. However, they also agreed for real wage cuts, as any increase in the National Minimum Wage would be based on the Eurozone’s Harmonized Index of Consumer Prices (HICP), which was lower than the national consumer price index (CPI).

The institutional dismantling of the collective bargaining system reached its peak in 2012. The government unilaterally decided to introduce a statutory regulation of the National Minimum Wage and to prohibit its increase until the unemployment rate falls below 10% (*Act 4046/2012 and Cabinet Decision 6/2012, Regulation for the Implementation of Article 1, Paragraph 6 of Act 4046/2012*). As a result, from April 2013 onwards, the National Minimum (monthly) Wage was reduced by 22% for employees over the age of 25 (from €751,39 to €586.08), and by 32% for employees below the age of 25 (from €751,39 to €510.95).

### **Reforming the Mediation and Arbitration Procedures**

The restructuring of the arbitration process was central in the initial Memorandum negotiations and in the Troika’s consequent reports, and revolved around two interconnected issues: the elimination of the asymmetry in the arbitration process and the need to curb the—supposed—subjectivity of the mediators and arbitrators.

According to the older framework (*Act 1876/1990*), to reach the arbitration stage the two parties had to go through the mediation process, and only when this had failed the former could be activated. However, in the case of failing negotiations at the national, sectorial or occupational level, only the trade unions had the right to appeal to arbitration if the employer had rejected the mediator’s proposal, or had not participated in the mediation process. Asymmetry, therefore, concerned the unilateral right reserved for the unions to appeal to arbitration when mediation failed. *Act 3899/2010* lifted this union prerogative in favour of the employers, also prescribing them the right to resort to arbitration if mediation failed. In 2012, *Cabinet Decision 6/2012* ruled that resorting to arbitration requires the consent of both the employers and the employees.

The elimination of this “inequality” was a long-standing demand of the employer associations. In 2003, for example, the Federation of Industries of Northern Greece (SVVE) appealed to the European Court of Justice regarding the asym-

metry in reaching arbitration. Although the elimination of asymmetry may seem to restore a balance in the negotiation process, it actually leads to the deterioration of the institution of mediation and creates further imbalance in the relations between the two parties. Given the power inequalities embedded in the employment relationship, the previous legislation erred towards the labour side, reserving the right to unilaterally revert to arbitration for the unions, in case they encountered an unbendable employer's association. This right was, in other words, a "weapon" at the hands of the trade unions to persuade the employers to take negotiations seriously and to approach the negotiating table in a cooperative manner (Kazakos, 1998: 137). To countervail this imbalance, however, the legislation suspended the right to strike for ten days from the day the unions appealed to arbitration.

The extent to which this regulation helped to promote social dialogue is a contested issue. Ioannou (1995, 2011) for instance, argued that in many cases this framework replicated the old arbitration system as both parties used mediation as an intermediate step to eventually reach arbitration. Although this has undoubtedly occurred in many cases, presumably in negotiations where the perceived conflict between the two parties was so intense that a negotiated agreement was impossible to be reached by default, OMED's data suggest that the system of mediation contributed to the signing of agreements between the two parties (OMED, 2010: 11).

By lifting unions' unilateral right to resort to arbitration, however, the law provides the opportunity to the employer to override the mediation process and resort directly to arbitration, where the arbitrator's decision is final and binding for both parties. The incentive to do so is also provided by the new framework, which modified the content of the arbitrator's decision. Although under the previous framework the arbitrator could regulate any aspect of a collective agreement—i.e. both its substantive and procedural nature—the new law restricts the arbitrator's ruling only at the regulation of wages, leaving the remaining substantive issues (such as working hours, benefits, overtime compensation, promotions etc.), as well as the procedural ones, in the remit of negotiations between the parties. Moreover, the arbitrator's proposal under the new framework must take into consideration the financial condition and the development of the establishment's competitiveness, (see *Act 3899/2010 and Cabinet Decision 6/2012*). This last provision actually means that any case reaching arbitration will most probably result either in a wage freeze or a wage reduction, offering strong incentives to employers to resort to arbitration instead of reaching a common agreement with a trade union. In case the unions do not consent to arbitration, the employer still retains the right to unilaterally reduce wages to the level of the National Minimum Wage.

## Discussion and Analysis

Our review of the institutional changes in the previous section substantiates the claim that the Greek system of employment regulation has been speedily liberalized. However, we contend that this direction of change will not yield the expected results, because the changes ignore the path-dependencies and specificities of the Greek employment and production model. In other words, the move towards liberalization and the obsession with “cost competitiveness” (Hay, 2012) will not necessarily lead to any type of comparative advantage. The main reason is that other elements that are conducive to “institutional complementarities” are missing and thus “non-complementarities” (Molina and Rhodes, 2007) are likely to persist. Indeed, one of the primary insights from the varieties of capitalism literature is that comparative advantage is embedded in a wider institutional and societal context (Hall and Soskice, 2001). Thus, institutions cannot just be transplanted from one country to another following a “one-size-fits-all” approach.

We argue that there are two structural characteristics of the Greek model of capitalism that are likely to militate against any potential increase in competitiveness. On the one hand, there is a predominance of SMEs that are not internationalized and are likely to be unaffected by these changes. Furthermore, the informal sector is likely to offer exit mechanisms for those enterprises. On the other hand, the internal devaluation policy ignores the characteristics of the Greek production model based on limited technological innovation and specialized on low value-added products.

Despite the less regulated labour market context, employers still retain the option to “exit” from the formal economy (Zambarloukou, 2006). The limited State capacity to enforce labour law to free-riding companies is likely to increase the number of firms choosing that option. As previously mentioned, the shadow economy and undeclared work are prevalent features of Greek capitalism. In this sphere, no law applies, and in the absence of credible sanctions and effective disincentives towards undeclared work, the cost-benefit analysis of firms is likely to lead them to the “low road” of informality. Negotiating reduced wages “under the table”, or unilaterally imposing wage-cuts, is likely to look much more attractive to employers. Indeed, anecdotal evidence suggests that it has become quite common that employees remain unpaid for several months. Some employees are forced to convert into part-time contracts, whilst still working full time, so that employers make savings on non-wage labour costs. We argue that this trajectory of change is likely to dilute social cohesion.

Additionally, there are other persistent characteristics of the Greek production model that make the institutional changes in the employment relations

system less likely to produce any comparative advantage. The Troika insisted on applying the policy of “internal devaluation” through the systematic reduction of unit labour costs (see Ioannou, 2012) and this was expected to facilitate an outward-oriented export-led growth model. However, this policy ignored the specificities and path dependencies of the Greek production model. In other words, it ignored the role of “structural” competitiveness (Karamessini, 2012), which encompasses the type of products (and services) that are produced in Greece, their quality (and value added) and how far these match global demand (INE-GSEE, 2013). This was further exacerbated by the fact that exports did not contribute to a large degree to the gross domestic product, and, despite the fall in labour costs, there was no corresponding fall in the prices of products (INE-GSEE, 2013). This further indicates that profit margins remained wide, absorbing some of the labour cost reduction. Overall, we argue that the most likely outcome from the institutional changes in employment regulation is sub-optimal economic performance.

The insights from the varieties of capitalism literature are useful here. The two ideal-types of LMEs and CMEs are considered successful, because they have a neat coupling of institutional characteristics. For instance, the more coordinated employment relations system in Germany is matched by an exquisite system of occupational skill-formation (Culpepper, 1999) and strong workplace representation rights (Thelen, 2000). Thus, the institutional arrangements are likely to facilitate a comparative advantage on high-value added products requiring incremental innovation such as machine tools, automobile, durable consumer goods, etc. (Hall and Soskice, 2001: 43). Conversely, the more deregulated employment relations system in the US is matched by a focus on a general skills education system (Soskice, 1994). Thus, the institutional arrangements are likely to facilitate a comparative advantage on products and services requiring radical innovation such as semi-conductors, information technology, biotechnology, etc. (Hall and Soskice, 2001:43). In the case of Greece, the specificities and idiosyncrasies of the Greek capitalist model suggest that non-complementarities are likely to persist. Instead, the injection of LME elements might lead to what Della Sala has dubbed as an even more “dysfunctional” model (Della Sala, 2004). On the basis of the above analysis, we propose the following hypothesis to be examined by further research:

**HYPOTHESIS :** Whilst the institutional changes in the Greek employment system are aimed at improving the economy’s competitiveness via labour cost reduction, they are unlikely to produce any comparative advantage and will most likely bring suboptimal economic performance and diluted social cohesion.



## Conclusion

Overall, the countries from the Mediterranean model of capitalism are tragic protagonists in the Euro-zone crisis. In one way or another, Greece, Portugal, Spain and Cyprus have already been bailed out by the European Union. The vulnerabilities of those economies were exposed in the context of a deepening recession, and global markets doubted their ability to repay debt, increasing the “spreads” and further downgrading their credit ratings (see Barta, 2012).

In the employment relations system, the current pressures from global financial markets will likely intensify the push towards liberalizing the institutions of collective employment regulation. The Greek employment relations system is a case in point. The signing of the Memorandum radically altered the existing institutions of the labour market, since the relaxation of the limits in collective dismissals, the transformation of the process of mediation and arbitration, and the decentralization of collective bargaining paved the way for the further deregulation of the labour market.

In light of the above analysis, it is argued that the changes are unlikely to produce “comparative advantages” and increase the competitiveness of the Greek economy, because they disregard the specificities and path-dependencies of the Greek model. The changes ignore that Greece entails a sizeable informal sector, and that it lacks effective monitoring and sanctioning mechanisms that contribute to the prevalence of illegal employment. Given the industrial structure, in which small and micro-firms predominate, the changes in the collective bargaining system are not readily applicable to them. Even to those firms where these changes are applicable, they are more likely to respond in a short-term and path-dependent manner by circumventing the institutional framework.

Additionally, the structure of the Greek economy is traditionally focused on producing low value-added products and services, incorporating little technological (incremental or radical) innovation. There is a strong inward-orientation in the production of goods and services, and thus, the exports contribute very little to GDP. The focus on labour cost reduction and “internal devaluation” is unlikely to yield any results, since the institutional pre-conditions for striking an effective comparative advantage are missing. Therefore, the liberalization of employment regulation is likely to lead to a dysfunctional Liberal Market Economy with the “worst of both worlds”: suboptimal economic performance and diluted social cohesion.

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## SUMMARY

### The Transformation of Employment Regulation in Greece: Towards a Dysfunctional Liberal Market Economy?

Since the eruption of the European sovereign debt crisis, the bailout conditions imposed on Greece have gradually shifted their emphasis from "tidying up" public finances towards "improving the competitiveness" of the economy. In the process, collective bargaining has been targeted as one of the priority areas for reform, which resulted in a gradual dismantling of the system. The main aim of this article is to analyse the changes in the institutional framework of employment regulation, using insights from the varieties of capitalism literature. It is argued that the ongoing injection of liberal market elements into the Greek employment system is likely to transform Greece into a dysfunctional Liberal Market Economy.

The changes in the collective regulation of employment ignore the specificities and idiosyncrasies of the Mediterranean model of capitalism and, thus, are likely to leave the country with the "worst of both worlds": suboptimal economic performance and diluted social cohesion. The article is structured as follows. First, the debate on varieties of capitalism is considered in light of the Global Crisis. Second, the basic features of the Greek employment relations' model are discussed. Third, the transformation of employment regulation after the bailout is examined.

Fourth, the evolution towards a dysfunctional Liberal Market Economy is analysed. The final section concludes.

KEYWORDS: Greece, Crisis, Unions, Collective Bargaining, Varieties of Capitalism.

## RÉSUMÉ

### La transformation de la régulation de l'emploi en Grèce : une économie de marché libérale dysfonctionnelle?

Depuis l'avènement de la crise de la dette européenne, les conditions de sauvetage financier imposées à la Grèce ont graduellement déplacé leur cible d'un « resserrement » des finances publiques à l' « amélioration de la capacité concurrentielle » de l'économie. Au cours de ce processus, la négociation collective a été ciblée comme domaine de réforme prioritaire, avec pour résultat un démantèlement graduel du système. L'objet principal de cet article est d'analyser les changements survenus dans le cadre institutionnel de la régulation de l'emploi, à partir des éclairages nous provenant de la littérature sur les types de capitalisme. On y argumente que l'injection d'éléments du libre marché dans le système d'emploi de la Grèce s'avère susceptible de transformer le pays en une économie de libre marché dysfonctionnelle.

Les changements apportés dans la régulation collective de l'emploi ne tiennent pas compte des spécificités et des particularités du modèle méditerranéen de capitalisme et, ce faisant, risquent de laisser le pays avec le « pire des deux mondes » : une performance économique sous-optimale et une cohésion sociale diluée. L'article est structuré de la façon suivante. D'abord, le débat sur les types de capitalisme est considéré à la lumière de la crise globale. Ensuite, les caractéristiques principales du modèle de relation d'emploi grec sont discutées. Puis, la transformation de la régulation de l'emploi dans la foulée du sauvetage financier est examinée. Enfin, l'évolution vers une économie de libre marché dysfonctionnelle est analysée. La dernière section présente notre conclusion.

MOTS-CLÉS : Grèce, crise, syndicats, négociation collective, types de capitalisme.

## RESUMEN

### La transformación de la regulación del empleo en Grecia: ¿una economía de mercado liberal disfuncional?

Con la explosión de la crisis de la deuda europea, las condiciones de rescate financiero impuestas a la Grecia han desplazado su mira gradualmente de un "ordenamiento" de las finanzas públicas hacia la "mejora de la competitividad" de la economía. En el curso de este proceso, la negociación colectiva ha estado en la mira como campo de reforma prioritaria, teniendo como resultado un desmantelamiento gradual del sistema. El objeto principal de este artículo es de analizar

los cambios sobrevenidos en el cuadro institucional de la regulación del empleo, a partir de esclarecimientos provenientes de la literatura sobre los tipos de capitalismo. Se argumenta que la inyección de elementos de libre mercado en el sistema de empleo de la Grecia puede probablemente transformar el país en una economía de libre mercado disfuncional.

Los cambios acontecidos en la regulación colectiva del empleo no tienen cuenta de las especificidades ni de las particularidades del modelo mediterráneo de capitalismo y, haciendo esto, se arriesga de dejar el país con lo “peor de dos mundos”: un rendimiento económico subóptimo y una cohesión social diluida. El artículo está estructurado de la manera siguiente. Primero, el debate sobre los tipos de capitalismo es considerado desde la perspectiva de la crisis global. Segundo, las características principales del modelo de relación de empleo greco son discutidas. Tercero, se examina la transformación de la regulación del empleo tras el rescate financiero. Cuarto, la evolución hacia una economía de libre mercado disfuncional es analizada, antes de presentar nuestra conclusión.

**PALABRAS CLAVES:** Grecia, crisis, sindicatos, negociación colectiva, variedad de capitalismos.