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# **Between a Rock and a Hard Place: Social Partners and Reforms in the Wage- Setting System in Greece under Austerity**

**Horen Voskeritsian, Michail Veliziotis, Panos Kapotas,  
Andreas Kornelakis**

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OF ECONOMICS AND  
POLITICAL SCIENCE ■

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# Between a Rock and a Hard Place: Social Partners and Reforms in the Wage-Setting System in Greece under Austerity

Horen Voskeritsian<sup>1</sup>, Michail Veliziotis<sup>2</sup>, Panos Kapotas<sup>3</sup>, Andreas Kornelakis<sup>4</sup>,

## ABSTRACT

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The paper focuses on the reforms in the wage-setting system in Greece in the context of a severe recession and against the backdrop of EU bailout agreements. The analysis reveals that the reforms are also contested among key actors, and that the fault lines between social partners are not fully consistent with the notion of a binary pro-reform (from business associations) vs. anti-reform stance (from labour associations). Instead, our interview data expose hitherto hidden fractures in the employers' camp. Employers' representatives express –in varying degrees– their scepticism towards the efficacy of the institutional changes and generally towards technocratic solutions. More broadly this analysis reflects on the contested and controversial nature of the policy reforms on wage setting, for which there is no consensus either in the academic or policy literature, and delves deeper into the views and perspectives of key actors on the efficacy and consequences of the main institutional changes in wage setting.

## Keywords:

social partners; wage setting system; reforms; Greece; austerity; crisis.

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## 1. Introduction

Labour market regulation is considered an important aspect of a country's overall regulatory framework due to its impact on working conditions and employment outcomes. In the context of the European Union (EU), Member States retain a degree of regulatory competence within national labour market frameworks (with the exception, of course, of areas where harmonising instruments, such as the EU Equality Directives or the Directives on information and consultation rights and health and safety, have established common rules). The approach adopted in the 2000s was underpinned by the Open Method of Coordination (see, among others, Mosher and Trubek, 2003), whereby Member States were expected to engage in policy transfer and policy learning. Yet following the advent of the crisis, this voluntarist approach to structural reforms of the labour markets was radically transformed.

The EU promoted a programme of labour market re-regulation, in which the stated aim was to rework the mix of labour market institutions to best reconcile economic competitiveness and social solidarity (Clasen et al., 2012). Nonetheless, the policy emphasis within the context of this flexicurity approach was on "flexibility" rather than "security" (Heyes and Lewis, 2014). To that end, the EU started issuing annual Country Specific Recommendations (CSRs) to each member-state in response to their National Reform Programmes (NRPs). As a result, many Member States were prompted to review and reform their employment relations and labour market regulatory frameworks, as a mechanism of adjustment to the recession and as a stepping-stone to increased competitiveness (Geary, 2016; Molina, 2014; Pedersini & Regini 2014; Rosário Palma Ramalho, 2014). According to a review by Clauwaert (2014), the CSRs issued in 2014/15 urged eleven countries to review wage-setting mechanisms and align them with productivity developments, while eight countries were expected to adjust their employment protection legislation (EPL) systems.

Although the choice of phrasing in the CSR guidelines seems to allow the possibility of reforming wage-setting systems through a social partnership context, the general direction of travel points towards an outright decentralization of wage-setting institutions. The rationale behind these policies reflects a crude conceptualization of the labour market, according to which the wage floor is considered a rigidity, incompatible with the efficient functioning of the market, and trade unions are, primarily, "rent-seeking" actors. Yet several authors argue that the policy case for deregulating the labour market is not borne out by studies that examine the relationship between various aspects of labour market institutions (such as the collective bargaining system) and labour market performance, as the empirical evidence remains inconclusive (Baccaro and Rei, 2007; Baker et al., 2005).

Within this turbulent political and economic context, Greece constitutes an interesting case study. Faced with an unprecedented sovereign debt and economic crisis at the end of 2009, the country was one of the first in a series of

EU Member States to seek financial assistance from the EU and the IMF. A Memorandum of Understanding (MoU) was subsequently signed, which prescribed detailed policies that Greece was required to adopt with a view to entering a path of economic recovery and competitiveness. Contrary to other EU countries (such as Portugal, Spain and Cyprus) that also entered into similar agreements, the MoUs implemented in Greece included very detailed provisions regarding the deregulation of the country's labour market and employment relations' framework.

This paper aims to critically examine the changes, prescribed by the MoUs, in the regulatory framework governing wage determination, through an analysis of the social partners' views of these policies. In doing so, it will complement existing literature that has so far focused on the effects of the policies on several labour market outcomes (e.g. Aidt and Tzannatos, 2002; Baker et al., 2005; Boeri and van Ours, 2013; Christopoulou and Monastiriotis, 2014; Daouli et al, 2013; Theodoropoulou, 2016). Additionally, it will extend the literature that examined institutional changes and trade union responses to austerity (e.g. Campos Lima & Artiles, 2011; Geary, 2016; Ioannou, 2012; Koukiadaki and Kokkinou, 2016; Molina, 2014; Pedersini & Regini, 2014; Wood et al, 2015).

Our analysis is based on a series of single person face-to-face interviews (or group interviews) with key informants from peak representative associations (GSEE, SEV, GSEVEE, ESEE, SETE) and relevant agencies and institutions (the Ministry of Labour, the Labour Inspectorate (SEPE) and the Organisation for Mediation and Arbitration (OMED)). The fieldwork took place during July and August 2016.

The rest of the paper is structured as follows. The following two sections set the context of the study, by briefly discussing the policy context in relation to the relevant literature and the changes the MoUs introduced in the wage-setting system. The fourth section examines the positions and the views of the social partners on the reforms of the wage-setting system and analyses their differing views. The final section provides an overall summary and concludes.

## **2. The Policy Context: Internal Devaluation, Collective Bargaining and Competitiveness**

In May 2010, the first of a series of Memoranda of Understanding was signed between the Greek government and the so-called 'Troika' (EU Commission/ECB/IMF). The main aim of the first MoU was to establish institutional and fiscal rules that would help the country recover from the fiscal crisis it faced. An important aim of the MoU, among others, was the recalibration of the employment relations' institutional framework – both in the public and private sectors – to drive down labour costs and realign them with productivity. Competitiveness, in that sense, would be achieved through a process of internal

devaluation, since the country – as a member of the Eurozone – could not rely on an independent monetary and exchange rate policy.

The logic of internal devaluation was based on two assumptions: first, that in recent years, the growth of nominal wage costs had exceeded productivity growth (leading to an increase in unit labour costs), making the country less competitive in the export markets; second, that for wages to be downwardly adjusted, a radical transformation of the existing employment relations framework was required. The then existing framework was considered too strict and obstructive to change, so a process of recalibration, along the lines of further flexibility in the labour market and of decentralization of collective bargaining, commenced.

The prevailing discourse of the period emphasised the beneficial effects of deregulation on competitiveness and, consequently, employment. Yet the fact of the matter is that evidence in support of this claim is, at best, inconclusive. First, international competitiveness is not first and foremost related to wage/price competitiveness (Fagerberg, 1988; 1996; Fagerberg et al., 2007; Dafermos and Nikolaidi, 2012). Moreover, the negative relationship between unit labour costs and export performance seems to be mostly driven by the productivity element of the former (Decramer et al., 2016). This is why even the European Central Bank's economists (Altomonte et al., 2013) seem to be sceptical about the usefulness of the usual wage/price competitiveness indicators. Second, several authors (Baker et al., 2005; Howell et al., 2007; Baccaro and Rei, 2007) have argued that the policy case for the deregulation of the labour market cannot be borne out by the various studies that examine the relationship between aspects of labour market flexibility, on the one hand, and labour market performance, on the other. Reflecting the above evidence, the following quote from IMF economists, who discuss IMF's advice on collective bargaining for the advanced economies, is quite telling:

*“This being said, the implications of alternative structures of collective bargaining are poorly understood [emphasis added]. This suggests that the IMF should tread carefully in its policy advice in this area, particularly since governments may have limited ability to reform existing systems. Moreover, trust among social partners appears to be just as important in bringing about macro flexibility as the structure of collective bargaining.” (Blanchard et al., 2014: 20).*

Moreover, theories that stress the imperfect nature of labour markets point to the efficiency enhancing effects of institutions and legislation related to pay determination and employee representation (Agell, 1999; Aidt and Tzannatos, 2002; Gregg and Manning, 1997). Inefficiencies arising from monopsonistic/oligopsonistic situations, transaction costs and externalities, mean that institutional and legislative regulation can lead to better outcomes in terms of quantity and quality relative to an unregulated labour market. For example, in a monopsonistic situation, both the equilibrium wage and employment are lower than the optimal level. Collective bargaining and minimum wage legislation in this case can lead to both higher wages and higher levels of employment (Gregg and Manning, 1997). By the same token, trade unions can also have a beneficial “voice” effect (Freeman and Medoff, 1984). Dissatisfied employees that are unionised are

more likely to express their dissatisfaction to their employer than opt for the “voiceless” option of exiting the firm. This enables the development of long-term relationships between firms and employees and the investment in firm-specific skills through continuous training (Aidt and Tzannatos, 2002; Howell, 2005) that can ultimately have a positive effect on productivity, firm performance in general, and the quality of working life for individual employees (e.g. through increased job security).

Nevertheless, and despite the inherently problematic character of the policy arguments, the MoUs that were signed in 2010 and 2012 introduced a series of radical changes in the Greek employment relations’ framework. These have been analysed in detail elsewhere (Karamessini, 2012; Koukiadaki and Kretsos, 2012; Kornelakis and Voskeritsian, 2014), but a brief description of the changes pertaining specifically to the wage-setting regulatory framework is a necessary prelude to the discussion that will follow.

### 3. Institutional Changes in the Wage-Setting System: An Overview

The changes in the institutional framework of collective agreements and wage determination were gradually introduced into the existing framework. As discussed above, they were motivated by the need to align wages to productivity. One of the key changes as part of labour market reforms that affect the function and structure of collective bargaining related to the so-called ‘principle of favourability’, which was abolished. In a nutshell, the pre-crisis institutional framework suggested that sectoral/industry-wide collective agreements minima should not be set below the level set by the national minimum wage, whereas company-level agreements’ minima could not be set below that of sectoral agreements. In the case of cumulative application of different agreements (*συρροή συμβάσεων*), the one most favourable to employees would apply.

More specifically, Law 3899/2010 and then Law 4024/2011 “Regulations of Collective Bargaining” enacted the following institutional framework:

- a) the possibility of signing company-level agreements with non-trade union representative bodies termed “Associations of Persons (AoPs)” (*ενώσεις προσώπων*);
- b) the possibility of concluding company-level agreements for enterprises which employ fewer than 50 employees (which used to be covered by sectoral agreements);
- c) the suspension of the “favourability principle” (*αρχή της ευνοϊκότερης ρύθμισης*) for as long as the *Medium Term Fiscal Strategy* is in effect (i.e. until 2015),\*\* and the primacy of company-level collective agreements over sectoral agreements in the case of cumulative application;

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\*\* Article 37 (5) and (6) Law 4024/2011.



- d) the suspension of the “extension principle” (*αρχή της επεκτασιμότητας*) of coverage of sectoral and occupational collective agreements.

Due to the structure of the Greek employment relations system, wage determination was heavily dependent on the level of the national minimum wage (NMW) – which was agreed through social dialogue between the peak-level social partners – and which consequently set the basis for the level of wages that would be agreed at sectoral and occupational level. Another important feature of the system was also the inclusion of an *erga omnes* principle. The principle stipulated that a sectoral collective agreement that was signed between a trade union and employers or employers’ associations that represented at least 50%+1 of the workers in the respective sector, was applicable to all workers in the sector through a process involving the issuing of a ministerial decree. Although the law provided that the competent Minister of Labour would confirm that the aforementioned condition was satisfied, in practice the terms and conditions of almost every sectoral agreement were automatically extended to all workers in the sector.

The Troika’s policies focused on weakening these two aspects of the wage-setting system. First, it sought to reduce the grip of sectoral agreements on firms that were not members of the signatory employers’ association. Second, it sought to change the level of the NMW that “set the pattern” for the determination of wages at sectoral, occupational or company levels.

With the exception of a short lived attempt, in 2010, to disentangle the determination of wages at the company level from the ones negotiated at the sectoral level - through “special” company-level agreements<sup>††</sup> - the government eventually introduced new legislation in 2011 (Law 4024/2011), which permitted company-level collective agreements to include terms and conditions of employment less favourable than those agreed at sectoral level. Effectively, the law “froze” the *erga omnes* and *favourability* principles, and led to a collapse of the wage bargaining system manifested by the dramatic decrease of sectoral agreements and the *de facto* decentralization of bargaining. This trend is documented in Table 1.

**Table 1: The Decentralization of Collective Bargaining, 2010 – 2015.**

Year	Sectoral and occupational collective agreements	Company level collective agreements
2010	65	227
2011	38	170
2012	23	976
2013	14	409
2014	14	286

<sup>††</sup> For more details on the short-lived arrangement of the Special Operational Collective Agreement (SOCA), see Kornelakis and Voskeritsian (2014).

Source: Greek Ministry of Labour, modified from Koukiadaki & Kokkinou (2016: 212).

The changes were put in place with a view to introducing structural flexibility in the determination of wages. Although the law explicitly envisaged that the temporary suspension of these principles would have effect only for the duration of the *Medium Term Fiscal Strategy*, in practice the suspension remains very much in force.

## 4. Wage-Setting System Reforms and the Social Partners' Perspective

### 4.1. Decentralization of Collective Bargaining

The responses of the social partners to the *de facto* decentralisation of collective bargaining were variable and this section will seek to document the fault lines and hidden fractures in their perspectives. An interesting fracture was observed in the employers' camp. The views of SEV – which represents big businesses and heavy industry – and the views of ESEE and GSEVEE – which represent artisans, commercial enterprises, and small businesses, were diverging. ESEE and GSEVEE seemed to be more supportive of the sectoral collective bargaining, because of the economies of scale and transaction costs minimization and the avoidance of a “race-to-bottom” in wages and working conditions. SEV, in contrast, although supportive of sectoral collective bargaining, clearly indicated that company level agreements should take precedence over sectoral agreements:

*"We believe that the company level Collective Agreements (CAs) should prevail [i.e. over the sectoral CAs], as every business is aware of its own strengths, and knows the level of wages [it can afford]. If there is no company level [CA], then there could be coverage from a sectoral CA. In line with this rationale, we are of the view that a company level CA should be allowed to deviate from a sectoral CA when a company cannot survive or cannot follow its course." (Interviewee SEV, 29/7/2016).*

A similar position was expressed by the SETE interviewee:

*"...On the one hand I believe that the institution of the company level [CAs] should continue to exist, but in parallel with the sectoral [CAs] – we have proved that we are in favour of sectoral CAs – and [the company level CAs should] prevail over the sectoral CAs, simply because in some companies the conditions could be such that allow for better wages – and this is the case in some sectors and in some companies – as it can also be the case that special conditions may not allow this, and reduced wages may be required for the company to survive." (Interviewee SETE, 29/8/2016).*

Although the previous framework allowed a company level collective agreement to derogate from a sectoral one, this could only happen *if and only if* terms and conditions of employment of the former were more favourable than the latter's. What our interlocutors argued, however, is that such a derogation should be

permitted irrespective of the content of the company level collective agreement compared to the sectoral one (i.e. as is the case under the current framework). Interestingly enough, GSEVEE considered such an approach as deviating from European best practices:

*"The one diverging from European practices is the one who, on the one hand, wants national CAs but does not want sectoral CAs and wants company level CAs. Why is that so, though? Could it be because it [i.e. the employers' association] represents companies and not sectors?" (Interviewee GSEVEE, 4/8/2016).*

The conflicting views over the structural hierarchy of collective agreements are founded on the social partners' concerns about the survival and profitability of enterprises. Those representing sectors of the economy where very big or very flexible businesses operate are in favour of further wage flexibilization – to better reflect the labour cost demands of the specific businesses. The company level agreements, therefore, become a tool to undercut the perceived inflexibility of the sectoral agreement, as has been shown in sectoral cases such as telecommunications (Kornelakis, 2016).

In contrast, those representing very small businesses, or businesses where the ties between an employer and an employee are traditionally very strong (as is the case of commerce), favour sectoral bargaining. As our GSEVEE interviewee vividly argued:

*"A sectoral CA, which is signed by an employers' association and a [sectoral] trade union, certainly represents the sector's interests much better than an Association of Persons or a single employer could do." (Interviewee GSEVEE, 4/8/2016).*

## 4.2. New Structures of Representation

The new framework achieved a recalibration of power allocation in the employment relationship, by allowing companies to determine their employees' wages without depending on the provisions agreed at the sectoral level. However, an apparent problem concerned *the issue of representation*. Due to the structure of the Greek capitalist system (with more than 90% of companies employing fewer than 20 employees) and the legal requirement for a minimum of 21 members for the establishment of a trade union, a pragmatic complication became apparent. Up until 2011, a firm-level agreement could only be signed by either a company level trade union or a local sectoral (or occupational) union. What happened, then, in cases where such bodies did not exist or could not have existed due to the company's small size? As we saw in the previous section, to resolve this practical problem, Law 4024/2011 introduced a new potential actor in the collective bargaining process: the so-called *Association of Persons* (AoP). The AoP can be established in any company – irrespective of size – and has the power to sign a collective agreement with the company's management, as long as it represents 3/5 of the company's employees. Thus, a collective agreement can now be signed without the need to include trade unions in the process.

The AoPs are, perhaps, one of the most contested ‘innovations’ of the new regulatory framework. Although their declared *raison d’être* was to extend the reach of collective bargaining to companies in which the exercise of such a right was hitherto impossible due to their size, in reality they functioned as a Trojan Horse for a redistribution of power in the employment relationship. AoPs may have been given the power to negotiate collective agreements, but they do not enjoy any of the other rights afforded to established trade unions. Thus, they have no right to strike, their members are not protected (as trade unionists are) vis-à-vis authoritarian managerial practices, and their membership may include managers or employers (in breach of a fundamental principle of free trade unionism, whereby only employees or workers may be members of a trade union). As a consequence, they are particularly vulnerable to adversarial managerial behaviours. As our interlocutor from the Labour Inspectorate colourfully stated: “I regard [the collective agreements signed by the AoPs] as ‘self-enforcing agreements’” (Interviewee Labour Inspectorate, 25/7/2016). Our GSEE interviewee further clarified and supported this view:

*"Currently, 99.9% of the established AoPs are instruments controlled by the employers. Those participating in them are primarily business executives, managers. It is forbidden for managers and employers' representatives to participate in trade unions. In the AoPs we observe that, in most cases, the vast majority [of members] are executives [who enjoy] the employer's immediate trust. Therefore, what kind of trade union representation can we be talking about with these constructs? The employer has five executives found an AoP and they sign a custom-made CA to fit [the employer's] purposes; they then, later, impose it on the rest of the staff who may not agree with it but do not have the ability to react" (Interviewee GSEE, 30/8/2016)*

This dependency on the employer is problematic in its own right, both with regard to the quality of collective bargaining and in terms of its outcomes. The Labour Inspectorate interviewee, for instance, argued that “[t]here exist company-level collective agreements that go so far as to stipulate individualised wages for every single employee”, while there are several examples of how this institution has been *abused by employers*. Two of our interlocutors (one from the Ministry of Labour and one from the GSEE), for example, provided such an example:

*"There are hotels that during the winter months employ four to five employees, i.e. the managers. They sign a company level CA in winter, they hire fifty to sixty employees in the summer, and the CA signed by five people is imposed on the 60 and 70 [new employees]. Such abusive practices exist, but they are related to the specific deregulatory interventions that took place in recent years in collective bargaining". (Interviewee GSEE, 30/8/2016).*

In other cases, the wages agreed in such collective agreements may also be illegal, as they are below the level of the NMW:

*"We had a recent case where the company level CA that was signed [agreed on wages] that were below the NMW. As a matter of fact, this CA was submitted to the Ministry of Employment, was filed, and was uploaded on the*

*Ministry's website, and it still appears there [at the time of the interview]" (Interviewee GSEE, 30/8/2016).*

The above examples are indicative of the nature of the AoPs, which is such that effectively prohibits the conduct of free negotiations between the two parties. As the GSEE interviewee argued:

*"We have very small businesses where the employees are the weak link, because I cannot imagine how in a company of 10-15 employees, where there is an everyday interaction with the employer, [the employees] at the company level could have the power and the ability to negotiate on equal terms a company level CA". (Interviewee GSEE, 30/8/2016).*

### 4.3. Determination and Level of Wages

In addition to the issue of representation, the Troika was also concerned with *the level of the wages that could be agreed*. Law 4024/2011 stipulated that although the wages agreed in a firm-level agreement could be lower than wages agreed in a sectoral agreement, they could not fall below the level of the NMW. Although the social partners had already agreed in a freezing of the NMW in the 2010 national collective agreement (standing at €751.39 for an inexperienced unskilled worker), in 2012 the government unilaterally decided to change the process of the NMW determination. Law 4046/2012 and Act of Cabinet 6/2012 introduced the statutory regulation of the NMW, and also reduced its level by 22% for employees over the age of 25 (to €586.08), and by 32% for employees below the age of 25 (to €510.95).

As one might expect, this policy was not totally embraced by the social partners. All of the peak employers' associations argued for a return to the previous system of setting the minimum wage via free collective bargaining between representative associations. As the representative from SEV indicated:

*"The point on which we all agree is the return to the universality of the National General Collective Agreement (EGSSE), and by this we mean that the national minimum wage should be defined by the EGSSE. At the moment, this [universality] has changed with the latest legal framework; the minimum wage, if we were to set it at the national level by the EGSSE, would be applicable only to our members, whereas the national minimum wage that is applicable to all the employees in the country is defined by the decision of the Ministry of Employment. The [proposed] system by which the minimum wage will be set has not started functioning yet. We have our reservations in relation to various issues, predominantly regarding how the advisory part will be structured, because it appears that the role of the social partners will be advisory and consultative." (Interviewee SEV, 29/7/2016)*

The importance of the role of the social partners under a proposed new system appears to be a critical objection to the proposed reforms and this reflects a broad consensus across both employer representatives and trade union representatives. As the SEV representative explains further:

*“... there is an advisory/consultative body, in which the social partners participate, along with higher education institutions, the Bank of Greece, and others. We suggest that this body should be comprised only by the social partners, who are signatories to the EGSSE and no-one else, because these are the representatives of Greek entrepreneurship, on the one hand, and the employees of the country, on the other. Everyone else should be able to provide evidence and data, but should not be able to provide an opinion or advise the State so as to set minimum wages.” (Interviewee SEV, 29/7/2016)*

*“The objections that have been put forward do not concern the whole system, but the part of that which suggests that the Minister engages into consultation with all the previous institutional actors that I mentioned.” (Interviewee SEV, 29/7/2016)*

Interestingly, other employers' associations representing small and medium sized enterprises or commercial firms share this position. As the representatives from the GSEVEE and ESSE suggested:

*“The bold intervention of the state in 2012, under the pretext of [increasing] competitiveness and reducing unemployment, was mandated by the creditors and the interests of large corporations in the country. It did not bring the expected results. Besides, GSEVEE, also in their discussions with the then Prime Minister, Mr. Loukas Papademos, had categorically emphasised that it does not consent to the state intervention in [i.e. statutory regulation of] the national minimum wage and, in the words of the then President [of GSEVEE], declared to the Prime Minister, that, if the country is unable to guarantee €751, then it should formally declare bankruptcy, because in essence it is already bankrupt. We are requesting to return the wage-setting system to the social partners, taking into account the (economic) situation as it has developed.” (Interviewee GSEVEE, 4/8/2016).*

Although we will return to the question of the level of the minimum wage, the representative of ESEE has also argued along similar lines:

*“As far as the issue of free collective bargaining and the setting of the level of the minimum wage is concerned, you are very well aware of the fact that, when there was an agreement between the social partners, this agreement ended up with the competent Minister for a simple ratification. We request the restoration of this process, [we do] not [want] the setting of the level of the minimum wage by the creditors, and then the simple acceptance of this proposal by the competent Minister without the participation of the employers and employees. The EGSSE has, I believe, been based on this exact philosophy, to allow the existence of social dialogue, as it happens in most countries in Europe and even in Germany, where, as you said, there is no EGSSE, but there are sectoral agreements and free collective bargaining. I do not understand why we should not have this freedom of self-regulation of the market in our hands. I hold the view that no Minister and no government is fully aware of the real conditions of the market and is not able to make sense of them.” (Interviewee ESEE, 21/7/2016)*

Finally, the consensus in favour of returning to the previous status quo of setting minimum wages by collective bargaining is shared by the representatives of employees:

*“Firstly, we have to make an acknowledgement. Since 1990, by the voting of the Law 1876/1990 on free collective bargaining, this law has been one of the most democratic at the level of the European Union, which gives the opportunity to the social partners, either at the national level or at the industry-level or at the firm-level, to negotiate among themselves and agree the terms and conditions of work. [...] There was no problem with the implementation of this law, which was embraced by all social partners. Admittedly, there were some irregularities or abnormalities, as it may happen with the implementation of any legal framework, and we would have been open, if we were invited to a discussion on the improvement of this legal framework” (Interviewee GSEE, 30/8/2016).*

*“Now, as far as the role of the state is concerned: the state may have the role of the regulator; [setting] the rules of the game, but it cannot, however, be the actor who imposes the decisions, who intervenes for the minimum wage and will set the minimum wage. And here there is a contradiction, which is why I spoke before about ideological obsessions. On the one hand, we speak about free markets, liberal economy, for enterprises and an economy that is not subject to restrictions, and, on the other hand, we are heading towards something that is totally different from what we assert, we are heading towards the imposition of state decisions, which should have been taken by the players who are part of this game. The state is not just undertaking the role of the arbitrator, but functions as an authoritarian state by changing all the rules of the game, especially in the collective agreements. (Interviewee GSEE, 30/8/2016).*

It transpires from the interviews that there is a mistrust towards the role of the state by all social partners. This mistrust is best explained historically, as a residue of the way that ‘state corporatism’ has operated in Greece. In an unusual degree of consensus among social partners, all key actors required the minimum wages to be set freely by them without any state intervention. They justify this on the “logic of appropriateness”: they are better informed about the labour market, and thus, better placed to set the minimum wage. They are open (for instance SEV) to accept data and evidence from other actors (academics, Bank of Greece, etc.). But the bottom line is that they want to be the ones who set the minimum wage.

More broadly, there are some delicate differences in the details around minimum wages, outlined above, but all social partners seem open to improvements of the wage setting framework. Additionally, the fault lines do not fully follow the binary logic of employers being pro-reform vs. trade unions’ being anti-reform. Instead, representatives of small and medium sized firms and commerce (GSEVEE and ESEE) are more critical of the reforms than representatives of large firms (SEV).

The reaction of the social partners towards the *effectiveness* of this policy was more ambivalent than one might expect. Our discussant from the ESEE, for example, was very sceptical about the efficacy of the reduction of the NMW in boosting competitiveness and tackling unemployment. As he claimed:

*"It must be understood, as is also demonstrated by the trajectory of the changes, through very aggressive interventions in employment relations, that the result was negative, both with regard to unemployment and insofar as the competitiveness of Greek enterprises is concerned. As a matter of fact, within a year, our country dropped six places and is now in the 62nd place with regard to competitiveness, a fact that does not confirm the theory that wage reductions and employment flexibility will act to contain the level of unemployment" (Interviewee ESEE, 21/7/2016).*

A similar perception was broadly shared both by the GSEVVE and the GSEE, and by our interviewees from the Ministry of Labour who, referring to the effect of the 32% reduction in the NMW on the unemployment levels of young employees (i.e. below the age of 25), stated that:

*"It does not appear [i.e. the reduction in the NMW] to have any significant impact, especially on young employees below the age of 25, for whom a lower NMW threshold exists. Unemployment for them is high and it does not appear to have been influenced by the level of wage". (Interviewee Ministry of Labour, 29/7/2016).*

A common thread linking the employers' associations with the GSEE was their view that the current level of the NMW is quite low and needs to be increased; where they differed, however, was on the specific level that it should reach. ESEE, for instance, argued for a gradual re-instatement of the NMW to the pre-crisis levels (i.e. 751 euros), whereas GSEVVE and SEV argued that, although the NMW should be determined through tripartite collective bargaining, its precise level could not be determined in advance but should be related to the actual conditions of the market.

The decision, in 2012, to determine the NMW via statutory regulation was, as one could expect, negatively received by the social partners. Although one could attribute their reactions to the fact that this measure led to a reduction of their relative power in the industrial relations arena (since the determination of the NMW was one of their primary functions), in reality the feeling expressed during the interviews was one of resentment: by passing the determination of the NMW on to the political sphere, the social partners felt that the Troika (and, by extent, the state) did not trust their ability to effectively regulate the labour market. As our GSEE interviewee put it:

*"In 2010, in the midst of the MoU and the country's commitments, the social partners decided that the mixture of economic policy was not the one that the labour market needed and we signed the 3-year National Collective Agreement, which provided for wage increases at the level of the European inflation every year (1%). Why did we do this? Because we really wanted to send a positive message to the market and the private [sector of the] economy. We are all aware that an important part of the crisis is psychological. We wanted to send a positive message. I do not think that, taking into consideration the historical trajectory and the experience of the social partners, we are not aware of what is in the best interests of our members, be they employers or employees, and that we need somebody to impose on us*



*some things, because they believe they know better than us what is in our interest. I think that we, who move in the market, either as employees or employers, or entrepreneurs or self-employed, we know much better how to regulate this market" (Interviewee GSEE, 30/8/2016).*

The statutory regulation of the NMW was, therefore, interpreted not only as an attack on the collective autonomy of the social partners and on free collective bargaining, but also – and perhaps even more importantly – as a questioning of the social partners' position as trustworthy and responsible interlocutors in the industrial relations arena. Again, our GSEE interviewee stressed this perception very clearly:

*"In 2012, and while the National Collective Agreement that the social partners had signed in 2010 was still in force, the state steps in after pressure from the creditors, and with the 6th Ministerial Council Decree effectively annuls the agreement. The social partners, that is, have signed an agreement, they know perfectly well what they have signed and what they have negotiated, and then comes the state to tell them, without wanting to go into detail about the pressures the government was facing at that period, that they do not know what their interest is and what they sign. Therefore, with a Ministerial Council Decree [the government] deregulates, it abolishes the current framework of free collective bargaining, it also abolishes the NMW that has been agreed, and from 751 euros brings it down to 586 euros. This happened under the pretext of improving competitiveness and creating new jobs". (Interviewee GSEE, 30/8/2016).*

The issue of trust notwithstanding, the statutory determination of the NMW (and its subsequent reduction) also served the important function of indirectly reducing the level of sectoral wages. Traditionally, sectoral and occupational wage increases were linked not only to the level of the NMW but also to the specific percentage that the NMW had increased by in the latest national collective agreement. This linkage created inflationary phenomena, as some of our interlocutors admitted:

*"First of all, those who argue that there was an inflationary tendency in the [wage determination] of the sectoral agreements have a point. In Greece a bad practice existed, and we, the social partners, shared in it, according to which there was a direct link between increases in the sectoral CA and the increases that were provided in the national CA. [This practice] had the opposite result on the NMW. In other words, the NMW increased by 5%, the sectoral CA, either at the negotiations stage or at the mediation and arbitration stage, took as a base the increase in the NMW, and the negotiation started for a level above the 5% of the national collective agreement. This created an inflationary tendency. Of course, this was also a rationale shared by the employers before the crisis, who could very easily pass any increase in the NMW or the sectoral wage on to the consumer. That this was a bad practice is not something that we discovered now because of the crisis, we had already confronted it in an OMED conference in 2010". (Interviewee GSEVEE, 4/8/2016).*

A similar view was also shared by our OMED interviewee:

*"The parties were coming to OMED and, premised on the percentage [of increase] agreed in the national CA asked for additional increases through the sectoral CA. In this way an internal revaluation effectively took place, [which was] contrary to any economic logic with a hard euro. If this had not been realised in 2009 or 2010, it should have been realised in 2012 and the devaluation should have taken place ... if the NMW was following the Greek inflation it would have been around 600 euros". (Interviewee OMED, 21/7/2016).*

In contrast, the GSEE representative presented an alternative logic that linked the increases in wages to the growth of the respective sectors:

*"With regard to the inflationary tendencies, I would say that the average of the increases we were discussing during the good times was around the level of inflation; we were actually negotiating to pay the level of inflation or, in some sectors where there was growth and high productivity, there was something more in the agreement. It never exceeded the indices of the growth in productivity however. Let me remind you of the swift growth of the Greek economy from the beginning of 2000 where, for at least eight years, we had a rapid increase of the financial results of businesses and an increase in productivity rates which was very high [in comparison with] the EU [averages]. Therefore, what the employees did was to negotiate increases, under extreme difficulties and objections, with a view to receiving a part of this increase in the GDP. There was not something truly outrageous with regard to the employees". (Interviewee GSEE, 30/8/2016).*

The level of the minimum wage and the relationship between the NMW increases and productivity growth merits a thorough analysis that goes beyond the aims of this paper. Still, it is possible to attempt a brief examination of the available data with a view to gauging how this relationship has played out in the Greek context. The usual measure of the level of the minimum wage for comparative purposes is the Kaitz index, presented in Table 2.

**Table 2: Minimum wage level in selected countries (Kaitz index)**

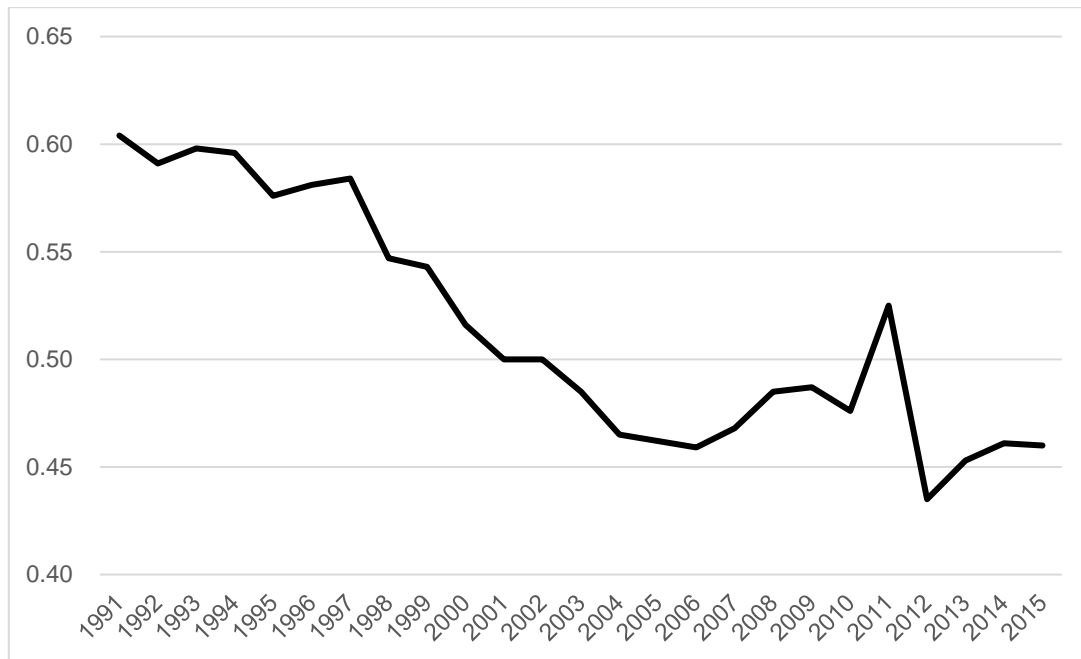
	2008	2015
Greece	0.48	0.47
France	0.63	0.62
Germany	-	0.48
Ireland	0.52	0.44
Portugal	0.49	0.57
Spain	0.39	0.37
UK	0.46	0.49

Source: OECD.Stat, available at <http://stats.oecd.org/Index.aspx> (accessed on 18/01/2017). Notes: The Kaitz index calculates the ratio of minimum wages to median earnings of full-time employees.

The Kaitz index essentially measures the “bite” of the minimum wage by calculating the ratio of the minimum to the median (or average) wage. A relatively high minimum wage can be observed in France, while a relatively low one is observed in Spain. Greece is somewhere in the middle of the ranking, both in 2008 and in 2015, with a bite of the minimum similar to that in Germany and the UK. The large decline in the minimum wage in the post-2012 period is not reflected in the data presented due to, first, a sharp increase in the Kaitz index during 2010-2011, and, second, the equally significant (but more gradual) decline in the median wage.

This evolution is shown in Figure 1, along with a longer-term decline in the Kaitz index since the beginning of the ‘90s, resulting from the wage moderation exhibited by the social partners negotiating the national collective agreement.

**Figure 1 The evolution of the minimum wage in Greece (Kaitz index)**



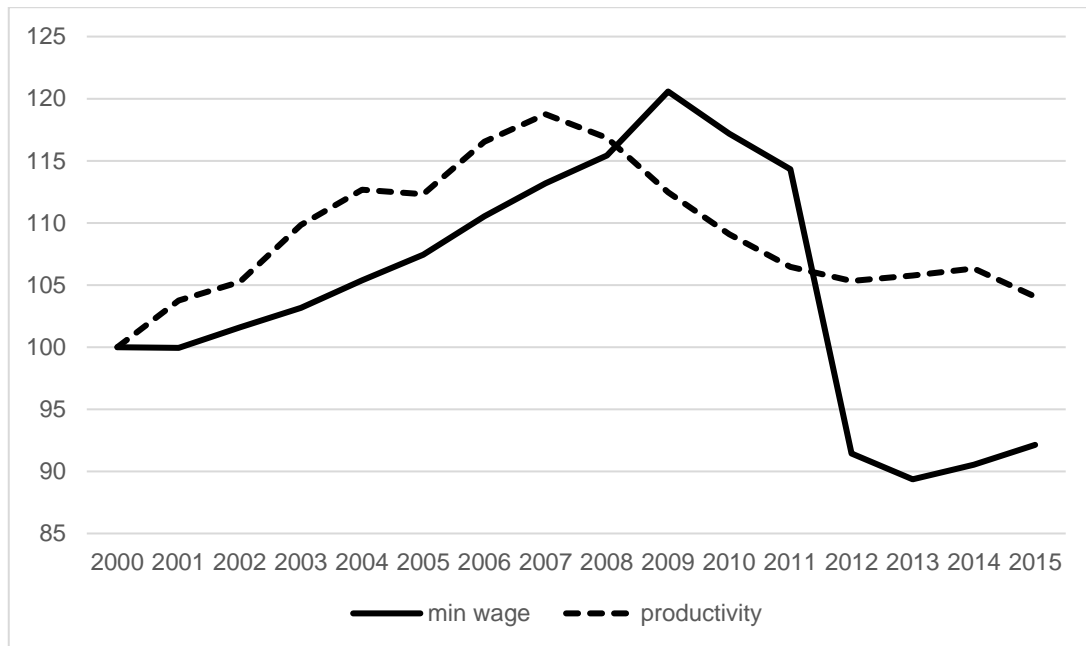
Source: OECD.Stat, available at <http://stats.oecd.org/Index.aspx> (accessed on 18/01/2017). Notes: The Kaitz index here is the ratio of minimum wages to median earnings of full-time employees.

This moderation is also evident in Figure 2. The real value of the minimum wage since 2000 is plotted there alongside the contemporaneous evolution in the level of productivity. Up to 2007, we can observe relatively lower increases in the real minimum wage relative to the growth in productivity.<sup>††</sup> Obviously, the social partners adopted a cautious approach to minimum wage setting, avoiding “excessive” increases. In contrast, some apparent “rigidity” in the system is evident during the years 2008-2010, in a period when productivity was declining rapidly while the minimum wage remained relatively stable.

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<sup>††</sup> Extending the calculations back to the ‘90s (not shown in Figure 2) also reveals that, while productivity grew by 13 per cent during that decade, the real value of the annual minimum earnings remained stable.

**Figure 2 Real minimum wages and productivity in Greece (2000=100)**



Source: Real minimum wage from OECD.Stat, available at <http://stats.oecd.org/Index.aspx> (accessed on 13/10/2016); productivity from AMECO database (series RVGDE), available at [http://ec.europa.eu/economy\\_finance/ameco/user/serie/SelectSerie.cfm](http://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm) (accessed on 13/10/2016). Notes: 2000=100; “Real minimum wage” is the annual minimum wage of full-time employees in 2014 constant prices at 2014 US dollar PPPs. “Productivity” is real GDP per person employed.

Hence, the increases in the real value of the minimum wage in Greece were in general (apart from the 2008-2010 period) in line with productivity growth. Moreover, the bite of the minimum wage cannot be considered restrictive by European standards.

However, the Troika’s argument was different. The rationale for internal devaluation was the gradual decline in Greece’s competitiveness during its era of membership in the Economic and Monetary Union (EMU). This decline was the result of excessive *nominal* wage increases that far outpaced productivity growth and led to an increase in unit labour costs (see Theodoropoulou, 2016). The *real* wage moderation revealed by the Figures above can be consistent with a decline in competitiveness as measured by the unit labour costs and probably explains the differing views among the social partners.

It must be apparent from the above discussion that there are more than one ways to interpret wage increases and their relationship to competitiveness. There may be different policy conclusions depending on the measures that one looks (e.g. unit labour costs), whereas the relationship between labour market institutions and competitiveness represents a ‘contested terrain’.

Notwithstanding, the changes in the collective bargaining regulatory framework opened up the way for a steep decline in wages as a company was effectively free

– at least in theory – to reduce its employees' wages to the level of the (now greatly reduced) NMW without being restrained by any sectoral or occupational collective agreements. This could be achieved either by signing a firm-level agreement with the company trade union or the AoP or by unilaterally deciding to proceed as such (i.e. without collective bargaining).

#### 4.4. Employment Relations and the Greek Model of Production in

##### Recession

A common position shared by almost all of our interviewees was their staunch disagreement with many of the policies that were introduced in the preceding years. In their view, the deregulation of employment relations, combined with the harsh economic environment, has led to more problems than the ones it originally set out to resolve. As our GSEVEE interviewee argued:

*"The businesses have cumulatively lost, during the crisis, about 70-75% of their turnover. The biggest problem is unemployment, when almost 1.5 million of our fellow citizens are not employed, according to official data. In our view, this number is well above 1.5 million as, for example, merchants and craftsmen and their family members who assist them, companies that have shut down during the crisis – and according to data from the European Commission they are around 250.000 - are not registered anywhere. The country's competitiveness was not helped by the reduction of the NMW. Greece, during the crisis years, lost, if I am not mistaken, about four places in global competitiveness. Let me remind you that in October 2011 unemployment in Greece was 19.1%. Despite the interference with the NMW, unemployment exploded to 27%, it now stands at 25%. Of course, the flexible forms of employment and the seasonality of various occupations, as in the tourism sector, contributed to this reduction." (Interviewee GSEVEE, 4/8/2016)*

Our ESEE and GSEE interlocutors painted a similar picture, with slight modifications. In their view, the mixture of economic policies that were imposed on Greece further reinforced the vicious circle of economic decline. A case in point was the level of taxation and of non-wage costs that were deemed too high to be shouldered by small and medium enterprises. Yet, as the GSEE interviewee argued:

*"I think that the problem is neither taxation nor social security contributions. The problem is that the turnover of businesses has significantly, dramatically I would say, shrunk. And since the turnover has been dramatically reduced everything is to blame. I would say that, even if a very generous provision was introduced that halved employers' social security contributions or stipulated that for the following two years, because of the crisis, no employer would pay social security contributions, the companies would still be unable to cope, there would still be issues, flexible employment would still exist, exploitation would still exist". (Interviewee GSEE, 30/8/2016).*

The question of the country's model of production and growth strategy emerged again and again in our discussions, pointing to the fact that the social partners were well aware of both the structural problems of the Greek economy and the need to address them collectively. Again, the GSEE interviewee was adamant about the need for a tripartite social dialogue that could set the bases for rebooting the economy:

*"[t]he problem is not to regulate or deregulate free collective bargaining and suddenly, if we regulate or deregulate [collective bargaining], the private sector will start to function. We need to leave these issues a bit further behind, because we deal with them for 6 years now, and we have not sat down to consider how we can plan growth strategies together, which is what is needed, which will generate new jobs, which will increase businesses' revenues and the GDP, to envisage a different philosophy with a different strategy. We have not discussed this, we did not have the time, because all the time we are focusing on what we can deregulate." (Interviewee GSEE, 30/8/2016).*

This is not to say that the system of industrial relations, as it functioned prior to 2010, was flawless or in no need of fine-tuning. On the contrary, as was evident from the above discussions, the social partners had contrasting views regarding the functionality of several aspects of the system (such as the hierarchy of collective agreements, or the level of the NMW). However, almost all seemed to concur with two points: first, that the changes introduced in the employment relations system were not properly linked to a wider policy of economic rejuvenation and, second, that the drafting of any such policies (regarding both the production and the employment relations model of Greece) should have involved the social partners in one way or another. The external imposition of such policies by the Troika, with no proper social dialogue and without taking into consideration the experience and expertise of the social partners, resulted, according to our interviewees' assessment, in adverse economic and social consequences. The underlying message that came out of all our discussions was that, if the country is to get back on a path of economic development, then the productive classes responsible for this should have the ability to engage into proper social dialogue and have the opportunity to decide among themselves the appropriate policy mixture. Trust, in this respect, is of the essence.

## 5. Conclusion

The recent Eurozone crisis radically changed the approach adopted by the EU towards labour market reforms. Strictly speaking, national labour market frameworks remain a competence of the member-states. However, in recent years, as part of the process of the European Semester, the EU has been more active towards close monitoring of the implementation of structural reforms in the labour market, through National Reform Programmes (NRPs) and Country Specific Recommendations (CSRs). The general direction of travel has been one

towards decentralizing collective bargaining to improve the link between labour costs and productivity.

Our review of relevant research suggests that the effects of alternative structures of collective bargaining on employment performance and competitiveness are unclear, and the studies are overall inconclusive. Academic economists are quite cautious in the policy interpretation of their results, while trust among social partners appears to be just as important in bringing about macro flexibility at the structure of collective bargaining.

In this policy context, the paper sought to delve deeper into the responses and perspectives of the social partners on the enforced changes in the regulation of collective bargaining. This analysis revealed some of the hidden fractures and fault lines between and within social partners.

As far as collective bargaining centralization and decentralization are concerned, there is a variety of perspectives reflecting a “cherry-picking” approach with different actors giving primacy to different levels of collective bargaining. For instance, SEV was more favourable towards company-level agreements, with a complementary role envisaged for sectoral agreements. On the other side, GSEE was in favour of sectoral and occupational agreements with a complementary role for company-level agreements. On the area of representation, the Association of Persons (AoPs) is one of the most controversial ‘innovations’ of the new regulatory framework. Although their rationale was to extend the reach of collective bargaining to small companies, in reality the AoPs seem to have functioned as a Trojan horse to drive decentralization of wage bargaining and internal devaluation. The trade unions’ side highlighted the fact that these structures appear to be predominantly employer-controlled.

With regard to the setting of the national minimum wage, there appears to be consensus among actors. All of them support the return to the previous institutional framework and setting of the NMW by a national general collective agreement (EGSEE). The social partners, however, provided different perspectives when attempting to explain excessive wage increases in the past.

The employers’ organizations argued that the previous system might have led to some inflationary pressures, whereas the trade union side suggested that the increases always followed inflation and productivity increases. The picture emerging from the data, suggests that real minimum wage increases were in line with productivity and prices up until 2009, and there is only a two-year period during which said increases were above productivity and inflation. However, the real wage moderation revealed by our data can be consistent with a decline in competitiveness as measured by the unit labour costs (that are calculated based on nominal wages) and probably explains the differing views among the social partners.

Finally, all social partners highlighted the importance of overcoming the recession and modernizing the model of production in Greece, emphasizing that some of the



key problems are not resolved by structural reforms and downward wage adjustment.

To conclude, the analysis suggests that the fault lines between and within social partners have been more nuanced and complex than expected. The employers' side was not wholeheartedly in favour of the imposed market-friendly and pro-business reforms. Vice versa, the trade unions' side was not straightforwardly against any change or against a potential recalibration of the system, and accepted that there were dysfunctional components in the previous system.

Two additional key themes transpired from this exploration: first, a distrust towards the state, and second, scepticism towards technocratic solutions. On the one hand, the social actors were not really confident that the state would best serve the interests of their members. For instance, all social partners agreed on the need to return to the previous system. They insisted that they have the best knowledge of labour market conditions to determine minimum wages, so this should fall within their remit.

Scepticism towards technocracy was also evident in the discourse of the key actors. Although there was no 'shared understanding' of key actors with regard to the overall shape of the wage bargaining system and its distinctive features, the common thread is that none of the social partners fully supported the current direction of institutional change in the wage-setting system.

Overall, the paper highlighted some of the contradictions of the recent policy reforms in wage setting. Although the institutional changes were supposed to be carried out in the spirit of social partnership (following on from EU best practices) the fact of the matter was that there was little consultation in the process and eventually the institutional changes were imposed on the basis of typical financial conditionality.

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