

# Unemployment in Greece: trends and main causes

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## Abstract

The trend of unemployment in Greece over the last three decades has been similar to other European countries. While this was not a problem before the first oil crisis, its rate accelerated after this point. This article explores the main causes of high unemployment in Greece such as the link of the educational system with the needs of the labour market, the flexibility of the labour market as well as the efficiency of the labour market policies applied so far. The examination of these institutional factors and their impact in unemployment lead us to conclude that a large part of the unemployment in Greece is due to structural reasons, and, therefore, microeconomic policies are needed in order to tackle it.

JLE classification: J6, J64

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## 1. Introduction

Until the beginning of the 1970s, unemployment was not a problem for most economies. Since then, in combination with the two oil crises, its trend showed a dramatic increase almost in all EU economies as well as the in the US and Japan. However, the highest increase was in Europe, where in the last

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fifteen years its percentage is around 10%. Studying the trend of unemployment in OECD countries, the below stylised facts can be established (OECD 1994, Layard et al. 1991, Adnett 1996):

1. Unemployment fluctuates over the business cycle and between cycles, but over the very long run it is un-trended.
2. Unemployment changes by small amounts most of the time; unemployment rates have a high degree of positive serial correlation.
3. Unemployment rates differ in a large degree between countries.
4. The profile and the duration of unemployment differ widely between developed economies.
5. Unemployment rates vary widely between age groups, skill groups, regions, and races.

Although the trend of unemployment is similar in the largest economies of the world (Europe, Japan, US), its causes differ not only between these economies but also among the countries of Europe. Two are the main theories trying to explain unemployment: neoclassical and Keynesian. The former explains unemployment in terms of institutional restrictions on the operation of the labour market. The latter suggests that unemployment is a result of inefficient demand. In other words, neoclassical theory suggests that unemployment is voluntary and therefore microeconomic policies are needed to tackle it whereas Keynesian theory regards unemployment as involuntary and therefore it is macroeconomic policies are needed to adjust levels of aggregate demand.

## **2. The causes of unemployment**

The causes of unemployment have been studied by many academics; however, a universally accepted cause does not exist. Many researchers suggest that the rise in unemployment is due to the rise in the natural rate of return. Paul Grugman (1994) argues that the role of technology (skill based technological change), which has increased the demand for highly skilled workers and at the same time decreased the demand for low skilled, is important. The impact of this, he continues, is different

in Europe and in US. In the US, that the market operates freely and this has led to increased inequality as workers with obsolete skills have to reduce their wages in order to find employment. On the other hand, in Europe, where benefit systems are more generous, individuals with redundant skills do not agree to work for lower wages and therefore because of the employment benefits they find unemployment attractive. However, many are the critics of this idea. We now turn to the existence of unemployment in Greece.

### **3. Unemployment in Greece**

Before the first oil crisis, the Greek economy was one of the fastest growing economies of the world while the reported unemployment rates were particularly low. After 1974, the rate of growth showed down and at the same time unemployment elevated very fast. However, this drastic increase as well as the low levels of unemployment before 1980 should be treated with caution since at that point the official way of calculating unemployment changed and as a result the real rates of unemployment were reported (Katsanevas 1986). In the beginning of 1990 its rates increased further to the European average. The situation remains the same today. In particular, in 2003, unemployment was 9.3% comparing to the European average of 8.1% (European Commission 2004).

Studying the Greek labour market, the high rates of unemployment can be attributed to the following:

#### ***3.1 The demand for individuals with high qualifications does not match with the supply***

This phenomenon can be easily observed if one considers the fact that the level of unemployment of people holding masters or PhDs is higher than people with basic education. The high rates of unemployment among white collar workers, which is contrary to most OECD countries (2000), has been highlighted as a major bottleneck by several research centers and organizations such as the Employment Observatory of Greece (2003), the

National Statistical Service of Greece (ESYE) (2003), the European Commission (2003) and Cedefop (2003). This phenomenon not only exists but also seems to have an upward trend. Indeed, European Commission in the study «European education production functions» points out that Greece is the only country (among 18 developed countries that were examined in the study) that unemployment for graduates is rising every year (by 2%). Furthermore, Cedefop comments that until 2010, the demand for upper secondary education graduates in Greece is expected to rise more than for university graduates<sup>1</sup>. Research by the National Statistical Service of Greece (2003) points to a similar conclusion. Particularly, it highlights the fact that university graduates face higher risk of unemployment than secondary school graduates, while also being expected to remain unemployed for longer before they find a job. Specifically, it is reported that the average time for a graduate to find a job is expected to be three and a half years.

The main reasons of this phenomenon are two. The first is the weak link between the educational system and the labour market (Katsanevas 2002). Consequently, the supply of labour cannot meet the demand, and, as a result, unemployment of «structural» type arises. The Center of Planning and Economic Research (KEPE), in trying to assess the reason that accounts for the difficulties of young people to find a job in the labour market after graduation from the university, suggests that it is due to the orientation of the educational system towards the public sector (2003). In other words, the main function of the educational system is to prepare employees for the public sector such as teachers, bank clerks, public administrators etc. while at the same time the public sector is shrinking (Karadinos 2000). Particularly, as KEPE (2003) points out, the public sector is trying to reduce its employees, especially those in public administration, and, as a result hires less than those who are retired. Therefore, the public sector has stopped being a safety net against unemployment of graduates and to draw on the words of the National Institute of Labour (EIE) «the public sector has abandoned its role as a major employer of AEI graduates» (2002:

173). A result of the above is that every year the applications for the public sector outnumber the available places. The inelasticity of the educational system to the needs of the labour market has been one of the main points that the European Commission makes almost every time the Greek labour market is examined. For instance, in one of the latest reports that was produced for the European Commission by the *ex-prime minister* of Holland, Wim Kok, and his colleagues, it is reported that Greek education systematically insists on not taking into account the needs of the labour market and keeps producing unemployed holders of degrees and not people that hold qualifications relevant to the needs of the labour market (European Commission 2003, see also European Commission 1996, OECD 1997).

A second reason that accounts for the high percentages of unemployment among graduates is the general trend that Greeks have for further education. George Psacharopoulos (2003) in his book called «Greek Education: a Modern Tragedy» points out that Greece has perhaps the highest ratio per population in the world of students studying abroad (See also Psacharopoulos 1990). This phenomenon has been addressed by many researchers of different disciplines (Nassiakou 1981, Tsoukalas 1981, Psacharopoulos and Soumelis 1979, Psacharopoulos 1991) where it has been suggested to derive mainly from an «unrealistic» high expectation for the rates of return of education (Lambropoulos 1992), which, because of the increasing supply of graduates, has been diminishing for the last two decades<sup>2</sup> (Magoula and Psacharopoulos 1999, Kanellopoulos 1997, Glytsos 1990). The same author in another article<sup>3</sup> suggests that the problem is not only the structure of the educational system but the fact that education is free. So, as the direct price is low, individuals choose their studies according to their status and not according to their employment perspectives. Thus, individuals will decide to study law or medicine as such studies apart from their low cost are considered to be prestigious and the expectation of the future income is high. This, he continues, will happen even if they face high risk of unemployment after graduation or if they have to go abroad in order to study even in spite of having

to spend a lot of money. The situation described above serves to reflect the persistent intention of students and their families towards higher education (Psacharopoulos and Lampropoulos 1992, Kanellopoulos and Psacharopoulos 1997).

### ***3.2 The failure of Active Labour Market Policies***

The role of the Active Labour Market Policies (ALMP) in dealing with high rates of unemployment is crucial as it neither seems to provide efficient matching between the existing vacancies and job seekers nor does it provide well-designed training programs for the unemployed. In addition, the spending by the government on these is relatively low compared to other countries. The organization responsible for the matching of vacancies and job seekers is the Manpower Organization of Greece (OAED). However, its efficiency is quite limited and, consequently, efficient matching cannot be made whereas a rise in «frictional unemployment» is caused. An older study of the European Commission suggests that the role of public employment services in Greece is very limited and that it has actually been reduced since 1980. A more recent study that was conducted during the period 1999-2001 by the INE-GSEE for the European international program TSER finds out that only 6% of new unemployed and 14.4% of the total unemployed finds a job using the OAED services<sup>4</sup>. The reason for this is twofold. On the one hand, individuals rarely search for a job through the services of OAED (Sabethy 2000) as they usually rely on informal channels of information while searching for jobs, mainly through personnel contacts (in the study of INE-GSSE mentioned above, 49,3% found employment through personal contacts such as family and friends while 73% of the new unemployed state that they refer to their contacts as a searching method) whereas on the other hand the services of OAED seem not to be reliable. As far as the latter is concerned, the European Commission (2003) suggests that it is due to the lack of adequate personnel to provide quality services to the job seekers. However, the fact that employment services is not a monopoly of the public sector any more may have a positive

impact on the quality of services they provide, something that according to a study of European Commission has happened in other European countries<sup>5</sup>. Furthermore, Greece's spending in Active Labour Market Policies (ALMP's) is far less compared to other countries. To illustrate, OECD in the latest Employment Outlook (2003) ranks Greece in the last place concerning the amount spent in ALMP. Particularly low is the spending on employment subsidies, which, as earlier studies have shown, has beneficial effect in unemployment (Apostolakis and Bobby 1987). However, the training systems for the unemployed do not link to the actual needs of the labour market whereas their efficiency is not recorded and their design is supply, and not demand, oriented (INE GSEE 2001). It is worth noting that in the research of INE GSEE mentioned above, only 9,2% of the unemployed who attended an OAED course of training found employment afterwards. As far as the unemployment benefits are concerned, they are considerably low (Sabethy 2000) and thus the hypothesis that high unemployment benefits raise the level of unemployment (Nickel 1999) is not the case for Greece.

### ***3.3 High legal protection and the non wage cost of employees***

A third reason that accounts for the high rates of unemployment in the labour market is the high legal protection that the already employed workers have, which makes it even harder for young people to find a job (Layard, Nickell and Jackman 1991). In other words, employed people face high protection and, therefore, new entrants have to stay longer in unemployment before they find a job (ibid). This seems to be the case in Greece, as there is high protection of employees. It is rather difficult to fire personnel while hiring new employees has relatively high cost (KEPE 2003). Indeed, Van de Velden and Wolbers (2001), comparing the degree of the employment protection<sup>6</sup> among European countries, rank Greece in the second place after Portugal. In addition, the employment prospects of young entrants are impacted by the combination of the high non-wage cost and the low level of low wages in Greece (Sabethy 2000).

### ***3.4 The inflexibility of the labour market***

The Greek labour market can be characterised as rather inflexible and highly regulated compared to other EU countries (Bentolila and Saint-Paul 1992, Emerson 1988), although during the last few years some changes have been made towards more flexible practices. However, hiring and firing practices, protective rules, and collective or individual dismissals are heavily regulated and thus it could be suggested that employment has not risen as fast as in less regulated countries (Crouch et al. 1999) whereas the sluggishness described above seems to be leading in the rise of unemployment (Milas 2000). The Employment Observatory of Greece (2003), analysing data taken from European Commission and OECD, points out that Greece has the lowest percentage of part time employment (4% in 2001) in Europe. This is mainly because employees' organizations consider part time work to be downgrading of employment and they reckon that its expansion in Greece is doubtful because of the low income it offers. Furthermore, the same study suggests the percentage of Greek employees staying in the same enterprise for long periods are among the highest in Europe (ibid). However, evidence suggests that there is a turn of the enterprises towards more flexible working practices (Kufidu and Mihal 1999). A research conducted by INE-GSEE suggests that during the 2003, 55% of all enterprise hirings concerned flexible work. The same research suggests that 86% of all employees have regular employment while 15,5% work for temporary employment; part time employment is 4,7%, which consists of 2,9% in regular and 1,8% in temporary employment whereas practices such as tele-working or the lending of employees are still not popular (1,1% and 0,3% respectively). As far as the public sector is concerned, it is worth mentioning that the first hiring of part time workers ever were made in the beginning of 2004<sup>7</sup>. Similar results have been confirmed by ESYE (2003), the Athens Business School (Papalexandris 2000), and the European Commission (2000). The conclusion to be drawn of the above is that there is an obvious trend towards more flexible practices whereas the degree of inflexibility of the Greek Labour Market is usually overestimated (Sabethy 2000).

### **3.5 The role of immigrants**

Although European Commission sees immigrants' participation in the workforce, and especially in the primary sector, as a problem that Greek labour market faces<sup>8</sup>, the empirical evidence suggest that their impact in the labour market is rather beneficial. To illustrate, the Ministry of Labour in the 2003 National Action Plan for Employment suggests that immigrants are good news for the Greek economy as a whole where it characterises them as «hidden source of power». The work of Kasimis et al. (2002) suggests that in rural areas, immigrants not only do not cause problems but also provide solutions to the problems that local economies are facing. Particularly, their participation in the labour force-fills the need for working hands as locals do not want to work in the fields. Consequently, Greeks are less involved in manual labour and instead can allocate the time for a better organization of their business. Many of the farmers and cattle raisers suggest that if it was not for the immigrants they could not probably keep their business; which highlights the positive impact of immigrants in the local economies as a whole. Similarly, the Labour Institute in the latest Employment and Economic Outlook (2003) points out that immigration covers the needs of the labour market for cheap labour while its demand is suggested to be continuous.

### **4. Conclusion**

Studying the Greek labour market we find that the high levels of unemployment are, to a certain extent, due to institutional factors. In particular, the trend of individuals for higher education and the orientation of the educational system towards the needs of the public sector have increased scientifically the supply of graduates, which has, in turn, outnumbered the demand. This has led to high levels of unemployment among graduates. Other important factors that contribute to the high level of unemployment are the high employment protection and non-wage cost of employees that discourages employers from hiring new employees. In addition, the active labour market policies of the governments

do not seem able to reduce the level of unemployment. Finally, immigrants do not seem to have a negative impact on employment whereas in some cases their effect is desirable. The key point of the above discussion is that unemployment in Greece is to a large extent structural and therefore microeconomic policies are needed in addition to other macroeconomic measures in order to tackle it.

## Notes

1. Kathimerini 12/1/2003.
2. In contrast, for the 60's when the number of graduates was less, the returns to education were higher for tertiary education than were for secondary (Kanellopoulos 1980).
3. Oikonomikos Taxidromos 23/11/2003.
4. Kathimerini 29/11/02.
5. Kathimerini 29/11/02.
6. Employment protection was measured by the overall strictness of employment protection legislation (EPL) in each country, as published in OECD Employment Outlook 1999 and refers to both regular and temporary employment.
7. Ta Nea 7/10/2003.
8. Ta Nea 24/20/2003.

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