

Incentives for indefinite employment

Statements and Comments

Dimitris Karantinos

National Centre for Social Research (EKKE)

1. Temporary employment in Greece

In Greece, temporary employment-i.e. employment with a fixed term contract fluctuates around the level of EU average. In 2005, this form of employment affected 9.8% of all employees, 9% of all male and 10.8% of all female employees. In addition to those working with a fixed term contract of employment on a full time base, 2.3% of all employees (1.2% of males and 3.9% of all female employees) worked as part-timers under a fixed term contract²⁰.

The overwhelming majority of those working under fixed term contracts do so involuntarily rather than out of choice. Of the 9.8% of all employees working temporarily, 7% (6.5% of males and 7.8% of females) stated that they were so employed because they could not find a permanent job. In contrast, those under a fixed term contract out of choice constituted a small minority (0.3% for both sexes). Those undergoing education or training and those under a probationary period complete the picture with small shares (0.7% and 0.4% respectively).

In terms of age, the incidence of temporary work starts at high levels (for those in the 15-19 age cohort) and remains substantial in the next age group (20-29 years of age), declining monotonically thereafter²¹. This age pattern indicates that temporary employment is often used by young persons as a route out of unemployment and as a first step towards securing open ended employment.

The share of temporary employment is thought to be high in the service sector, where this form of employment is associated with tourism (hotels and restaurants), as well as in industry and especially in the processing of agricultural products (seasonal employment). The public sector also employs persons under fixed term in large numbers.

The evolution of temporary employment over the last ten years is shown in Diagram 1. As can be seen from the Diagram, the number of those under fixed term contracts increased noticeably during the second half of the nineties, remaining above the 300 thousand mark ever since. In accounting for the developments in the level of fixed term employment over the last ten years, three factors appear to be of importance:

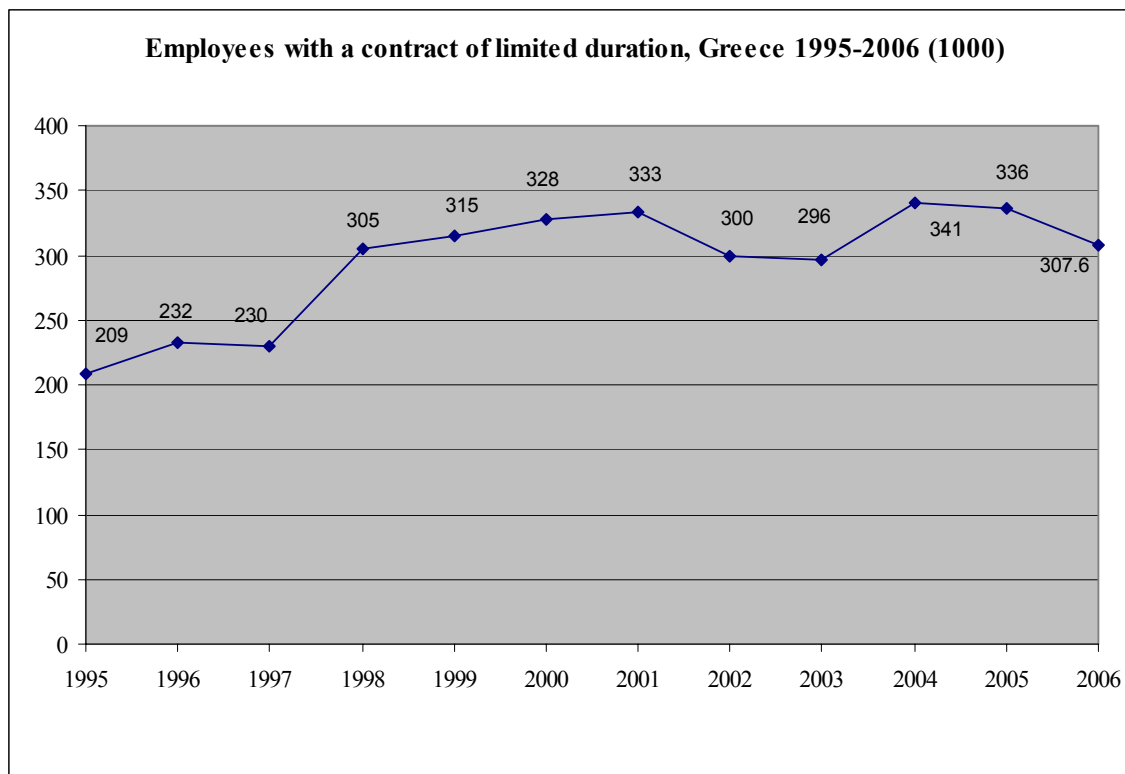
First, the need to strengthen public administration structures in order to manage the structural funds that Greece received through the second and third Community Support Frameworks (1994-99 and 2000-06, respectively). This factor has tended to shift upwards the level of fixed term

²⁰ Source: Eurostat, 2006 Compendium

http://ec.europa.eu/employment_social/employment_strategy/doc/indic_en.htm

²¹ In 2000, roughly 40% of persons working under a fixed term contract were 15-19 years of age, while another 20% of the total belonged to the 20-29 years of age category. See, Eurostat, Statistics in Focus, Theme 3-13/2002, At the margins of the labour market? Women and men in temporary jobs in Europe.

employees in the public sector and is, to some extent responsible for the longer term increase in their numbers.



Source: Eurostat

Second, the electoral cycle that also has tended to inflate the number of fixed term contracts in the public sector. It is commonly acknowledged in Greece that hiring under fixed term in the public sector increases markedly during elections. The figures of Diagram 1 offer support to this hypothesis, as all pre election years during the time period under consideration (1995, 1999 and 2003) have been associated with increases in the number of fixed term contracts.

Third, changes in the legislative framework surrounding fixed term contracts. In contrast with the two preceding factors, changes in the legislation have generally tended to reduce the number of fixed term contracts, by allowing the conversion of some of these contracts to open ended ones. Given that legislative arrangements appear to be the Greek route towards limiting the number of temporary employees, it is worth describing them in more detail.

Up until the late nineties, the Greek institutional framework surrounding fixed term contracts was fragmentary, not integrated into a common set of provisions and often relied on case-by-case decisions of the court (case law). Fears were also expressed frequently around that time, that because of the gaps in legislation, temporary workers were often discriminated against in terms of pay, working time and working conditions. The issuing of the EC fixed term work Directive (Community Directive 99/70/EC) caught the interest of both the trade unions and the government, because of its implications on domestic law. Community Directive 99/70/EC contained a Clause (Clause 5), according to which member states were asked to introduce one or more of the following measures: provision of objective reasons justifying the renewal of fixed term contracts; specification of a maximum duration of successive fixed term contracts; specification of the number of renewals of such contracts.

According to some experts on Labour law, the Greek government of that time appeared unwilling to incorporate the Community Directive into Greek law, because of financial constraints²². As the Directive was to be applied indiscriminately to both the private and the public sector, the transformation of fixed term contracts to open ended ones in the public sector, would have resulted in a considerable financial burden for the state budget.

The issue received prominence among trade union demands, and on July 2002 a nationwide rally was held by the Greek General Confederation of Labour (GSEE), demanding permanent employment for all workers with fixed term contracts as well as immediate implementation of the Community Directive²³.

Eventually the Community Directive was transposed on Greek law, through Presidential Degree 81/2003, issued in April 2003 and only after the official deadline for the incorporation had expired. The transposition however has not been without problems and indeed steered up a lot of controversy among labour law experts.

According to an opinion on the issue delivered by the Greek Economic and Social Council (OKE), although the Presidential Degree was found to be fully in line with the letter and the spirit of Directive 1999/70/EC as regards the principle of non-discrimination between fixed term and open ended contracts, it has failed to introduce a framework for preventing abuse caused by the use of successive fixed term contracts (Clause 5 of the Directive)²⁴. In addition, the Presidential Degree introduced extensive exceptions to the prohibition of limitless renewals of fixed term contracts, without adequate justification.

Following the issuance of Presidential Degree 81/2003, the Commission gave the Greek government a formal notice (in accordance with Article 226 of the Treaty) for failing to prevent the abuse in the use of successive fixed term contracts in the public sector (Clause 5 of the Directive)²⁵. Meanwhile, a number of persons working under fixed term contracts in the public sector appeared in courts at that time and succeeded in converting their contracts to open ended ones, with court decisions based on the direct application of the Community Directive.

In order to fully harmonize Community Directive 99/70 with domestic law, the government issued on August 2004 two new Presidential Degrees, PD 180/2004 on 'Regulations for fixed term contract workers in the private sector' and PD 164/2004 on 'Regulations for fixed term contract workers in the public sector'.

PD 164/2004 has attempted to prohibit the unrestricted conclusion of fixed term contracts in the public sector and has laid down criteria and conditions for hiring fixed term contract workers on an open ended basis, by automatically converting their fixed term contracts into open ended ones. The Confederation of Public Servants (ADEDY) has hailed the PD for filling a gap in the Greek legislation and for allowing a large number of workers in the broader public sector to secure permanent positions.

²² See, Yannakourou S., 2005, 'The evolution of Labour Law in Greece' in European Commission, 2005, *The Evolution of Labour Law 1992-2003*, Volume 2, Luxembourg.

²³ EIRO, GR 0207101NEL.DOC
<http://www.eiro.eurofound.eu.int/2002/07/inbrief/gr0207101n.html>

²⁴ OKE, Opinion No 81
<http://www.oke.gr/greek/page4.htm>

²⁵ See, Yannakourou S., 2005, 'The evolution of Labour Law in Greece' in European Commission, 2005, *The Evolution of Labour Law 1992-2003*, Volume 2, Luxembourg.

PD 180/2004 has abolished the exemptions that prevented certain categories of workers from converting fixed term contracts to open ended ones, and has restricted the previous precondition of objective reasons for the renewal of fixed term contracts. The General Confederation of Greek Labour (GSEE) has welcomed the new regulation as an improvement in relation to previous arrangements. At the same time, GSEE has expressed reservations on account that a large number of fixed term contract workers will remain unaffected by the provisions.

To sum up, temporary employment never acquired huge proportions in Greece. Most of the use of fixed term contracts in the private sector is associated with seasonality of employment in certain activities and notably in tourism. As a notable exception the number of fixed term contracts increased in the public sector during the last ten years or so. The existence of a plethora of workers with successive fixed term contracts in the broader public sector (bodies under public law and local government authorities) has brought about a major social, political as well as legal dispute. The issue has been partially resolved through the transposition of Community Directive 1999/70 into the domestic law, which enabled a large segment of fixed term workers to secure permanent positions. As a result of this legislative change, the number of fixed term workers has declined somewhat during the last two years.

2. Potential transferability

In comparing the Spanish and Greek policy frameworks and current labour market trends, certain similarities and dissimilarities become easily noticeable.

'Typical' employment (open ended and full time) continues to be the dominant form of employment in Greece. Employment under fixed term contracts fluctuates around the EU average, but part-time employment is at very low levels (2.1% of all employees in 2005, in relation to 15.2% in EU 25). Successive governments have taken measures to promote part-time employment, but these measures have been largely unsuccessful.

As regards the targets of the European Employment Strategy, in 2005 the overall employment rate in Greece lagged behind EU average by 3.7 percentage points (60.1 per cent compared to 63.8 per cent). The parity was exclusively due to low female employment rates (46.1 per cent in relation to 56.3 per cent). In contrast, the employment rate of males exceeded the equivalent for EU by almost three percentage points (74.2 per cent compared to 71.3 per cent). Unemployment on the other hand, affected 9.8 per cent of the labour force (2005), with women facing much higher rates (15.3 per cent) than men (6.1 per cent). Compared to EU, overall unemployment in Greece is higher than the EU average (8.7 per cent), male unemployment is well below EU average (7.9 per cent) and female unemployment is far above average (9.8 per cent). Labour market developments have been clearly positive over the last two years. Employment has been steadily rising and unemployment steadily falling. According to all existing evidence, the favourable trends are likely to continue. Judging by these developments, Greece appears to be well on course to meet the targets set in the NRP 2005-2008 and achieve an overall employment rate of 64.1 per cent in 2010, with a corresponding overall unemployment rate of 7.3 per cent.

In brief, the main problems of the Spanish labour market relate to 'not enough jobs' and 'high temporary employment', whereas in Greece the main problems are 'not enough jobs', 'high gender gaps in employment/unemployment' and 'low incidence of part-time'. The question naturally following is whether measures such as those introduced in Spain in order to promote

open ended employment can have relevance in the Greek context, not as a means to curb fixed term contracts, but as a means to boost the employment rate. Two such measures have been the lowering of severance costs and the subsidization of social security contributions. The potential transferability of these measures is discussed briefly below.

According to some labour market analysts as well as International Organizations (notably the OECD), severance payments and non wage costs are excessively high in Greece. In general, employment protection legislation is one of the strictest in EU, and this has tended to create a 'periphery' of outsiders, mostly young persons and women, who find it difficult to secure employment.

Lowering severance costs, i.e., easing the restrictions placed upon the ability of employers to adjust their workforce and thus to control their labour costs, may hold gains and losses for different demographic groups. However since lowering severance costs tend to increase dismissals and hiring at the same time, the final impact of such a measure upon aggregate employment/unemployment cannot be predicted. Empirical evidence suggests that high severance payments reduce the employment rate of both first-time entrants (mainly young people) and prime-age women. There is also evidence however that those in the core labour market (mainly men aged 25-54, heads of households) benefit from the decrease in dismissals induced by high severance payments. Thus for certain categories of the workforce, such as older workers and the low-skilled, lowering employment protection may entail risks.

It should be noted that one of the reasons responsible for setting severance payments at a high level might be inadequacies in unemployment benefit provision. The Greek system of unemployment benefits has often been criticized for being ungenerous, judged by European standards, and also inequitable. The net income replacement rate (an indicator showing the proportion of in-work income that is maintained for someone becoming unemployed), is 66.89% in Greece during the first year of unemployment (2003), not much different from the equivalent rates recorded for the other member states. This indicates that unemployment benefits do not discourage job search in Greece. But for benefits sufficiency, the duration of benefits is also important. Estimates of NRR after 5 years indicate that these drop to negligible levels (1.75%), the lowest NRR recorded for the EU countries for which data exist, with the exception of Italy, reflecting the limited duration of support. Furthermore, large categories of the labour force (e.g. the selfemployed) and of the unemployed (new entrants in the labour market) are practically left without coverage. Any thought about lowering severance costs therefore would inevitably have to take in account the necessity to improve the coverage, level and duration of unemployment benefits, taking in due account financial constraints.

Social security contributions on the other hand remain high, accounting in 2004 for more than 34% of total gross labour costs, compared with an EU average of around 31%. It should be noted that a recent law, Law 3227/2004, titled 'Measures for the remedy of unemployment and other provisions', introduced a variety of provisions, including: the subsidization of employer's social security contributions for hiring unemployed women with at least two children; the subsidization of social security contributions payable by an employer who hires employees on a temporary contract to replace employees on maternity leave; the exemption from the payment of social security contributions of women working as farmers for one year after the birth of their second child; the subsidization of 50% of the employer's insurance contribution for employers who hire unemployed youths (up to 25 years old), or unemployed people aged 55 and over, who have at least 6000 daily insurance stamps. Further, according to the law, firms that hire unemployed

persons that are eligible for unemployment benefits are financed with an amount equivalent to the unemployment benefit.

Law 3227 has remained inactive so far, mainly because of financial restraints. Currently Greece is subject to the excessive deficit procedure, facing the possibility of sanctions by the EC unless the macroeconomic balance is restored. The new (conservative) government has stated its intention to revise Law 3227/2004 and in this frame the Ministry of Employment has submitted a set of proposals to social partners to be discussed in the context of the Employment Committee. According to media sources, the Ministry is planning to restrict the application of the law in areas of high unemployment. The introduction of measures to subsidize part of the social security contributions for new hires is certain to hold gains for the level of employment, provided that the reductions are substantial and that they are applied so as to benefit a large category of workers.

3. Important issues

The recent Spanish Agreement of 9 May 2006 has set the goal of promoting flexibility in conjunction with job stability, ie 'flexicurity'. It would be hard to maintain that use of this term is being made in Greece. In contrast, much of the public discussion currently taking place on the model of labour relations revolves around flexibility.

Various measures were taken over the last few years aimed at combating labour market rigidities and raising employment levels, including a reform package in 2000. Following a social dialogue on labour market reform, the Greek government introduced legislation, aiming at stimulating labour supply and increasing incentives to work in the formal economy. Law 2874/2000 (in full force since 1 April 2001), constituted a new regulatory framework, with various important implications for labour market performance. Measures included, among others, financial incentives for part-time work, limits on overtime hours and increased premiums for overtime, a scheme for working time annualisation, the reduction of the work-week from 40 to 38 hours (voluntary and subject to the agreement of employees), less strict upper monthly limit for dismissals for firms employing between 50 and 199 workers and a reduction of employers' social security contributions for low-wage workers. As part of the labour reform package, temporary employment agencies were also allowed to operate under strict conditions. As a result of these measures, which complemented previous regulations (Law 2639/1998 and Presidential Decree 160/1999), employment protection decreased to somewhat lower levels and a number of obstacles connected with part-time employment were abolished. The rationale behind Law 2874, as far as overtime work is concerned, was to discourage firms from resorting to this type of work, forcing them to recruit additional personnel instead. According to analysts however, such gains were never realised and the new measure has either led to irregularities or to excessive costs for the enterprises. As for the scheme for flexible annual working time, employers have remained practically indifferent. In effect, the reform package did not lead to a considerable improvement in the incidence of part-time or in employment rates.

More recently, the new (conservative) government introduced new arrangements on opening hours of shops, new rules on overtime work and working time arrangements and a scheme to promote part-time work in the public sector. In addition, the new government has abolished jobs for life in public utilities and announced increases in the level of unemployment benefits as well as the establishment of a 'solidarity fund' for the unemployed, aimed at supporting older unemployed

workers in areas of high unemployment. As these measures are recent, no evaluation on their impact has been conducted so far.

Flexibility has also been sought after by employers unions in the context of collective bargaining. In the bargaining for the drawing-up of the new National General Collective Labour Agreement (EGSSE) for 2006, the main employer association (the Federation of Greek Industries SEV) proposed the abolition of restrictions regarding collective dismissals, wage freezes in prefectures suffering from an acute unemployment rate (above 20 per cent), the ability to recruit young persons at salaries below the minimum wage threshold and reductions in employer contributions for certain professions. As expected, the trade unions refused to discuss these issues and eventually it was decided to drop the issue of flexibility from negotiations on the new agreement and to discuss SEV's proposals in the frame of the Employment Committee.

The notion of flexicurity represents a major challenge for the Greek policy planners. Flexicurity is about protecting the people rather than protecting jobs and the Greek nexus of services has been geared so far to protect the latter rather than the former. The lowering of the (strict) employment protection may hold gains for the young and the women, who currently face high risk of unemployment. But simply lowering employment protection, while keeping conditions in other policy areas unaltered, might in fact deteriorate labour market outcomes. Apart from a 'more realistic' employment protection legislation, the proper policy mix for Greece should also rely on adequate unemployment benefits, on well-targeted activation policies and on heavy investments on human capital.

