

## **I Session 2: Why workers need a pay rise?**

### **The failure of the Economic Adjustment Programmes for Greece on the Economy and the Living Conditions of Greek Citizens**

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The three Economic Adjustment Programmes (EAP) for Greece consisted of two main policy pillars, namely fiscal adjustment and internal devaluation, aiming to render the public debt sustainable on the one hand, and to improve the competitiveness of the domestic sector on the other.

The background thinking in the planning of the EAP's was based on the following hypotheses. The reduction of public spending would have a crowd-in effect on private sector investments, while the reduction of labour costs would lower the price of the Greek products, thus enhancing the export performance of Greece. Overall, the Greek economy through the implementation of the EAP's was expected to attain an investment-led and export-led growth regime. However, as already stated above, the EAP's were based on mere hypotheses, ruling the actual structure of the Greek productive sector out of the planning and so their failure to deliver results ought to have been anticipated.

In particular, the real GDP contracted by 25% in the period between 2009-2015, while private sector real consumption and real investments declined by 20% and 59.7%, respectively, during the same period (slide 2). It becomes blindly evident that the investment-led growth target was never achieved.

With respect to the real exports of goods and services, indeed there is a modest increase in 2015, as compared to 2009, but the volume in 2015 was still lower than 2007 (4.8 billion euro less). Therefore, Greek exports did not increase after the implementation of the internal devaluation policy but only recovered from 2007 and, even worse, not in full.

Focusing on the internal devaluation policy, its main instrument for carrying out the prospect of competitiveness enhancement was the reduction of the unit labour cost. We also note that the unit labour cost of Greece was already lower of the respective of the Euro Area average, a condition which also holds after 2012.

A further hypothesis underlying the planning of the internal devaluation policy was that through the reduction of labour cost, resources would be redirected from the non-tradable to the tradable (export-oriented) sector. However, this hypothesis was also found to be invalid in the case of Greece, since the bogged down, by the internal devaluation policy, reduction of the average compensation of employees was not translated in any increase in productivity, or reduction in prices of the tradable sector.

The cost of internal devaluation was mostly laid upon the non-tradable sector, without any gains for the tradable sector. Overall, from a macro-perspective the EAP's have failed to deliver any results since investments are at an all-time low since 2000, while exports are sluggish. Even worse, the competitiveness of the Greek economy is still below the pre-crisis levels, when complex measures that account for other factors, i.e. innovation etc. are taken into account

The most dramatic impact of the current economic crisis is the development in employment and unemployment, with the former being reduced from about 75% in 2009 to 50% in 2014, presenting a marginal recovery in the past two years. The unemployment rate skyrocketed over 30% in 2013 and reduced, also marginally, after 2014.

In the same period the youth unemployment was higher than 60% in 2013 (slide 10), while long-term unemployment, which constitutes the most worrisome feature of the current developments in the labour market, lies above 70%. According to our estimations, one out of two persons that become unemployed is likely to abandon any effort on searching for a new job, due to discouragement, thus exiting the labour force. An indicator pointing out to the same direction is the labour market insecurity which quadrupled since 2006.

In advance, the marginal reduction of unemployment after 2015 was achieved through the creation of part-time or temporal job positions, since full-time employment is still declining further augmenting labour market insecurity.

With respect to the impact of EAP's on the labour market, slides 15 and 16 provide an overview of the statutory changes that occurred during the past years. Collective bargaining coverage was reduced from 85% in 2009 to 40% in 2013, while the strictness of dismissals has been relaxed considerably.

Regarding changes in wages, the average annual wage has declined by 22.7% since 2010 while the monthly wage was statutorily declined by about 22%. The huge drop of the minimum wage, under recessionary conditions, had an enormous negative impact on the living conditions of the Greek households.

In particular, the minimum wage was already lower than the poverty wage threshold in 2004. A marginal recovery of the minimum wage, being over the poverty wage threshold in 2010 was reversed through the implementation of the EAP's after 2011, currently remaining significantly lower than the poverty wage threshold.

The repercussions of the aforementioned decline of the minimum wage are multidimensional. Firstly, and more importantly the risk of poverty or social exclusion has increased dramatically, as compared to the pre-crisis levels. In particular, the amount of households, both total and four-member households (two parents with two dependent children), facing the risk of poverty or social exclusion has increased by 31% in the period between 2010 and 2012

Wage depression accompanied by an increase in the tax burden of households, have decreased their cash flows, thus the available liquidity and

so their ability to meet their ends, to cover their housing costs and to meet their debt commitments. The increase of four-member households having difficulty, or great difficulty to make ends meet after 2011 is characteristic of this condition. In addition, the financial burden of four-member households to cover their housing costs and meet their debt commitments has also increased considerably since 2011. A transition of households having difficulty, to households having a great difficulty, with respect to their housing financial burden, is clearly evident in slides 23 and 24.

Finally, income inequality has increased considerably since 2011. Income inequality before social transfers and pensions presents an upward tendency during the implementation of the EAP's, which is offset through the social transfers and pension payouts. Therefore, an inclination towards a less government intervention regime, promoted by the EAP's is likely to further boost income inequality.

Overall, the planning of the EAP's implemented in Greece was based on abstract hypotheses which neglected the actual structure and conditions that prevailed in the Greek economy. As a result of this flaw in the strategy making, the EAP's were found to be destructive both in economic and social terms, since there was "lots of pains with very few", if any at all, "gains". The macro-performance is still sluggish, while the attainment of an export-led and investment-led growth, which would counterbalance the negative effects of the EAP's, has totally failed. This failure came at the expense of the Greek households, for which the living conditions have deteriorated, the financial and the tax burden has become unbearable, being simultaneously jobless, with the prospects about the future being pessimistic.