7. Greece: Neglect and resurgence of minimum wage policy

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7.1 INTRODUCTION

Minimum wage legislation was first introduced in Greece in 1953. Given the long experience of the Greek population with the institution of the minimum wage and the absence of a well-developed welfare state, it is not surprising that the existence of the minimum wage has been taken for granted and has never been questioned by any political party. In these circumstances, no politician aspiring to public office has ever proposed the elimination of minimum wage laws by arguing that minimum wages "lock out" the least able individuals from employment by legally forbidding them to compete for jobs on the basis of offering their labour services at a lower wage rate; the counter-argument that the working poor often struggle to support themselves – in the absence of a well-developed social welfare system – appears to have carried Greek public opinion with regard to the "morality" of minimum wage laws.

A major factor explaining the popularity of the minimum wage institution in Greece is the tacit understanding that it, in effect, provides a substitute for the lack of a well-developed welfare state. In order to appreciate the limited role of the Greek welfare state, it suffices to give the example of income support for the unemployed. The after-tax income of unemployed workers – inclusive of unemployment benefits, social assistance, and family and housing benefits – as a proportion of after-tax income for those in employment, averaged at about 23 per cent for persons unemployed for more than 60 months (this is the average for earnings levels of 67 per cent and 100 per cent of average earnings and four family types: namely, single persons, lone parents, single-earner couples with and without children). According to the OECD

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The minimum wage revisited in the enlarged EU (2007), among OECD countries only Italy and Turkey had a lower value for this measure (called the “synthetic replacement rate”) than Greece; the relevant number for the United States was 30 per cent. The same lack of generosity applies in the case of the short-term unemployed: the net replacement rate for a wage earner receiving 67 per cent of the average wage and who belongs to a dual-earner household with two children was equal to 71 per cent in Greece in 2005; among the 29 OECD countries only Australia, New Zealand and the United Kingdom had lower replacement rates (70 per cent, 69 per cent and 65 per cent, respectively), whereas the figure for the United States was 89 per cent (OECD, 2007). These comparisons reveal not only the role of the minimum wage as an important floor – in other countries this role is played by the social welfare system – but also the fact that increases in the real value of the minimum wage are indeed an effective means of “making work pay” in Greece (in the sense that the increase in the difference between income from work and social welfare benefits provides a further boost to the incentive to participate in the labour market, even for those wishing to work part-time).

An additional factor explaining the widely shared opinion among Greek citizens concerning the desirability of the minimum wage may also be the widespread belief among them that its value has not been a significant constraining factor on their employment prospects.

Figure 7.1 portrays the evolution of the real (gross) value of the minimum wage and of the productivity of labour in the business sector (per hour worked) from 1970 to 2006. We observe that, following the restoration of democracy in Greece in 1974, the real value of the minimum wage increased substantially until 1978 (the cumulative increase from 1974 to 1978 being about 25 per cent), and then declined by about 5 per cent until 1981. Following the coming to power of the Socialists (PASOK) in 1981, there was a huge increase in the minimum wage in that year, followed by further increases in 1983. The cumulative increase in the real value of the minimum wage over the period 1981–84 was about 30 per cent. Following 1984, there was a sustained decrease in the real value of the minimum wage and, by 1993, it was below its 1978 level and only 2 per cent higher than in 1981. These changes in the real value of the minimum wage are contrasted with the change in labour productivity. We observe that the cumulative increase in both productivity and the real value of the minimum wage was substantial from 1970 to 1980 (although the rise in the minimum wage was only half as large as the rise in productivity), whereas during the 1980s the minimum wage and its real value kept rising, while labour productivity fell. Since the early 1990s, there has been a significant rise in labour productivity (by about 40 per cent up to 2005), while most recent increases in the real value of the minimum wage have failed to match the rise in labour productivity.
Any attempt to understand the – relative – level of the minimum wage and its evolution in Greece requires that some salient features of the Greek economy (unique among the EU countries) are taken into account. Chief among them is the fact that Greece has the highest unemployment rate among the young (persons aged less than 25 years) and among women, as well as the highest proportion of self-employed persons in the labour force of all OECD countries. We will therefore review these features of the Greek economy (Section 7.3), after describing the institutional details regarding minimum wage fixing and coverage (Section 7.2). We will then proceed, in Section 7.4, to examine some macroeconomic developments that have shaped the evolution of both the level and the relative value of the minimum wage in an attempt also to identify minimum wage effects. In Section 7.5, we present our three case studies: the first case study details the views of the social partners’ representatives regarding various aspects of the minimum wage, while the second and third case studies make use of some recently available data from the Foundation of Social Insurance in order to examine the impact of the minimum wage on low-paid work and on the regional distribution of gender-related and age-related unemployment rates. Some concluding comments are offered in Section 7.6.
7.2 MINIMUM WAGE FIXING MECHANISMS AND COVERAGE

The minimum wage in Greece is determined at the national level and sets the floor for all wage settlements in the country (independent of regional, sectoral or enterprise level), with the exception of wages in the public sector, which are policy determined. The level of the minimum wage is determined by the outcome of negotiations between the social partners, represented by third-tier (national) organizations of employees and employers. These are the General Confederation of Greek Workers (GSEE), the Federation of Greek Industries (SEV), the General Confederation of Professionals, Craftsmen and Merchants (GSEVEE) and the National Confederation of Greek Trade (ESEE).

The resulting National General Collective Agreement (EGSSE) is given legal force by the government and covers all workers independent of age (although they must be at least 15 years old), sex or employment status, and it is legally binding for all workers in the private sector and in state-owned enterprises, as well as for non-permanent civil servants. Until the late 1970s, minimum wages were differentiated according to gender, with females earning less than males. The negotiations usually take place every two years and allow for biannual wage adjustments in line with inflation. It should be noted, however, that the value of the minimum wage varies according to the employee’s length of service and marital status; there are also different rates applied to blue- and white-collar workers. For example, the new EGSSE for 2008–09 provides for staggered increases in minimum levels of pay: 3.45 per cent beginning on 1 January 2008, 3.0 per cent beginning on 1 September 2008 and 5.5 per cent beginning on 1 May 2009.

Table 7.1 presents all the levels of minimum wages – liable to employee social security contributions of about 16 per cent – which are currently in force according to the National General Collective Agreement (EGSSE) concluded on 2 April 2008. These increases imply that, from 1 January 2008, the starting daily wage rate for unmarried workers with less than three years of service is €30.40, and it will rise to €33.04 on 1 May 2009 (the corresponding monthly minima for white-collar workers are €680.59 and €739.57, respectively). These figures rise as high as €42.09 for married wage earners with longest tenure of about 18 years (€939.40 per month – the corresponding figures will be €45.74 and €1,020.80 on 1 May 2009). The existence of different rates for married workers is an indirect means by which the social partners attempt to make up for the absence of a well-developed family policy in Greece. It should also be noted that workers in Greece receive 14 monthly wages during a

1. The minimum wage for married persons is received by both partners.
Table 7.1 National General Collective Agreement on minimum wages, Greece, 2008–09

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<td>3.45</td>
<td>33.45</td>
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<td>39.07</td>
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<td>Non-manual workers (monthly wage)</td>
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<tr>
<td>Non-married,</td>
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</tr>
<tr>
<td>no work experience</td>
<td>657.89</td>
<td>3.45</td>
<td>680.59</td>
<td>3.00</td>
</tr>
<tr>
<td>one triennium</td>
<td>712.70</td>
<td>3.45</td>
<td>737.29</td>
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<tr>
<td>two triennia</td>
<td>777.49</td>
<td>3.45</td>
<td>804.31</td>
<td>3.00</td>
</tr>
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<td>three triennia</td>
<td>842.28</td>
<td>3.45</td>
<td>871.34</td>
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</tr>
<tr>
<td>Married,</td>
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<tr>
<td>no work experience</td>
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<td>805.35</td>
<td>3.00</td>
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<td>872.37</td>
<td>3.00</td>
</tr>
<tr>
<td>three triennia</td>
<td>908.07</td>
<td>3.45</td>
<td>939.40</td>
<td>3.00</td>
</tr>
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<td>15–18 years old</td>
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<tr>
<td>16–18 year-old</td>
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<tr>
<td>full-time worker</td>
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<tr>
<td>(not studying)</td>
<td>657.89</td>
<td>3.45</td>
<td>680.59</td>
<td>3.00</td>
</tr>
<tr>
<td>15–16-year-olds,</td>
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<td></td>
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<tr>
<td>and 16–18-year-olds\textsuperscript{b,c}</td>
<td>493.42</td>
<td>3.45</td>
<td>510.44</td>
<td>3.00</td>
</tr>
</tbody>
</table>

Notes:
\textsuperscript{a} The sixth triennium was added for the first time in the 2008–09 EGSSE.
\textsuperscript{b} The figures are for non-manual workers; corresponding figures for manual workers are also proportional to the number of hours worked.
\textsuperscript{c} Studying and working a maximum (by law) of 30 hours per week or 6 hours per day.

Source: EGSSE, 2008–09.
calendar year and, thus, the equivalent of receiving 14 payments of €680.59 each during a 12-month period in 2008 is equal to twelve monthly payments of €794.02.

The statutory level of pay is compulsory, even in cases where the employee is paid by piecework, on a percentage basis or in the form of tips. With regard to part-time work, although the position of part-time workers is not covered by collective agreements, they are, in effect, protected by the extension to them of a pro rata equivalent of the pay levels established for full-time workers. For workers below 18 years of age, Law 1837/89 specifies that those below 16 years, as well as those who are studying, may not exceed 6 hours of work per day and 30 hours per week. (This implies that the maximum monthly income for workers who are studying and are below 18 years of age will be 75 per cent of the stipulated minimum wage for someone working 40 hours per week.) Minimum wage legislation is enforced by the Labour Inspectorate, and employers can be sued for non-compliance by either the Inspectorate or by employees. Anecdotal evidence suggests that the strictness with which these procedures are enforced is very idiosyncratic.

The basic institutional framework for collective bargaining in Greece was established by Law 3239/55 and was significantly updated by Law 1876/90. Until 1991, one aspect of government intervention in minimum wage determination was its indexation to the consumer price index, which came into effect in the early 1980s. These adjustments were made every four months and were known by the acronym AIA (automatic cost-of-living adjustment). ATA was abolished in 1991 in the belief that it would help to tame inflation. In the current framework, the biannual round of wage negotiations starts with the national agreement EGSSE, and is followed by:

- sectoral or occupational agreements at the national level (involving bargaining between second-tier employer and employee organizations);
- sectoral or occupational agreements at the local level (involving bargaining between first-tier employer and employee organizations);
- enterprise agreements covering workers in a single enterprise, which are conducted between employers and company trade union organizations covering workers in the specific enterprise.

The legally binding minimum wage acts as a legal floor for negotiated wages in lower level bargaining, implying that no other level agreement can set a lower wage than the nationally negotiated one (usually, the industry and occupational agreements set higher minimum rates than the national one). In the case of unsuccessful negotiations between the trade unions and employers’ associations, the parties resort to mediation. If mediation proves unsuccessful, the dispute is resolved through an arbitration process, which, until 1990, was
performed by administrative arbitration tribunals, composed of a judge, together with government, trade union and employer representatives. The process was changed by Law 1876/90, under which the arbitration courts were replaced by arbitrators, who are members of the Organization for Mediation and Arbitration (OMED) – an independent agency – thus abolishing direct government control of collective bargaining. The arbitration decision has the legal status of a collective agreement. From 1975 to 1990, seven of the 17 national general agreements were imposed by a tribunal, while, since 1990, all collective bargaining disputes at the general national level have been resolved through negotiation or mediation.

The evolution of wage bargaining in terms of the number of agreements reached – through bargaining and arbitration – has continued its upward trend (with some fluctuations) during the past 30 years (see Karakioulafis and Moschonas, 2006; also OMED, 2009). The large number of collective agreements signed each year – usually more than 250 – is considered by trade union officials as the clearest manifestation of the fragmentation of trade union power.

7.3 SOME SALIENT FEATURES OF THE GREEK ECONOMY AND THEIR INTERACTION WITH MINIMUM WAGES

The Greek labour market is characterized by the following features, unique among OECD countries:

- the highest ratio of female to male unemployment rates (15.1 per cent for females and 5.4 per cent for males in 2005) – see Figure 7.2, panel A;
- the highest ratio of youth to total unemployment rates (25.3 per cent for those aged under 25, and 8.9 per cent for the population as a whole in 2005) – see Figure 7.2, panel B;
- the highest rate of self-employment as a percentage of total employment (30.1 per cent in 2006) – see Figure 7.3;
- the highest percentage of firms with fewer than ten employees (97.5 per cent), and the highest percentage of workers employed in these firms (56.8 per cent) – see Table 7.2.

7.3.1 High female and youth unemployment

Figure 7.2 reveals that the fall in the real value of the minimum wage between 1984 and 1993 was not accompanied by a reduction in the unemployment
The minimum wage revisited in the enlarged EU

A. Gender-related unemployment rates

![Graph showing gender-related unemployment rates](image)

B. Age-related unemployment rates

![Graph showing age-related unemployment rates](image)

Figure 7.2 Gender- and age-related unemployment rates, Greece, 1983–2007


...rates of either young people or women – groups whose unemployment rates are usually thought to be closely related to minimum wage developments – even though there was a productivity increase (albeit modest) during this period. It also reveals that the changes in the overall unemployment rate have...
been matched by movements in the same direction for both age- and gender-specific unemployment rates. This absence of correlation between the minimum wage and unemployment rates was obtained even though the proportion of employees remunerated at or near the minimum wage was estimated to be around 20 per cent in 1995 – a proportion far above those observed in other EU-15 countries (see Dolado et al., 1996).

These observations cast some doubt on the validity of the claim that the high female and youth unemployment rates are a consequence of an "unreasonably high" minimum wage. One possible explanation for the high female and youth unemployment rates is the high level of employment protection regulation (EPL) in Greece (OECD, 2004). A high level of EPL implies that employers will try to select, among job applicants of similar productivity, those more likely to stay with the firm for a long period of time. Given the Greek family and social welfare structure, these applicants are most likely to be prime-age men. This may well explain the fact that the unemployment rate among prime-age males in Greece has been (and still is) below the EU-15 average, although the total unemployment rate has been among the highest.

The gender wage gap (defined here as the percentage wage difference between males and females) is relatively low in Greece – in 2004 it stood at only 12 per cent in Greece, whereas the OECD average was 18 per cent. This fact, in combination with the high EPL, may explain the high unemployment rate for women in Greece – on the assumption that women are effectively "more costly" to employers as their traditional obligations to family life make them more prone to quit or to interrupt their employment than men – that may also be due to the existence of a gender-undifferentiated minimum wage and its high incidence among Greek workers.

In addition, the Greek economy has one of the lowest labour force participation rates among the OECD countries for persons aged 15–64, standing at 67 per cent in 2007. The low aggregate labour force participation rate is due mainly to the low participation rate for women (Nicolitsas, 2006). Nevertheless, the low – aggregate – participation rate is misleading, since it ignores the average hours of work involved. In fact, once we combine the participation rate with the fact that Greece has the second highest number of annual hours actually worked per employed person in the OECD, we find that Greece has, in terms of hours, the third highest effective participation rate in the OECD. A possible relationship between this fact and minimum wages is that the interplay of high fixed costs of employment with high minimum wages makes it worthwhile for both workers and employers to avoid work-sharing arrangements.
Figure 7.3  Self-employment as a percentage of total employment, selected countries, 2006

Source: OECD Factbook 2008: Economic, Environmental and Social Statistics
7.3.2 Highest share of self-employment

Figure 7.3 shows that the share of self-employment in total employment is very high in Greece (at 36 per cent it is about 23 percentage points higher than the EU-15 average). This is only partly explained by the larger share of agricultural employment in Greece, and it may well be induced by, in the private sphere, an efficient response to the limits on the size of the firm caused by high EPL. This arises because firm owners prefer to rely on “flexible” (and not constrained by working-hours regulations) family members to staff the company and avoid hiring from outside the trusted circle of family and friends unless they can be sure that the employment will be long-lasting. The resulting absence of employment opportunities for outsiders causes energetic would-be employees to start their own – also, family-run – firms. The implications of this are reflected in the very small size of Greek firms.

7.3.3 The predominance of small firms

It is well-known in the literature – for example, Bernard and Jensen (1995) – that exporting firms tend to be larger than firms selling only in the home market, and also to be more productive. The near absence of large firms in Greece

Table 7.2 Distribution of enterprises and employment, 2003

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of micro enterprises (% of total number)</th>
<th>Employment in micro enterprises (% of total private sector employment)</th>
<th>Employment in large enterprises (% of total private sector employment)</th>
</tr>
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<tbody>
<tr>
<td>Austria</td>
<td>86.9</td>
<td>37.2</td>
<td>28.1</td>
</tr>
<tr>
<td>Belgium</td>
<td>93.2</td>
<td>40.1</td>
<td>30.5</td>
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<tr>
<td>Denmark</td>
<td>87.4</td>
<td>35.7</td>
<td>27.4</td>
</tr>
<tr>
<td>Finland</td>
<td>93.2</td>
<td>34.5</td>
<td>35.5</td>
</tr>
<tr>
<td>France</td>
<td>93.0</td>
<td>37.1</td>
<td>33.4</td>
</tr>
<tr>
<td>Germany</td>
<td>88.0</td>
<td>34.0</td>
<td>35.2</td>
</tr>
<tr>
<td>Greece</td>
<td>97.5</td>
<td>56.8</td>
<td>13.4</td>
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<tr>
<td>Ireland</td>
<td>83.6</td>
<td>25.2</td>
<td>30.2</td>
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<tr>
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<td>95.6</td>
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<td>16.5</td>
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<td>Netherlands</td>
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<td>Portugal</td>
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<td>United Kingdom</td>
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<td>EU-15</td>
<td>92.4</td>
<td>39.7*</td>
<td>30.3</td>
</tr>
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</table>

Note: Micro: <10 employees, large: >250 employees.
The minimum wage revisited in the enlarged EU

reflects the failure of Greek enterprises to keep up with technological developments in the rest of the world. Table 7.2 reveals that, in 2003, Greece had the largest proportion of micro enterprises among the EU-15 countries, and the largest (smallest) share of private sector employment in micro (large) enterprises (Table 2.2). The implications of this feature of the Greek economy for minimum wage policy are not clear-cut. On the one hand, we expect that a rise in the minimum wage will have a larger impact on the costs of micro firms, since these firms in Greece tend to have a higher proportion of minimum wage earners than large firms. On the other hand, these micro firms are mainly producers of non-traded goods and services (although some of them produce intermediate inputs used by exporting firms), and they are able to pass on to their customers some of the rise in costs engendered by minimum wage increases. There is therefore some ambiguity as to whether or not the net effects of a minimum wage increase on employment will be more pronounced in Greece than in other countries. However, this feature of the Greek economy implies that (nominal) minimum wage increases will exert greater pressure on prices, and thus have a more adverse effect on households.

7.3.4 Low integration in the world economy

Another notable macroeconomic feature of the Greek economy has been the low level of integration between the Greek economy and the rest of the world. Moreover, since 2000, there has been a reversal of the gradual opening up of the Greek economy; the trade - imports plus exports - to GDP ratio in Greece was only 48 per cent in 2007 (down from 55 per cent in 2000), and it remained the lowest among all EU-15 countries of similar size. The low dependence of the Greek economy on foreign trade implies that the - possibly negative - effects of minimum wage increases on employment may not be as strong as in countries with higher trade-to-GDP ratios. We shall see later, however, that the Greek economy is becoming increasingly integrated with the world economy.

7.3.5 Steady inflow of immigrants

Last, but not least, it is worth mentioning that, from the late 1980s, Greece has had a steady inflow of immigrants, with the estimated number – including both legal and undocumented – rising from about 140,000 in 1991 to about 997,000 in 2007 (Figure 7.4). This large influx of mainly low-skilled workers, which intensified after the fall of Communism in the early 1990s, may well be responsible for putting the brakes on the continuing slide in the real value of the minimum wage after 1993 as the social partners realized that the market-determined rates of pay for low-skilled workers would continue to deteriorate unless a wage floor was imposed.
7.4 MINIMUM WAGE DEVELOPMENTS IN A MACROECONOMIC CONTEXT

7.4.1 A context of rapid economic growth

Following 15 years (1980–95) of a very low growth rate, the Greek economy has recorded a relatively high growth rate since 1995 (about 4 per cent per annum), relative to the average for both the EU-15 (2.3 per cent) and the OECD (2.6 per cent) countries. This rapid rise in output since 1995 has been associated with large increases in aggregate employment and in the labour force. The total increase in the Greek labour force from 1995 to 2005 was 14.3 per cent (the corresponding figures are 9.1 per cent for the EU-15 and 9.8 per cent for the OECD countries), whereas the total increase in employment for the same period was 14.7 per cent (12.6 per cent for the EU-15, and 11.1 per cent for the OECD). These changes were accompanied by large shifts in the composition of employment, with services increasing their share from 56.4 per cent to 65.2 per cent during this decade (EU-15: from 64.5 to 69.8 per cent; OECD: from 63.5 to 69.5 per cent), and the agricultural sector (including forestry and fishing) decreasing its share from 20.4 to 12.4 per cent (EU-15: from 5.1 per cent to 3.7 per cent; OECD: from 8.5 per cent to 5.7 per cent). Of particular importance for our purposes was the intensification of Greek trade and investment relations with its neighbouring (and low-wage) countries –
especially with Bulgaria. The outsourcing of parts of the production chain – and sometimes the relocation of entire factories – to these countries has brought to the fore the issue of the appropriate design of minimum wage policy, particularly in respect of regionally differentiated minimum wages.

### 7.4.2 Minimum wages, productivity and the wage share

After 1995, in tandem with these macroeconomic developments, Greece experienced rather rapid growth in labour productivity in the business sector, which during the past 12 years has been, on average, only slightly higher than the rate of growth in the real value of the minimum wage and of average earnings (Figure 7.5). These developments were reflected in a small decline in the adjusted wage share after 1995 (Figure 7.6), relative to the large decline in the adjusted labour share that was observed in the previous decade. The reversal in the downward trend in the real value of the minimum wage that occurred in 1993 (Figure 7.1) appears to be correlated with the slower decline in the value of the adjusted wage share in GDP during the past decade. Minimum wage adjustments therefore seem to have a degree of influence on the evolution of the wage share and to play some redistributive role. Despite the fall in the real value of the minimum wage after 1984, Greece still had the seventh highest minimum wage among the 20 EU countries in which a statutory minimum

![Figure 7.5 Wage and productivity developments, Greece, 1995–2007 (1995=100)](image-url)

*Source: OECD (business sector productivity), authors’ calculations.*
wage existed in 2006. Moreover, the value of the minimum wage ranged between 85 per cent and almost 100 per cent of the average wage in some low-paying sectors (textiles, clothing, retail, hotels and restaurants), which was far above the relevant values in other EU countries. On the basis of this evidence, one may be tempted to conclude that the relative value of the minimum wage is still relatively high in Greece; however, as Manning (1995) has demonstrated in a different context, such pronouncements may well hang on weak (theoretical) pegs.

Figure 7.7 (overleaf) portrays the evolution of the minimum wage to the average wage ratio, both for gross wages and for net (after deducting taxes and social security contributions) wages for 1995–2006. We observe that this ratio declined during this period, although some reversal of the downward trend has taken place since 2003. The ratio has consistently been higher for net rather than gross wages; for gross minimum wages it has ranged between 42 per cent and 50 per cent, whereas the ratio for net minimum wages has ranged between 44 per cent and 52 per cent. Moreover, we note that the ratio for net minimum wages has been between one-half and one percentage point higher for a single person without children than for a two-parent family with two children.

7.4.3 Minimum wage and wage bargaining

The decline in the ratio of minimum to average wages did not prevent wage bargains in some sectors from involving wage increases below those awarded
to minimum wage earners. Nevertheless, we must emphasize that the level of the bargained wages in all sectors cannot be lower than the level of the minimum wage. In Figure 7.8 we present the percentage change in the level of bargained wages in three sectors (clothing, hotels and restaurants and the retail trade), as well as the percentage change in the level of the minimum wage from 1995 to 2007. We note that, for both the hotels and restaurants and the retail sectors, the bargained wage increases were — on average — above increases in the minimum wage (as determined by the EGSSE), whereas the opposite is true regarding the comparison between the clothing sector and the minimum wage. This is understandable since, of the three sectors mentioned above, only the clothing sector faces fierce competition from imports. Nevertheless, the fact that during the entire period from 1995 to 2007, the cumulative increase in the minimum wage was only about 7 percentage points higher than the bargained wage increases in the clothing sector, whereas the hotels and restaurants and the retail sectors had cumulative increases only about 3 percentage points higher than the minimum wage, signifies the rather unusual role that the signing of the EGSSE plays in Greece. In this respect it is also interesting to note that immediately after the EGSSE for 2008–09 was signed, many contracts between unions representing specific groups of workers and the relevant employer organizations were either agreed upon or were referred for arbitration to OMED. It appears that the pay rises agreed in the EGSSE for 2008–09 provided the focal point for the agreements which followed and for OMED’s rulings on the cases referred to it. In its justification of the slightly higher pay rises awarded to employees working in service-providing firms, OMED states

Figure 7.7 Minimum to average wage ratio, Greece, 1995–2008

Source: ESYE, Bank of Greece and authors’ calculations.
that it was influenced by “the new developments regarding inflation for 2008 and 2009, which followed the signing of the EGSSE (for 2008–09) on April 2008”.

7.4.4 Minimum wage and wage differentials

At this point it is also worth mentioning that the decline in the minimum to average wage ratio since 1995 was not followed by an increase in income inequality, as measured by the Gini coefficient; according to Eurostat data the Gini coefficient stood at 0.35 in 1995, 0.33 in 2000 and 0.33 in 2005. The relevant numbers for the top-to-bottom quintile (S80/S20) income ratio also do not show a rise in this measure of inequality, which stood at 6.5 in 1995, 5.8 in 2000 and 5.8 in 2005. However, this may in fact reveal that increases in the real value of the minimum wage have been instrumental in averting a rise in income inequality during this period – despite the fall in the minimum to average wage ratio (Figure 7.9). A possible explanation for the fall in the inequality measures mentioned above may be the combination of a rise in the minimum wage and the drop in agricultural employment, as many farmers with reported earnings far below the minimum wage were turning into minimum wage earners during this period.2

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2. Mitrakos and Tsakloglou (2007) present a detailed overview of changes in income inequality in Greece over the past 30 years.
7.4.5 Minimum wage and employment

In Greece, there is a widely shared opinion – even among the social partners – that minimum wage developments do not have adverse effects on employment.

This feeling is corroborated by the existing econometric evidence: Koutsogeorgopoulou (1994) estimated the minimum wage elasticity of employment in manufacturing for both males and females to be between −0.05 and −0.11; Neumark and Wascher (2004) estimated the elasticity of youth employment (15–24-year-olds) to be about −0.1, whereas Karageorgiou (2004) found the effects to be insignificant for young adults (20–24-year-olds) and positive for teenagers (15–19-year-olds).

7.5 CASE STUDIES

The case studies presented in this section examine the attitudes of the social partners with regard to various minimum wage issues, the effects of minimum wages on low-pay work, gender-related wage differentials and the connection between minimum wage rates and regional unemployment rates.
Case study 1: Social partners' consensus and differences on minimum wage

This case study is based on interviews that the authors conducted with high-level representatives of the social partners (GSEE, SEV and GSEVEE), members of the think tanks of these organizations, as well as with owners of small (10–49 employees) enterprises from the retail and manufacturing sectors. This case study was directly aimed at identifying social partners’ views on four main aspects of minimum wage reforms in Greece: employment effects, differentiation of minimum wage rates by tenure, minimum wage and tax reforms and, finally, the minimum wage's redistributive function.

A fundamental consensus

The representatives of the social partners in Greece appear unanimous in their support for the minimum wage institution as it currently exists: representatives of both employers’ associations and the trade unions have declared their belief that the existing system of free bargaining about the minimum wage – that is, without government interference – delivers an “efficient” outcome in the sense that the resulting agreement wisely balances the real income concerns of workers with the concerns of employers about the profitability and survival of their companies. Nevertheless, and as one would probably expect, despite this fundamental agreement about the main features of the minimum wage institution, crucial differences remain between the social partners about its role and scope in achieving some broad economic and social objectives.

Employment effects: diverging views

There are disagreements between workers and employers about the employment consequences of changes in the real value of the minimum wage. For both trade union representatives – at the level of the GSEE’s governing council and members of the Labour Institute (INE), which is the think tank of the GSEE – the existing level of the minimum wage is significantly below the level at which further increases may be reasonably expected to have negative employment effects. To support their belief they point, first, to the far higher increase in business productivity than in the real value of the minimum wage that has taken place in Greece either during the past ten years or (even) since the restoration of democracy in 1974 and, second, to the significant rise in the share of profits in national income that has taken place during the past two decades. A significant rise in the minimum wage – for example, in the order of 20 percentage points above what was recently concluded by the social partners – may even have a positive effect on employment: this belief is based on a post-Keynesian model in which the level of employment is determined by the level of aggregate demand, which is, in turn, positively related to a
redistribution of income from profit-recipients to wage earners, as the latter group is expected to increase its spending by a larger amount than the reduction in the spending of the profit-recipients. In their view these conditions are actually met in the Greek economy. Their proposal is that the rise in the minimum wage should be imposed gradually, so that adjustment at the company level comes through changes in hours of work, work organization, capacity utilization, labour and capital productivity and investment.

The employers' representatives have been willing to concede the possible influence of the abovementioned redistribution on aggregate demand; this influence seemed to be an important factor for the representative of GSEVEE, an employer group representing mainly owners of micro firms – fewer than ten employees – that produce mainly non-traded goods. Nevertheless, representatives of both SEV and GSEVEE think that even a smaller rise – for example, in the order of 5 percentage points above what was recently agreed by the social partners – would have some negative employment effects, and may force some barely surviving micro enterprises out of business (both representatives think that the incidence of minimum wage pay is higher in micro firms). Concerning the trade union argument that wage increases (both minimum and average ones) have been lagging behind increases in labour productivity in the business sector, the employers think that it is misplaced, for two reasons. First, they point out that the measure of labour productivity used does not take into account the contribution of capital to productivity improvements. According to them, most of the rise in labour productivity must be attributed to improvements in the quality and quantity of capital goods. Thus, workers are not justified in thinking that the reduction in the labour share implies that labour is not receiving its “fair” share of the social product. Second, they claim that the rapid rise in average productivity masks large differences in productivity developments between firms – an argument that was mainly presented by the owners of micro and small enterprises of 10–49 employees. These differences (arising due to firm size, access to finance or type of activity), imply that some firms have been experiencing increases in labour productivity at, or below, the rise in wages. Thus, they argue, further increases in labour costs will force these firms out of business and employment will decline.

**Employers’ two proposals for cutting labour costs**

The employers’ representatives, particularly those of micro and small enterprises, pointed out that it is the total cost of labour – that is, both wage and non-wage costs – which is a significant determinant of their profitability. They would thus be willing to see modest rises in the minimum wage if these were either: (i) followed by sufficient reductions in the payroll taxes paid by firms (especially those imposed on minimum wage workers) so that the total cost of minimum wage labour decreased; and/or (ii) if they involved a fixed nominal
amount (rather than a percentage increase) that would not escalate in value when applied to minimum wage workers with many years' tenure and would not result in an equi-proportional rise in firms' total labour costs (wage and non-wage costs).

Reducing labour costs through lowering minimum wage taxes?
The trade unions have been ambivalent about the first proposal. After all, would not such a scheme, unless accompanied by an increase in income taxes to make up for revenue lost due to the reduction in payroll tax revenue, increase workers' after-tax income? Trade unionists fear that employers' reduced contributions to the social security system may further erode its viability, making it more likely that future governments will respond by cutting the size of workers' entitlements and/or paving the way for its privatization. They thus object to the long-term adverse consequences of such a scheme, regardless of its short-term benefits, particularly since they do not expect that it will lead to a rise in employment.

The words of one trade union official -- "we do not want to decrease the cost of labour to firms" -- reflect the received wisdom of the GSEE: not only are enterprise profit margins excessive, and so firms need no government help in order to survive, but it is imperative that labour receives its fair share of social output.

A flat rate for wage earners of different tenure?
In proposing the second scheme -- that is, a flat rate for different minimum wage earners -- the employers wish to avoid the strong signal that the percentage increase in the nationally set minimum wage sends regarding all the sectoral or enterprise wage negotiations; in principle, they would welcome higher increases in the minimum wage (for example, €60 per month instead of the approximately €40 agreed in the recently concluded negotiations as a result of the announced percentage increase) as long as it was thought of as a lump-sum increase applying to all minimum wage earners, independent of education, tenure or family status. Employers have called into question differentiated minimum wage rates. The employers also think that such a change in the way the result of minimum wage negotiations is announced would "free" trade unionists in declining or senescent industries from the "obligation" to present to their rank-and-file proposals about percentage wage increases for all categories of workers at least equal to the nationally agreed ones on the minimum wage, so allowing some enterprises to survive.

The trade unions clearly stated that they were against the second scheme. Their objection is based on worker solidarity and their perception that it would eventually lead to an erosion of the current system of minimum wages differentiated by tenure, education, family circumstances, and so on. The employers
claim that the current system is an outgrowth of the period of high inflation, and that in today’s stable inflation environment it would make no sense (inflation rates had not undergone a significant rise at the time of the interviews).

The minimum wage as a redistributive tool
The previous paragraph implies that the minimum wage is seen as a fundamental institutional achievement of the working class in its effort to minimize the exploitation of workers by capitalists, and as an efficient redistributive device. It is for this reason that trade unionists appear hostile to letting the “market” determine the wage rate and to having the government assume the responsibility of supplementing the wages of the low paid by an amount which society – or rather the government – deems necessary in order to bring the incomes of the low paid to an “acceptable” level. Thus, schemes such as the Earned Income Tax Credit (which are used in various guises in many OECD countries) are rejected outright as an obvious effort by government to transfer tax revenue to capitalists.

It is interesting to note that many employers are also hostile to the idea of replacing the “safety net” provided by the minimum wage by subsidies to workers who do not manage to earn enough through their employment. These employers fear that some “socially irresponsible” employers may exploit their power and pay workers far below their productivity. (Individual workers would, in principle, have no objection to this, since their total income would not be affected.) This would not only create a burden on the budget (thus creating the need to find extra sources of revenue), but would also allow these employers to acquire an “unfair” advantage over their socially responsible competitors, thus propagating an inefficient mode of competition. The employers’ representatives also tend to see the redistributive role of the minimum wage in a positive light since, unlike other methods of redistribution, and, provided that it is not set at too high a level, it does not impose any direct costs on government finances and creates a level-playing field among producers.

Case study 2: What is the role of the minimum wage in relation to low pay?

In this case study we make use of some recently available data in order to gauge the possible influence of minimum wages on the incidence of low pay. These data are from IKA (Foundation of Social Insurance), the main social

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3. For a politico-economic analysis of this issue, see Adam and Moutos (2006).
insurance organization for private sector employees in Greece. The proportion of private sector employees insured by IKA ranged between 58 per cent and 65 per cent of all private sector employees from 2002 to 2006. This (public) organization provides insurance mainly for workers without a higher education, so that their reported average earnings are lower than the average earnings of private and public sector workers that were used in calculating the ratio of minimum to average wages in Section 7.4.

According to the IKA data, the average annual (gross) wage of its members, excluding construction workers, stood at €14,868 in 2006, implying a monthly wage of €1,062. Thus, if one were to calculate the minimum to average wage ratio on the basis of the IKA data, it would stand at 57.8 per cent in 2006, compared to the economy-wide ratio of 41 per cent. Figure 7.10 shows the economy-wide distribution of income for IKA-registered wage earners in 2006. The recorded data show the total income for each individual from all jobs they may have had during a particular month; it thus includes individuals who may have had two – or more – part-time jobs, as well as individuals who may hold a full-time and a part-time job. It also includes individuals who may have had only a part-time job. We note that approximately one in five workers (20 per cent) did not earn in total, from all the jobs they may have held, more than the monthly income of a full-time minimum wage earner. This figure is similar to the estimate offered by Dolado et al. (1996). Although this figure may include most part-time workers, the incidence of part-time work was less than 6 per cent in 2006 (and it has remained less than 6 per cent of

![Figure 7.10](image_url) Cumulative distribution of monthly earnings of insured population and the minimum wage, 2006 (%)

Source: IKA (http://www.ika.gr) and authors' calculations.
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total employment throughout the past decade), something that leads us to a reasonable estimate for the proportion of full-time workers earning the minimum wage in 2006 of about 15 per cent. This suggests that the conduct of minimum wage policy is bound to have important effects on the Greek economy. The large incidence of the minimum wage testifies not only to its importance as a redistributive device in Greece, but it also signifies, in conjunction with both its signalling role for the sectoral and occupational wage bargains following the EGSSE and the limited openness of the Greek economy, that it is an important determinant of price levels as well.

The impact on the low paid

The IKA data also provide us with a way of discerning the impact that the minimum wage may have on low-paid work. From Table 7.3 we note that the percentage of low-wage workers – that is, those receiving less than two-thirds of the average wage in the IKA database – increased from 24 per cent in 2002 to 39 per cent in 2004, and then declined to 31 per cent in 2006.4 The rise and decline in the proportion of low-wage workers to be found in this database is correlated with the fall of the minimum to average wage ratio from 2002 to 2004 and its subsequent rise from 2004 to 2006 reported in Figure 7.7 for the whole economy. It therefore appears that increases in the minimum to average wage ratio ripple through the lower part of the wage distribution. The higher percentage of women at minimum wage and their lower wages (confirmed as 75 per cent of those of men in Table 7.3) emphasizes how much the minimum

Table 7.3 Gender-wage differentials and low-wage workers, Greece, 2002–06

<table>
<thead>
<tr>
<th>Year</th>
<th>Average monthly wage – annual/12 (€)</th>
<th>Men’s average wage – annual/12 (€)</th>
<th>Women’s average wage – annual/12 (€)</th>
<th>Women’s/men’s average wage (%)</th>
<th>Low-wage workers – 2/3 of average wage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>848</td>
<td>952</td>
<td>718</td>
<td>75</td>
<td>24</td>
</tr>
<tr>
<td>2003</td>
<td>917</td>
<td>1,047</td>
<td>760</td>
<td>73</td>
<td>37</td>
</tr>
<tr>
<td>2004</td>
<td>980</td>
<td>1,110</td>
<td>821</td>
<td>74</td>
<td>39</td>
</tr>
<tr>
<td>2005</td>
<td>1,019</td>
<td>1,157</td>
<td>856</td>
<td>74</td>
<td>35</td>
</tr>
<tr>
<td>2006</td>
<td>1,062</td>
<td>1,203</td>
<td>900</td>
<td>75</td>
<td>31</td>
</tr>
</tbody>
</table>

4. The large rise from 2002 to 2003 suggests that the data for 2002 may not be as reliable as the data for the following years. This may be due to the fact that 2002 was the first year for which data were collected, thus making it likely that the usual problems regarding organizational efficiency in classifying the data, as well as in dealing with (under)reporting and non-compliance by employers who are (by law) obliged to report the data, were at their highest.
wage could be particularly relevant for this vulnerable group of workers, also more affected by the low-pay and working-poor phenomenon.

Case study 3: Minimum wage to address regional unemployment?

In this case study we use data from the IKA database in order to analyse the significance of the regional dimension in shaping minimum wage policy. The regional wage differentials apparent in the IKA database translate into significant variations in the minimum to average wage ratio (MW/AW) across the 13 Greek regions (at the NUTS II level). The region with the highest average wage is Attiki. This region includes the Athens metropolitan area and comprises close to 40 per cent of the Greek population. The region with the lowest average wage is Western Macedonia, a sparsely populated region with little industrial activity. The MW/AW ratio stood at 0.52 in Attiki in 2006, and at 0.74 in Western Macedonia. The large value of this ratio for Western Macedonia has given rise to the view that the potential dis-employment effects of minimum wage increases will be more pronounced in this area. This view is based on the fact that, in regions with a lower average wage, the proportion of people earning more than the national minimum wage will be smaller, and therefore the impact of minimum wage increases will concern a larger number of workers, thus making the impact of minimum wage increases more pronounced in such regions. Moreover, it has given rise to demands by employers' associations to differentiate minimum wages according to regional conditions. To date, no political party has even considered the merits of such a policy, but a continuing divergence in regional conditions may make it politically necessary in the future.

Does the national minimum wage explain regional unemployment?

We start our examination of the relationship between the regional MW/AW ratio and the regional unemployment rate by looking at the evolution of both in the regions with the highest and the lowest MW/AW ratio. From Figure 7.11, we observe that, if anything, the two variables are negatively related in Western Macedonia (panel A); that is, the rise in the MW/AW ratio did not result in a higher unemployment rate. Restrictions of space prevent us from displaying the relevant figures for all other regions, but suffice to say that not only does a similar picture emerge for the other regions as well, but also that this picture is not different for the region with the lowest MW/AW ratio, as shown for the Attiki region, where the increase of the MW/AW (although lower than in Western Macedonia) has corresponded to a slight decrease of the unemployment rate. A uniform national minimum wage does not seem to have brought regional unemployment.
What are the effects of minimum wages on female employment?
The apparent lack of the, as traditionally conceived, influence of the MW/AW ratio on the regional unemployment rate may nevertheless mask effects on the composition of the regional unemployment rate (see Neumark and Wascher 2007). The usual theoretical assumption is that, in regions in which the MW/AW ratio is large, the unemployment rate for females will be higher than...
that for males. This is because females earn on average less than males in all regions, and thus we expect that a higher MW/AW ratio will have a stronger effect on the employment opportunities of females and exert a positive influence on the gender wage gap (defined here as the ratio of female to male wages). Figure 7.12 shows that there is, indeed, a positive relationship between the MW/AW ratio in each region and the female to male wage ratio (for both variables we have used their average value over the 2002–06 period); the t-statistic of the linear regression coefficient of the MW/AW ratio on the ratio of female to male wages is 2.24, indicating a statistically significant relationship between the two variables. The MW/AW ratio thus appears to increase the female wage to male wage ratio and thus reduce the gender wage gap, with a degree of influence on local gender wage inequality. However, this proportional increase in women’s wages may lead employers to hire fewer women and so increase women’s unemployment.

However, we found that there is no statistically significant relationship between the MW/AW ratio and the female to male unemployment-rate ratio (averaged over 2002–06). Figure 7.13 shows the scatter plot of these variables, from which it is not easy to discern either a positive or a negative relationship between the MW/AW ratio and the ratio of female to male unemployment rates; indeed, the t-statistic for the coefficient of the MW/AW ratio on the ratio of unemployment rates is 0.57, indicating non-significance.

This lack of a statistically significant influence of the MW/AW ratio on gender-related unemployment rates holds also for the relationship between the MW/AW ratio and the age-related unemployment rates. Figure 7.14 presents the scatter plot for the ratio between the unemployment rate for 15–24-year-olds and the unemployment rate for 25–64-year-olds and the MW/AW ratio; the t-statistic of the linear regression is 0.92, indicating the absence of a statistically significant relationship between the two variables. We therefore have no indication of influence on the part of the – nationally determined – minimum wage on either the gender-related or the age-related distribution of unemployment rates across regions.

While the evidence presented in this section may not positively disprove the idea of regionally differentiated minimum wages, it nevertheless casts some doubt on the presumed effectiveness of such a policy in fighting regional unemployment problems. Moreover, it suggests that the proper design of such a policy, if it is deemed worthwhile, must await a more detailed investigation of the issue when more data become available.
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Figure 7.12 MW/AW and the gender wage gap (ratio of female to male wages), Greece

Source: IKA (http://www.ika.gr) and authors' calculations.

Figure 7.13 MW/AW ratio and the ratio of female to male unemployment rates, Greece

Source: IKA (http://www.ika.gr) and authors' calculations.
Figure 7.14 MW/AW ratio and the ratio of age-related unemployment rates

Source: IKA (http://www.ika.gr) and authors' calculations.

7.6 CONCLUSION

It would be a gross exaggeration to assert that there has been a “public debate” about the appropriate role of minimum wage policy in Greece. The viability of the minimum wage institution has not been questioned by either the political parties or the social partners. This attitude reflects their belief (see case study 1) that, although “created by the government”, the minimum wage is a relatively efficient redistributive device and – importantly – does not create any (at least direct) need for further tax obligations (see Freeman, 1994, 1996; Dolado et al., 2000). Moreover, as our case studies attest, changes in the real value of the minimum wage are considered by the social partners (case study 1) to be important determinants of the functional distribution of income (that is, the division of the social product between wages and profits), and there is some factual evidence that they may contribute to reducing low pay and the gender wage gap, while not creating adverse effects on employment (case studies 2 and 3).

The relatively insular nature of the Greek economy in the past meant that governments cared about minimum wage policy within their “incomes policy”, a term capturing the efforts of successive governments to control inflation through wage moderation. However, the continuing integration of the Greek economy with that of the rest of the world, as well as the large inflows of immigrants and the widening of wage and employment disparities will intensify the debate about the appropriate minimum wage policy in the near future.
The rise in the real value of the minimum wage, as well as the relative increase of its ratio to the average wage (since 2003) are certainly signs of a resurgence of minimum wage policy in Greece. Despite the economic crisis, this orientation has not been challenged – at least not yet – probably because the last minimum wage agreement was concluded in April 2008 (before the crisis hit Greece) and will last until spring 2010. By then, however, the employers may have begun to question it, if the crisis continues.

The issue of regionally differentiated minimum wages may soon also become an important issue of the policy debate and the bargaining agenda surrounding the biannual signing of the EGSSE. Some employer representatives have started to claim that the minimum wage should be set at a lower level in regions suffering from high and protracted unemployment and from an exodus of firms to low-wage neighbouring countries. Our analysis of this issue (case study 3) suggests that the social partners should not take for granted the effectiveness of such a policy.

At the same time, we saw that employers would like to reform differentiated minimum wage rates, as defined in the national agreement (EGSSE), which also fully extends these rates to all workers in Greece. Nevertheless, as the current situation can be described as one of distrustful labour relations and low union density, it is understandable that the unions would not be willing to see such a “deregulation” of the way in which minimum wage fixing currently takes place. A reduction in the “state regulation” of the minimum wage in Greece may thus first require a strengthening of the institutions promoting unionization and collective bargaining if the unions are to acquiesce to it.

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