GREEK PUBLIC SERVICE EMPLOYMENT RELATIONS IN THE ERA OF SOVEREIGN DEFAULT: A GORDIAN KNOT?

Christos A. Ioannou
Economist (PhD)
Organisation for Mediation and Arbitration
Athens,
Greece
Email: ioannou@omed.gr
July 2012

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Extended Summary

The crisis in public sector employment relations in Greece is more than a fiscal consolidation procedure or a public management reform for gradual adjustment. It is a “critical juncture” caused by the shock/collapse of a Southern European model that, under the eurozone participation, perceived its buttressed old characteristics as everlasting and sustainable, and opens a possibility of change albeit with conflict and pain.

At the heart of the public sector employment relations crisis in Greece lays the imbalance between the exposed and the protected sectors of the Greek economy. Imbalance that has been exacerbated since the Eurozone participation started in 2001. The protected sector, which includes central and local government, public utilities, construction, etc, crowded out further the exposed sector producing traded goods and services. Despite the political economy argument that, since the Greek entry in the Eurozone, the economy will adjust to the new competitive conditions of the currency union, the protected public sector grew up fast to accommodate the avoidance of competitive adjustment in conditions of currency union.

The public sector grew up fast both in terms of public sector expenditure in GDP (jumped in the range of 45% in 2000-2005 and skyrocketed in the range of 50% in 2006-2010, despite a permanent 10% gap in public sector revenue) and in terms of employment. This was made possible with low interest rates/ cheap loans which filled the gap in financing persistent and growing public sector deficits and the resurfaced and steadily increasing primary public sector deficits. It evolved under the rhetoric and the illusion of “convergence”, based on the illusion of the financial integration. The flow of loans from North to Greece was seen as a process of convergence. But the only convergence that occurred referred to that of the interest rate, and this ended abruptly in 2010.

The 2009-2010 crisis, which did not came only from outside – the global financial sector – but largely by the inside - the unsustainable public sector deficits-, ended years long public sector aphasia. Successive and incremental waves of emergency measures were introduced in most policy areas

- first wage freezes, then wage cuts, then another wage cuts, then an new pay system for the public sector,
- first hiring reductions, then hiring freezes, then marginal personnel cuts, then plans for radical personnel reductions (by 20% up to 150000 public sector job cuts by 2015),
- successive restructuring initiatitives and mega privatization plans amounting to 25% of GDP
- available institutional means for joint regulation of public sector employment relations through consultation or collective bargaining have been annulled .

Policy initiatives since 2010 have been mainly driven by macroeconomic priorities: the aim to reduce public sector deficits and move fast towards primary surpluses. However, as analysed in the paper, these policy initiatives have been successive and incremental not because of policy design based on detailed diagnosis, prognosis and assessment of self reform capacity (elements that have been missing at the initial stages) but because of policy failures that in turn led to ad hoc "surgery cuts" with regard to containing macroeconomic imbalances, mainly public sector deficit. Because of this despite good progress in bringing down deficits, reform initiatives proved not viable.

Decision making has been unilateral, based on centralized emergency interventions. Initiators on cuts and reforms were primarily the IMF-EU-ECB "Troika". The aim of radically reshaping public sector and public sector employment relations missed the benefits of consultation and led to complete break up with public sector employees and their representation (causing successive waves of strikes and manifestations) as well as large segments of the state bureaucracy. Reviewing policy procedures led to setting up an alternative, parallel, mechanism for policy design and monitoring: the so called "EU Task Force" to deal more systematically with reform design, implementation and change. All three parts of the public sector (Central Administration, Local Government, State Owned Enterprises) are to be subject to major reforms.

The setting up of the Task Force next to the Troika has been based on the need for another policy stance parallel to that of macroeconomic adjustment. In a nutshell, the adjustment and reform policy had to start dealing also with the 47% of GDP (out of the 50% of GDP in public sector expenditure) i.e. to move beyond the excessive deficit surpassing the benchmark 3% of GDP public sector deficit.

During the last decade, the aphasia period of public sector deficits, there was no much room for public sector reform. The first decade in the Eurozone exacerbated some key characteristics of the Southern European Greek administration and public sector: legalism politicization and clientelism. The illusion of availability of resources allowed more of this, not less. The well known "political mass party clientelism" i.e. the phenomena of "organized political party use of state resources to win the client's electoral support" flourished.

Not surprisingly before the 2009-2010 crisis the Greek public sector coexisted with citizens negative perceptions about the quality of government and of public sector services provision. Education, health, security, welfare have grown through dual or hybrid systems, where the payers of high taxes, direct and indirect and of large non wage labour costs, enjoyed the relevant welfare services only after having to pay for a second time in private. It has been the heyday for mechanisms of induced demand.

The need for radically reshaping public sector that provided jobs and produced derived demand for favoured segments of the private sector, including public sector employment relations has been widely acknowledged. The eruption of the Greek crisis in 2010 raised key questions as to whether to touch upon the mechanism of political appointees in the public sector. This changed but without affecting those that had entered for years in public service employment jobs by means of temporary contracts transformed into permanent contracts, against Constitution provisions.

The policy mix that gave priority to tax increases instead of expenditure cuts, without differentiating between the protected and the exposed sectors of the economy, and its inclusion in the legal formalism that had to be followed for government policy making and the programme implementation (through laws, regulations, provisions, decrees, that in many cases remained in paper) contributed so that early in 2011 the Troika and government programme lost its erratic legitimacy.

In many cases relevant to public sector reform and public sector employment relations, as explained in the paper, the programme delivered the worst of all words. Lack of prorgamme ownership and lack of learning from the many other experiences in public sector reforms indicate that with regard to public sector employment relations applies our conclusion concerning the private sector employment relations in Greece where "neither national political forces, nor the national social partners seem to embody 'the capacity of a country to amend the logic of its history'. They are not, as yet, 'its central decision-makers to move it out of its existing trajectory' through this 'long and painful process of adjustment'"[1]

However the Greek crisis leads support to the historical institutionalism approach that "real substantial changes are possible when a hard external shock occurs". The Greek crisis is such a case where the "critical juncture" is to last for years and substantial change is "possible". Its feasibility depends on agents, actors, plan, strategy, etc. as effective reforms can mainly be endogenous and for Greece drafted to rebalance employment relations, pay comparability, collective regulation, representativity etc. between the exposed and the protected sectors of the Greek economy.

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[1] Ioannou, Christos A. 'Recasting Greek Industrial Relations: Internal Devaluation in Light of the Economic Crisis and European Integration'. *The International Journal of Comparative Labour Law and Industrial Relations* 28, no. 2 (2012): 199–222.