CHAPTER 3

REMOVING DEMAND-SIDE BARRIERS

The current economic slowdown has brought the importance of labour demand conditions to youth labour market performance back to the fore. Across OECD countries, the youth employment rate is more sensitive to the business cycle than that of adults, making youth particularly vulnerable in the current economic environment. In addition, some structural issues related to labour demand persist in many countries. As new entrants to the labour market, youth are more likely to be affected by institutional arrangements that weaken labour demand.

This chapter reviews demand-side barriers affecting youth labour market performance in Greece. Section 1 examines the responsiveness of youth employment rates to the business cycle. Sections 2 and 3 discuss whether minimum wages, labour costs and employment protection legislation represent significant barriers to youth labour market entry in Greece. Finally, Section 4 explores the demand for university graduates in Greece and discusses their skill deficit.

1. Economic growth and youth employment

### *A.   Youth employment is more sensitive to the business cycle than adults' employment*

GDP growth is a key determinant of short-run labour market performance and there is evidence that youth employment tends to be more sensitive to changes in the business cycle than adult employment (Figure 3.1).

Figure 3.2 shows deviations of employment rates from their long-term trend in relation to recession episodes in Greece, the United Kingdom, the United States and Spain. Youth employment drops much more than that of adults during cyclical downturns and the difference between the two age

groups is particularly marked in Greece and Spain. Over the past two decades, the responsiveness of youth employment rates in Greece and the United States has remained fairly constant while it has declined in Spain and in the United Kingdom.

Figure 3.1.   **Youth employment rates and GDP,[a] 1986-96 and 1997-2007**

Percentage deviation[b] of employment rates and GDP from their respective trends[c]
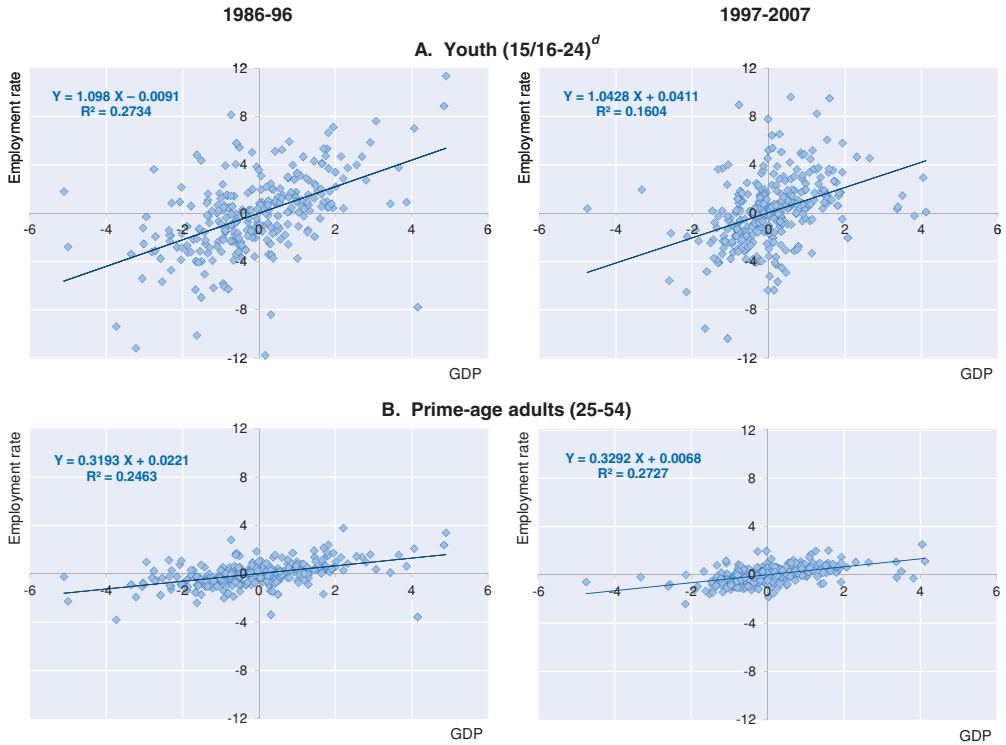
a) The sample includes the following countries: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Korea, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, the United Kingdom and the United States.

b) Each point in the chart represents a country-year observation of the percentage deviation of the employment rate and GDP from their respective trends.

c) The trends have been established through a Hodrick-Prescott filter imposing identical smoothing factors for employment rates and GDP in all countries.

d) Youth aged 16-24 for Iceland, Norway (until 2006), Spain, Sweden, the United Kingdom and the United States, and 15-24 for Greece and all other countries.

Source: OECD National Accounts database for GDP, and *OECD Labour Force Statistics database* for employment rates.

Figure 3.2. **Youth and adult employment rates and economic cycles, Greece, Spain, United Kingdom and United States, 1985-2007**

Percentage deviation of employment rates from their respective trends[a]
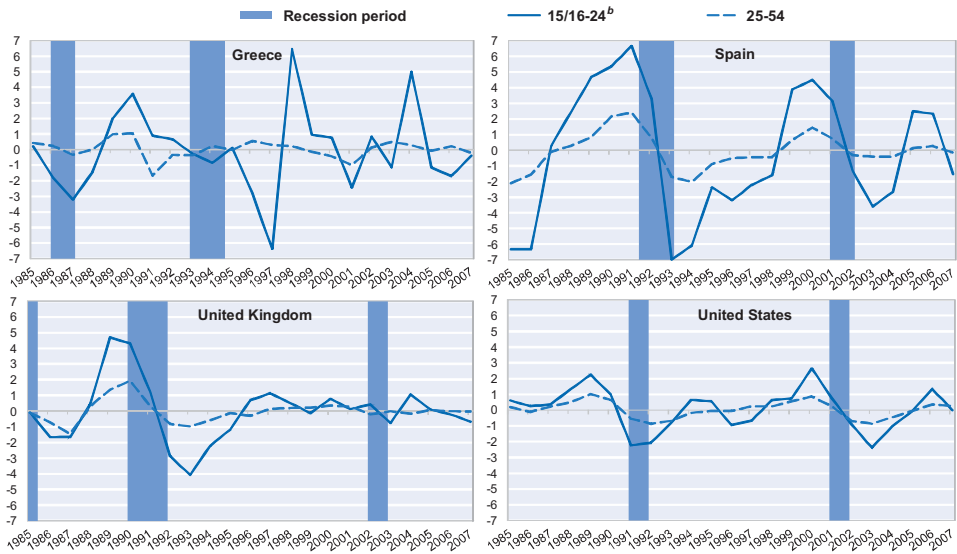
a) The trends have been established through a Hodrick-Prescott filter imposing identical smoothing factors for youth and adult employment rates. For Greece, the trough and peak observed in youth employment in 1997 and 1998 respectively are likely to be magnified by a break in the employment series.

b) Youth aged 15-24 for Greece, and 16-24 for Spain, the United Kingdom and the United States.

Source: OECD National Accounts database for recession periods, and *OECD Labour Force Statistics database* for employment rates.

B. *Youth labour market performance is likely to worsen further in Greece as the country enters recession in 2009*

As highlighted in Chapter 1, the unemployment rate of Greek youth rose by 3 percentage points between the third quarter of 2008 and the corresponding quarter of 2009. Things are likely to worsen further as the Greek economy faces recession and a public finance crisis.

Over the first three quarters of 2008, the Greek economy withstood the global financial crisis relatively well. GDP growth slowed significantly compared with growth rates of 4% annually over the previous decade but, contrary to many other European countries, Greece registered negative GDP growth only in the fourth quarter of 2008. Indeed, the Greek economy

benefited from a more favourable environment than the rest of the euro area
since Greek exports directed towards the Balkans remained relatively robust
until the end of 2008 (OECD, 2009c). Greece also suffered less from the
initial financial turmoil thanks to its banking sector's low exposure to the
toxic assets that provoked the crisis.

However, economic activity fell significantly in the fourth quarter
of 2008 (Figure 3.3) and the OECD is projecting that GDP will fall by 1.1%
in 2009 and by 0.7% in 2010 (OECD, 2009d). In addition, at the end of
2009, the incoming Greek government made it public that the country was
facing a major fiscal crisis, with a public deficit estimated at 12.7% of GDP
in 2009 and debt above 110% of GDP.

Figure 3.3.   **Quarterly GDP growth, Greece and OECD, 2004-09**

Annualised quarterly growth rates of real GDP
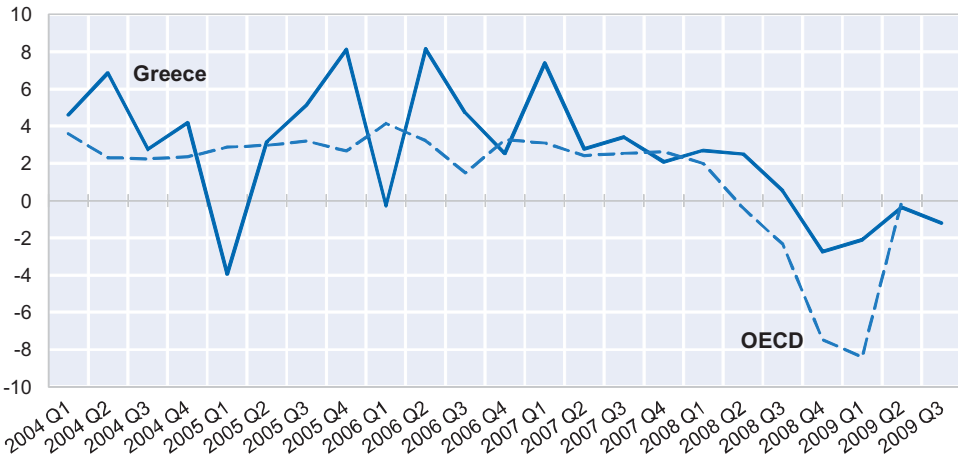
Source: OECD National Accounts database.

Current OECD growth projections for Greece suggest that youth labour
market performance could deteriorate significantly over the two
coming years. The youth employment rate is projected to fall by
1.5 percentage points between 2009 and 2011 and the youth unemployment
rate is projected to rise by close to 2.5 percentage points. This is in stark
contrast with projections for 25-54-year olds. In fact, the employment rate of
prime-age adults is likely to remain unchanged and their unemployment rate
is projected to rise by just 1 percentage point (Table 3.1).

Table 3.1.   **Employment-rate projections^a by age, Greece, 2007-11**

Percentages

	Real GDP growth^b	**Employment rate^c**		**Unemployment rate^c**	
		15-24	25-54	15-24	25-54
2007	4.5	24.0	75.6	22.9	7.1
2008	2.0	23.6	76.2	22.0	6.6
2009	**-1.1**	**22.8**	**75.5**	**25.9**	**8.3**
2010	**-0.7**	**21.9**	**75.5**	**27.8**	**9.0**
2011	**1.6**	**21.3**	**76.0**	**28.3**	**9.1**

a)   The projections are derived as follows: *i)* the unemployment-rate trend has been established through a Hodrick-Prescott filter; *ii)* the elasticity of the unemployment rate to the output gap is calculated by regressing the deviation of the unemployment rate from its trend on the output gap and its lags; *iii)* the unemployment-rate trend projection is obtained using double exponential smoothing; and *iv)* the estimated elasticity is applied to OECD output-gap projections to obtain the forecast unemployment-rate deviation from its trend which is then summed to unemployment-rate trend to obtain the unemployment-rate projection shown in the table. This procedure is carried out separately for each age group. Employment-rate projections are obtained using a regression model which includes a linear trend, the output gap and its lag.

b)   OECD GDP growth (2007, 2008), and GDP-growth projections (2009, 2010, 2011) for the year shown.

c)   The European Union Labour Force Survey is used to obtain quarterly employment and unemployment rates. As a result, the rates reported in this table for 2007 and 2008 differ slightly from those reported in Figures 1.2 and 1.3 obtained from national labour force surveys.

Source: OECD estimates based on the European Union Labour Force Survey for employment and unemployment rates; and OECD (2009d), *OECD Economic Outlook*, No. 86 for GDP.

C.   *The weakening tourism outlook may cause a significant rise in youth unemployment over the summer*

In 2007, one in seven Greek youth worked in the Hotels and Restaurants industry, the largest share across European countries (Figure 3.4). The shares of Greek youth working in Construction and Agriculture were also above the European average while Greece had one of the smallest shares of youth working in Manufacturing across European countries.[50]

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50.   Over the past decade, changes in the structure of Greek industry – notably, the decline of Agriculture and the rise of Real Estate and Construction – have helped Greek youth employment slightly. If the structure of Greek industry had remained the same as in 1997, youth employment in 2007 would have been 1 percentage point lower.

The structure of youth employment by industry suggests that the youth unemployment rate may rise significantly in the third quarter of 2009 as a result of the expected contraction in tourism. Indeed, in March 2009, hotel reservations were around a fifth lower than a year before (OECD, 2009b).

Figure 3.4. **Youth employment share, selected industries, Greece and Europe, 2007**

Share of 15-24-year-old employed youth

Source: OECD estimates based on the European Union Labour Force Survey.

D. *Some features of the Greek economy may shelter its labour market from the current recession*

Several factors could moderate the projected deterioration in labour market outcomes in Greece compared with the OECD average. First, the sharp downturn in activity has caused a significant cutback in overtime work. Anecdotal evidence also suggests that some firms have concluded informal wage-moderation agreements to avoid layoffs, and a wage freeze has been announced in the public sector (OECD, 2009b). Furthermore, some observers have highlighted the importance of the underground economy. While this feature constitutes a structural weakness which needs to be corrected, it may also represent a source of resilience and jobs under current circumstances as it is less dependent on traditional channels of finance. Finally, Greece will continue to receive significant financial support from the European Union – amounting to 1.3% of GDP annually until 2013 – in the form of European Structural Funds.

2. Wages and labour costs

A.　　　*Youth relative wages are low by international standards except for teenagers*

Analysis of the bottom half of the earnings distribution shows that, in 2006, 20-34-year-old Greek youth earned significantly less than their Australian, British and, to a smaller extent, Spanish counterparts (Figure 3.5). On the other hand, the relative wages of Greek teenagers were similar to those of teenagers in the other OECD countries included in Figure 3.5.

Figure 3.5.　　　**Median wages of full-time workers by age, Greece and selected OECD countries, 2006**

Percentage of full-time median wages
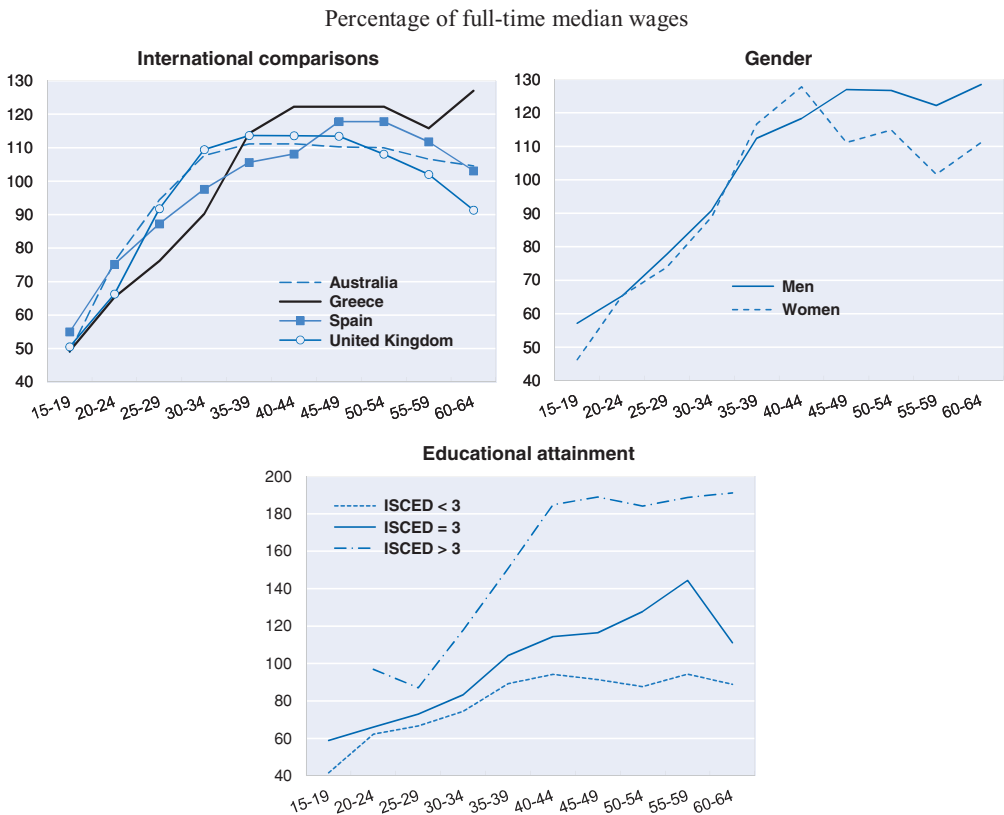
Source: OECD estimates based on the European Union Survey of Income and Living Conditions for European countries, and *OECD Earnings Distribution database* for Australia.

The relative wages of teenage women are lower than those of teenage men but the two distributions overlap between 20 and 40 years of age, suggesting that the gender wage gap may be less of an issue than the difference in labour force participation rates. Unsurprisingly, the relative wages of Greek youth with an upper secondary qualification or less are significantly lower than those of their more qualified counterparts.

B.   *There is no sub-minimum wage for Greek youth*

Greece is one of 21 OECD countries with a statutory minimum wage. On the other hand, contrary to approximately half of these countries, no special provisions exist for youth or trainees. In addition, Greece is unusual in having 22 different levels of the minimum wage set according to family and professional status as well as work experience. Also unique is that these nationwide legally-binding rates are set by the social partners with no direct input from the government.

Single blue-collar workers without experience are entitled to the lowest minimum-wage rate. Married blue-collar workers have the right to approximately 10% more than their single counterparts, at each level of experience. Experience adds between 3% and 5% every three years for both single and married blue-collar workers. White-collar workers are entitled to a minimum wage that is 3% higher than that of blue-collar workers. The marriage premium is similar to that for blue-collar workers but the experience premium is much larger, at between 8% and 9% every three years. In May 2009, single blue-collar workers with no experience were entitled to EUR 33 per day (Table 3.2).

Although absolute levels are informative, the ratio of the minimum wage to the median wage is more appropriate when making international comparisons. Table 3.3 shows this ratio for adults, as well as for youth of various ages in those OECD countries with statutory minimum wages.[51] For Greece, the minimum rate for a single blue-collar worker without experience is retained for the calculations and yields a minimum-to-median ratio of 0.51

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51.   Countries have very different definitions of "youth" as far as the application of sub-minimum wages for youth are concerned. For instance, in the Netherlands, a youth sub-minimum rate is applicable until age 22 while in Ireland the sub-minimum only applies to youth aged 17 or under. For this reason, rather than presenting a "youth" minimum-to-median rate, Table 3.2 presents the ratio for youth aged 17, 18 and 20. It is important to keep in mind that in all countries with a youth sub-minimum, this special rate applies to 17-year olds. On the other hand, in some countries with a youth sub-minimum, 18- and 20-year olds are entitled to the adult rate.

irrespective of age. For adults, this rate is well above the OECD average of 0.45. For 17-year-old youth – to whom the same ratio applies – it is 15 points higher than the ratio applicable to youth of the same age in countries where a youth sub-minimum wage exists. Obviously, the minimum-to-median ratio would be even higher if the minimum-wage rate for married workers, white-collar workers and workers with some work experience was used instead of the basic rate.

Table 3.2.   **Minimum wages by work experience
and family and professional status, Greece, 2008-09[a]**

Euros

	Years of experience	Blue collars (daily)		White collars (monthly)	
		September 2008	May 2009	September 2008	May 2009
Single	0	31.3	33.0	701.0	739.6
	3	32.5	34.3	759.4	801.2
	6	34.0	35.9	828.4	874.0
	9	35.6	37.5	897.5	946.8
	12	37.1	39.2		
	15	38.7	40.8		
	18	40.2	42.4		
Married	0	34.5	36.3	771.1	813.5
	3	35.6	37.6	829.5	875.1
	6	37.2	39.2	898.5	948.0
	9	38.7	40.8	967.6	1 020.8
	12	40.3	42.5		
	15	41.8	44.1		
	18	43.4	45.7		

a)   Minimum wage increased by 3% in September 2008, and by 5.5% in May 2009.

Source: Greek General Confederation of Labour (GSEE), National Collective Agreement 2008-2009, *www.gsee.gr/userfiles/file/EGSSE/egsse2008-2009.pdf*.

The potential effects of minimum wages on youth employment and unemployment rates have been examined in a number of international studies (Box 3.1). The balance of this international empirical evidence suggests that too-high minimum wages can have a negative impact on youth employment.

Table 3.3. **Minimum wages (MWs) for adults and youth in OECD countries, 2006-08[a]**

Percentages

Numerator	Adult MW[b]	MW at 17	MW at 17	MW at 18	MW at 20
Denominator	Median wage	Adult MW[b]	Median wage	Median wage	Median wage
Australia[c]	0.54	–	–	–	–
Belgium[d]	0.53	0.76	0.40	0.44	0.50
Canada	0.43	–	–	–	–
Czech Republic[e]	0.38	0.80	0.31	0.31	0.34
Spain	0.39	–	–	–	–
France[f]	0.63	0.90	0.56	0.56	0.63
Greece[g]	**0.51**	**–**	**–**	**–**	**–**
Hungary	0.46	–	–	–	–
Ireland[h]	0.52	0.70	0.36	0.52	0.52
Japan	0.35	–	–	–	–
Korea	0.37	–	–	–	–
Luxembourg[i]	0.51	0.80	0.40	0.51	0.51
Mexico	0.20	–	–	–	–
Netherlands[j]	0.43	0.40	0.17	0.20	0.27
New Zealand	0.60	–	–	–	–
Poland[k]	0.41	–	–	–	–
Portugal[l]	0.48	0.75	0.36	0.48	0.48
Slovak Republic[m]	0.49	0.75	0.36	0.49	0.49
Turkey	0.36	–	–	–	–
United Kingdom[n]	0.48	0.62	0.30	0.40	0.40
United States	0.36	–	–	–	–
OECD[o]	**0.45 (0.49)**	**0.72**	**0.36**	**0.43**	**0.46**

– Not applicable.

a) Data refer to 2007 for all countries except for Australia, Canada, Japan, New Zealand, United Kingdom, and United States where they refer to 2008, and Turkey where they refer to 2006.

b) Full minimum-wage rate.

c) Youth are entitled to a reduced MW to be set in collective agreements.

d) Youth get an amount ranging from 70% of the adult MW at 16 to 94% at 20.

e) A reduced MW applies for workers under the age of 19 (80%) and for workers aged 19-21 with less than six-months job tenure (90%).

f) Youth aged 17 with less than six-months experience receive 90% of the adult MW and youth 16 or younger receive 80% of the adult MW.

g) The minimum-wage rate applicable to single blue-collar workers with no work experience is used in these calculations. Higher rates apply based on work experience and marital and professional status.

h) Sub-MW applies to youth younger than 18.

i) Youth aged 15 and 16 are entitled to 75% of adult MW, and youth aged 17 are entitled to 80% of the adult rate.

j) Youth are entitled to a reduced MW, varying from 30% for 15-year olds and 85% for 22-year olds.

k) There is no sub-MW for youth but school-leavers are entitled to 80% of the adult MW for the first 12 months in their first job held and 90% over the second year. But no age limit is set by law.

l) Sub-MW applies to youth up to 17.

m) Youth between 16 and 18 are entitled to 75% of the adult MW and youth under 16 to 50% (the latter is not used in practice as the minimum school-leaving age has been raised to 16, as a result 75% is used in the calculations).

n) Sub-MW applies to youth under 22. Two different rates apply: a development rate for youth aged 18-21 and an additional sub-minimum for youth aged 16-17.

o) Unweighted average. Average adult/median rate for countries with a sub-minimum for youth in parenthesis.

Source: OECD Minimum Wages database.

Box 3.1.   **The minimum wage and youth employment:
international evidence**

The impact of minimum-wage legislation on youth employment is *theoretically* ambiguous. While a high minimum wage may increase the rate of school dropouts and therefore labour force participation, it can also drive a wedge between youth labour costs and their expected productivity, thereby raising unemployment and discouraging some youth from entering the labour market. Target-efficiency considerations reinforce these theoretical arguments for establishing a youth sub-minimum (Neumark and Wascher, 2004; and Pabilonia, 2002), because the association between holding a minimum-wage job and poverty – the main argument for a minimum wage is to minimise working poverty – is especially weak for the very young (who often live with their parents). On the other hand, Manning (2005) shows that, in a situation where employers have significant market (or monopsony) power over their workers, a well-chosen minimum wage can actually raise youth employment.

The balance of international *empirical* evidence suggests that too-high minimum wages have a negative impact on youth employment, especially if combined with high non-wage labour costs (*e.g.* Abowd *et al.*, 1997; OECD, 1998; Neumark and Wascher, 1998 and 1999; Kramarz and Philippon, 2001; and Pabilonia, 2002).[a] The *appropriate* level cannot be determined on a priori grounds since it depends on the profile of the earnings/labour costs distribution which, in turn, differs significantly from country to country.

Too-high minimum wages may also have an effect on education enrollment. Theoretically, this effect could go either way. For example, if a higher minimum wage reduces the number of jobs available, more teenagers may remain in school because they cannot find jobs. A minimum wage increase may also raise the minimum level of productivity required for employment and some youth may return to education to acquire the necessary skills. On the other hand, higher minimum wages increase the opportunity costs of staying in education, particularly for very low skilled youth. Furthermore, by increasing the income of drop-outs relative to graduates, higher minimum wages may reduce the relative return to higher levels of education. Empirically, the balance of international evidence suggests that increasing minimum wages has a negative impact on the enrollment of teenagers in education but not of young adults and that the negative effect is particularly strong for youth with very low skills (Neumark and Wascher, 1995; Landon, 1997; Chaplin *et al.*, 2003; and Pacheco and Cruickshank, 2007).

Empirical evidence on the effect of higher minimum wages on on-the-job training provision is more mixed, with some authors finding statistically significant negative effects (Neumark and Nizalova, 2007) and others finding that minimum wages increase training provision (Arulampalam *et al.*, 2002).

a)   However, it should be added that analysts are not unanimous on this issue and some studies have failed to find significant negative employment effects (*e.g.* Card and Krueger, 1995; Stewart, 2003; and Hyslop and Stillman, 2004).

In Greece, the arguments for and against the introduction of a youth sub-minimum wage provide a mixed picture. As mentioned in Chapter 1, the incidence of low pay among Greek youth is very high compared with the other European countries for which this statistic is available. In addition, Greek youth find it more difficult to move to better-paid jobs than their European counterparts. However, the youth unemployment rate in Greece is among the highest in the OECD and the incidence of long-term unemployment is close to 40%. On balance, a sub-minimum wage for youth younger than 18 may ease access to the labour market and reduce the likelihood of unemployment and NEET status for this age group. A sub-minimum wage rate may also discourage early school leaving. At the same time, because the vast majority of Greek teenagers live with their parents, it is unlikely that a lower minimum wage would bring about a significant worsening of their living conditions.

C. *Labour costs are high for low-wage and minimum-wage earners*

But minimum wages are only one part of the story on hiring costs. High labour costs may also represent a barrier to the hiring of young people. In 2008, the tax wedge on earnings equivalent to two-thirds of the average wage[52] was 38% in Greece, very close to the EU19 average but 4 percentage points above the OECD average (Table 3.4). In addition, the tax wedge on these low-wage earners had risen by 2 percentage points between 2000 and 2008. As is the case in all OECD countries, the tax wedge on average earnings was higher than that on low earnings and the difference was slightly bigger in Greece than in the OECD or EU19 on average.

The analysis of labour costs is also essential when considering whether minimum wages represent a barrier to the hiring of young people. Figure 3.6 shows that in Greece, in 2006, the cost of employing a minimum-wage worker was 41% of the cost of employing an average-wage worker, compared with 38% in the OECD on average. This suggests that an alternative to the introduction of a youth sub-minimum wage would be to offer employers a reduction in non-wage labour costs for those youth employed at or around the minimum wage. However, a reduction in social security contributions around the minimum wage would be costly to finance and, if the fiscal balance is to remain unchanged, would imply increased contribution rates for higher earners, hence disemployment effects among them.

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52.   Because figures by age group are not available, this level of earnings for a single person without children is used as an approximation of the relative wage earned by a young worker.

Table 3.4.   **Tax wedge including employers' social security contributions in OECD countries, 2000 and 2008**

Percentages

	Tax wedge on low-wage earner[a]		Tax wedge on average earner[b]
	2000	**2008**	**2008**
Mexico	7.2	10.9	15.1
Korea	15.0	17.4	20.3
New Zealand	18.6	18.2	21.2
Ireland	18.1	16.0	22.9
Australia	25.4	21.9	26.9
Iceland	19.8	23.7	28.3
Switzerland	27.3	26.5	29.5
Japan	23.4	28.0	29.5
United States	28.3	28.0	30.1
Canada	27.8	26.6	31.3
United Kingdom	29.1	29.7	32.8
Luxembourg	31.5	29.6	35.9
Portugal	33.2	32.9	37.6
Norway	35.1	34.3	37.7
Spain	34.7	33.8	37.8
Slovak Republic	40.5	36.1	38.9
Poland	42.0	38.7	39.7
Turkey	39.1	37.6	39.7
Denmark	41.2	38.9	41.2
Greece	**35.6**	**37.6**	**42.4**
Czech Republic	41.4	40.0	43.4
Finland	43.0	38.3	43.5
Sweden	48.6	42.5	44.6
Netherlands	42.0	41.7	45.0
Italy	43.5	43.0	46.5
Austria	43.2	44.4	48.8
France	47.4	45.5	49.3
Germany	48.6	47.3	52.0
Hungary	51.4	46.7	54.1
Belgium	51.3	50.3	56.0
EU19[c]	**40.3**	**38.6**	**42.8**
OECD[c]	**34.4**	**33.5**	**37.4**

Countries are ranked in ascending order based on the tax wedge on an average earner.
a)   Tax wedge including employers' mandatory social security contributions for a single worker with no children earning 67% of the average wage.
b)   Tax wedge including employers' mandatory social security contributions for a single worker with no children earning the average wage.
c)   Unweighted averages.
Source: OECD Taxing Wages database.

Figure 3.6.   **Labour costs[a] for full-time minimum-wage workers, selected OECD countries, 2006**

Percentage of labour cost for an average earner
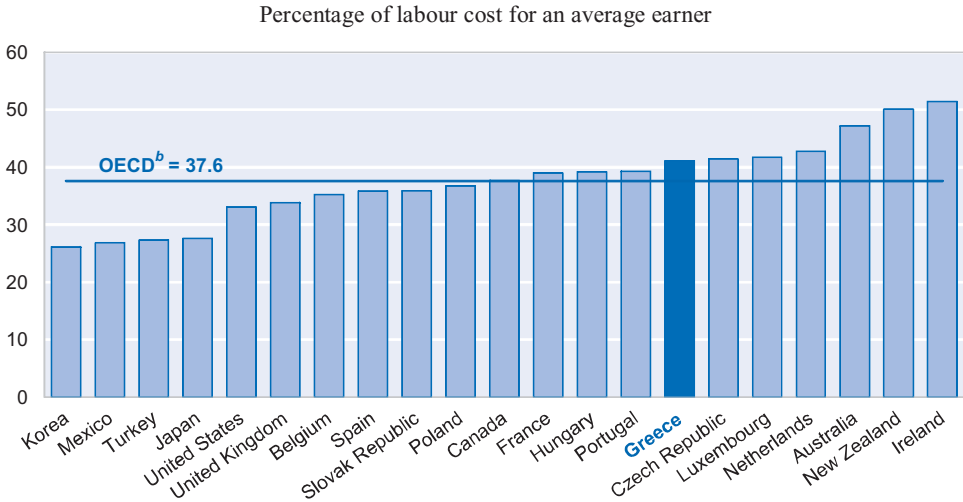
a)   Including payroll taxes and mandatory social contributions. The average wage for the United States currently excludes supervisory and managerial workers. Average wages for Ireland, Korea and Turkey refer to the Average Production Worker (manual workers in the manufacturing industry).

b)   Unweighted average of countries shown.

Source: OECD (2007d), *Taxing Wages: 2005-2006*.

3. Employment protection is strict in Greece

There is robust empirical evidence that employment protection – the set of rules applicable to the hiring and firing of permanent workers and to the use of temporary work contracts – affects overall labour market dynamics and the hiring rate and mobility of new labour market entrants, such as youth (Bassanini and Duval, 2006). Strict employment protection rules are also likely to encourage the use of forms of employment that are not subject to these regulations.

A.   *Employment protection in Greece is among the strictest in the OECD*

Figure 3.7 shows the overall strictness of employment protection as measured by an indicator constructed by OECD and its three subcomponents: the rules concerning the firing of permanent workers; the additional administrative requirements and costs involved in collective dismissals; and the rules regarding the use of fixed-term contracts and temporary work agencies. According to this indicator, in 2008, employment protection in Greece was among the strictest across OECD countries.

Figure 3.7.   **Overall strictness of employment protection
and its three main components, OECD countries, 2008**^{a}
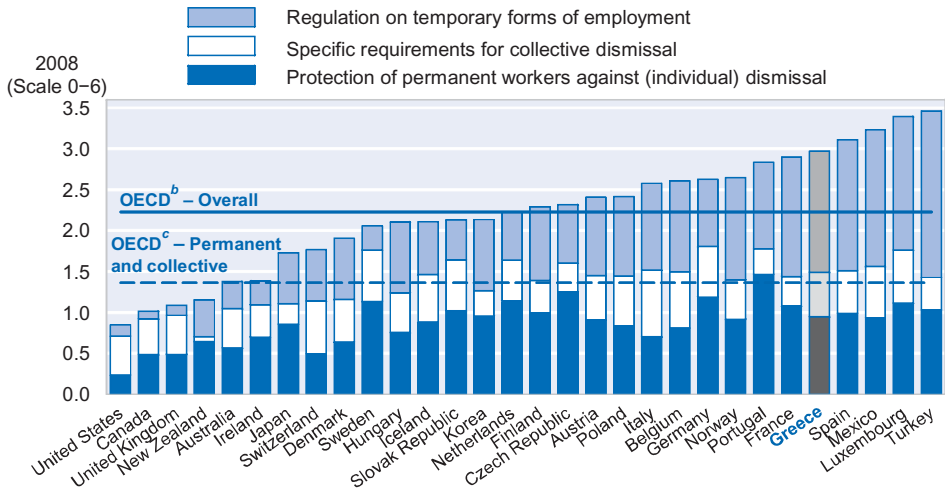
a)   Data for France and Portugal refer to 2009.
b)   Unweighted average of the overall strictness of EPL for the 30 OECD countries.
c)   Unweighted average of the protection of permanent workers against individual dismissal and
     specific requirements for collective dismissals for the 30 OECD countries.

Source: Venn (2009), "Legislation, Collective Bargaining and Enforcement: Updating the OECD
Employment Protection Indicators", OECD Social, Employment and Migration Working Paper,
No. 89, Paris.

Concerning the protection of permanent workers against individual or
collective dismissals, Greece is placed just above the OECD average
according to the OECD indicator. However, firing rules vary between
blue-collar and white-collar workers, the latter benefiting from advance
notice and more generous severance payments. The indicator presented in
Figure 3.7 is obtained by averaging the two classes of workers but when
white collar workers are scored on their own, the notice period and
severance pay to which these workers have right are significantly higher
than the OECD average.[53] Indirect dismissal costs caused by complex

53.   The OECD indicator scores notice period and severance pay at nine months,
         four years and 20 years of tenure. At 9 months of tenure, notice period and
         severance pay rights of Greek white collar workers are comparable to the OECD
         average. However, at four years of tenure, both notice period and severance pay
         are twice as large as in the OECD on average. At 20 years of tenure, the difference
         between Greece and the OECD broadens, with notice period being over five times
         as long and severance pay about three times as large.

notification procedures and frequent reinstatement orders when dismissals are found to be unfair are also high in Greece. While reinstatement is one way of compensating the workers if a dismissal is found to be unfair, it increases the uncertainty faced by employers compared with large financial disbursement.[54]

B.   *The trial period on permanent contracts is short*

One aspect of employment protection rules that is likely to affect youth's hiring opportunities more specifically is the length of the trial period. Indeed, during the trial period, severance pay regulations do not apply giving the employer the opportunity to assess the skills of newly hired individuals without fearing lengthy dismissal procedures if they do not suit the firm's needs. In Greece, the trial period was just two months in 2008, compared with 10 to 12 months in Denmark, Ireland and the United Kingdom (Figure 3.8).

Figure 3.8.   **Trial-period length, selected OECD countries, 2008[a]**

Months
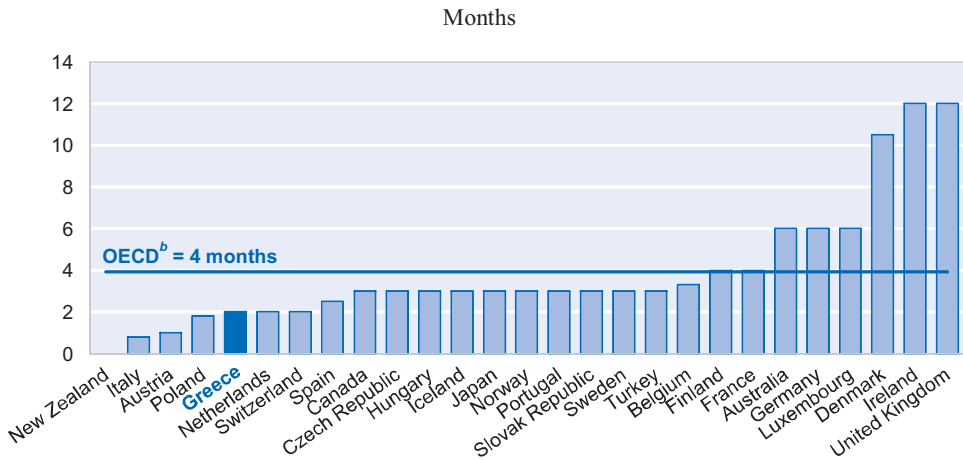
a)   Data for France and Portugal are for 2009.

b)   Unweighted average of the overall strictness of EPL for countries shown.

Source: Venn (2009), "Legislation, Collective Bargaining and Enforcement: Updating the OECD Employment Protection Indicators", OECD Social, Employment and Migration Working Paper, No. 89, Paris.

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54.   OECD (2004) shows that employers are more sensitive to the length of judicial procedures and complexities than to a large (but known) payment.

C. *Temporary work is highly regulated but other flexible forms of employment are spreading among youth*

Compared with other OECD countries, Greek regulations on the use of temporary contracts are rather strict. Fixed-term contracts are only allowed for jobs of a temporary nature, notably seasonal work and project work. Moreover, after three renewals or a cumulative duration of 24 months, the contract is converted into an indefinite contract. The use of temporary work agency contracts is also highly regulated, particularly in terms of authorisations and reporting requirements.

These restrictions are likely to explain the smaller incidence of temporary work among Greek youth compared with their counterparts in many other OECD countries (Chapter 1). However, because high dismissal costs for permanent workers make employers reluctant to hire youth on indefinite contracts, other forms of employment have spread that offer less protection and social security coverage than permanent contracts.

First, there is some evidence suggesting that many Greek youth work in the informal sector. As Figure 3.4 shows, more Greek youth than the European average work in Agriculture, Construction and Hotels and Restaurants and these are industries with a high incidence of informality. Also, Schneider (2002) found that the size of the *shadow* economy as a percentage of GDP was 29% in 2001/02 in Greece, the largest across the 25 OECD countries included in the study. This share was 6 percentage points higher than in 1989/90 and 11 percentage points above the average for the OECD countries included in the study. While this estimate cannot be easily translated into the share of informal employment in Greece, it does suggest that this share is significant by international standards.

Second, some studies find that *disguised self-employment* – self-employed workers providing services to a single work provider in a continuous manner, hence acting *de-facto* as employees – is widespread among qualified Greek youth. For these "fake" self-employed workers: *i)* social security payments are the same as those of the self-employed; *ii)* earnings take the form of fees; *iii)* work is based on the work provider's needs; and *iv)* the worker has no right to severance payment or unemployment benefits in the event of the contract's termination. This work arrangement provides several advantages for the work provider, first of all the fact that all employment risk is borne by the worker. On the other hand,

most researchers argue that workers accept this work arrangement because employee-type contracts are not readily available for new entrants.[55]

Although data on disguised self-employment are not available, the share of self-employed youth without employees may provide a useful proxy, particularly to assess differences in the size of the phenomenon across countries. Figure 3.9 shows that Greece has the second highest incidence of self-employment among young workers across EU countries. In 2008, close to 5% of employed youth were self-employed and did not have any employees, compared with just 3.1% in the EU on average.

Figure 3.9.   **Incidence of non-agricultural self-employment[a] among employed youth,[b] selected European countries, 2008**

Percentages
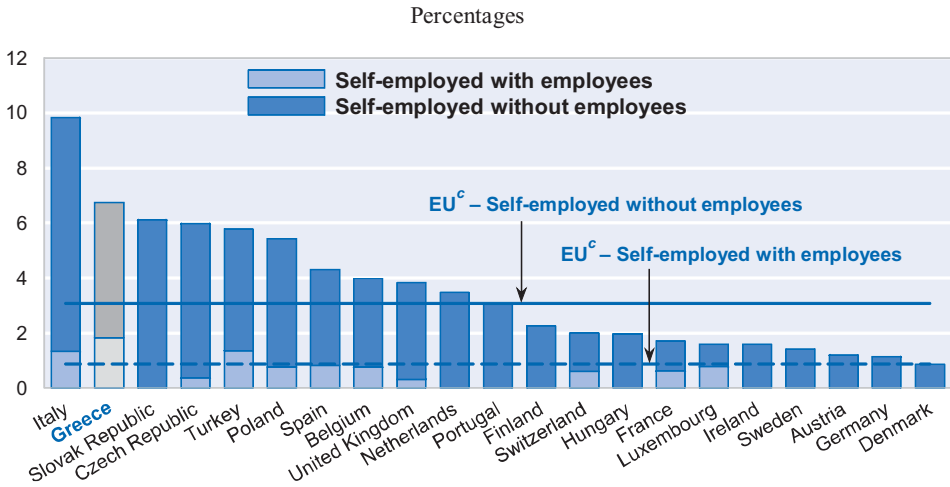
a)   Family workers are not counted as self-employed.
b)   Youth aged 15-24.
c)   Unweighted average of countries shown.

Source: OECD estimates based on the European Union Labour Force Survey.

Despite some indication that disguised self-employment may be a bigger problem in Greece than in other EU countries, only ad-hoc surveys can shed light on the phenomenon. Athanassouli (2003) studied labour market

55.   Karamessini (2008) attempts to identify and measure project/service work conducted mostly for a single employer, another form of temporary employment which is likely to partly overlap with disguised self-employment. The author finds that approximately 12% of Greek university graduates work on a temporary project/service agreement with a single employer five to seven years after graduation.

outcomes of engineering graduates from UPA, a prestigious Athens university. The author found that 27% of UPA engineers worked as disguised self-employed upon graduation and presented some evidence that this rate may be significantly higher than in other European countries and the United States.[56] For over 90% of the disguised self-employed in the study, the relationship with the work provider constituted their main full-time activity based on regularly renewed contracts. However, the author found that disguised self-employment was less common among experienced engineers – just 10% of them work as disguised self-employed – and interpreted this as suggestive that this type of employment relationship may be part of the natural transition towards *ordinary* self-employment.

4. Labour shortages and the skill deficit of Greek university graduates

A recent study conducted by Kikilias (2009) suggests that the demand for tertiary graduates in Greece is concentrated in the advanced sector of the economy. The study shows that tertiary graduates make up 56% of employees in large firms with high capital intensity and a high degree of internationalisation – the so-called advanced-sector firms. On the other hand, tertiary-educated youth represent only 17% of the workforce in traditional-sector firms – *i.e.* smaller, labour-intensive firms with only limited exports. The study findings also suggest an increased demand for tertiary graduates in the future: 60% of interviewed firms report that they will need graduates to a large or very large extent; 37% report that they will need graduates to a moderate extent; and only 3% report that they do not foresee needing graduates at all. Firms in the advanced sector reported larger future needs for graduates than firms in the traditional sector.

The research suggests that the field of study at university is less important than employability skills when recruiting graduates. Indeed, while the two largest groups of graduate recruits have studied Business or Engineering, a very broad spectrum of disciplines is represented, both in advanced and traditional-sector firms. On the other hand, key recruitment criteria were found to include the prestige of the academic institution of origin and employability skills such as personality, critical thinking, complex problem-solving, diligence, team work and adaptability.

The author finds that 16% of firms in the study report a deficit in employability skills and this deficit increases with firm size and is larger in

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56. The author showed that about 55% of these Greek engineering graduates worked as self-employed compared with just 10-20% in other European countries and the United States.

the advanced sector than in the traditional sector. This employability-skill deficit may be behind the coexistence of labour shortages with the large supply of university graduates.

Some analysts have highlighted that the deficit in employability skills reported by employers cannot be directly linked to the education system, improvements in teaching methods and the acquisition of work experience while studying may contribute to improve it. Interestingly, employers report an employability-skill deficit among graduates of Greek universities 2.5 times larger than among graduates of foreign universities. In addition, when comparing employees who graduated after 1995 with those who graduated earlier, the employability-skill deficit of graduates of foreign universities is found to have shrunk by 86% while that of graduates of Greek university has fallen by only 28%.

5. Key points

Economic activity in Greece dropped sharply in the first quarter of 2009 and the OECD is projecting that Greek GDP will fall by 1.1% in 2009 and by a further 0.7% in 2010. The high sensitivity of youth employment rates to economic conditions suggests that a significant worsening is looming ahead. By 2010, the youth unemployment rate is projected to rise by 6 percentage points compared to 2008 and the youth employment rate is projected to fall by 2 percentage points. Because many Greek youth work in industries related to tourism, the impact of the current crisis on youth labour market outcomes is likely to unfold through the summer of 2009 and on into 2010.

Beyond these cyclical developments, some structural demand-side barriers to the hiring of young people exist. In 2007, Greek minimum wages were high by international standards, even when the minimum-wage rate applicable to a single blue-collar worker with no experience was used. A 17-year-old in Greece was entitled to a minimum wage equivalent to 51% of the median wage compared with a ratio of just 36% in countries where a sub-minimum wage for youth existed. In addition, in Greece, premia ranging from 3 to 10% applied to married workers, white-collar workers and workers with experience. As evidence shows, this high minimum-wage rate can have serious negative effects on youth employment rates and may encourage the youngest – particularly teenagers – to leave education for work.

Two solutions could be envisaged to reduce the cost of hiring youth for employers: *i)* the introduction of a sub-minimum wage for youth; or *ii)* the reduction of non-wage labour costs for youth employed at or around the minimum wage. The second option could be particularly interesting for

Greece where labour costs are high by OECD standards and the cost of hiring a minimum-wage worker is 41% of the cost of hiring an average worker, above the OECD average of 38%.

In Greece, employment protection is among the strictest in the OECD limiting labour market dynamics, mobility and hiring opportunities for new entrants, such as youth. White-collar workers are protected against dismissal by generous severance payments and complex procedural requirements. In particular, very short trial periods are likely to discourage the hiring of young people whose productivity is difficult to judge *ex-ante*. In addition, the use of fixed-term contracts and temporary work agencies is also highly regulated, possibly explaining the low incidence of temporary work by OECD standards.

Strict employment protection in the formal labour market may be behind the spreading of informal employment and disguised self-employment. Although figures are hard to obtain for these phenomena, there is evidence that the informal economy in Greece is large in international comparisons. Also, a study of engineering graduates in Greece suggests that the incidence of disguised self-employment is higher in Greece than in other European countries and the United States.

Finally, there is evidence that the demand for tertiary graduates in Greece is fairly healthy and likely to remain so in the near future, particularly among firms in the advanced sector of the economy. The fact that healthy labour demand for tertiary graduates coexists with high unemployment rates for this group can be attributed to a significant employability deficit reported by employers. Improved teaching methods and more experience of the workplace acquired by combining work and study could help fill the employability gap.