

A stylized world map composed of a grid of grey dots, with several dots highlighted in red to represent specific countries.

# Youth Guarantee in Times of Austerity: the Greek Case

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- In the second quarter of 2013 youth unemployment rate in Greece was by far the highest amongst EU28 member countries and as high as 59.0 per cent. It is therefore essential for society to deal with youth unemployment in a decisive and effective manner,
- Youth Guarantee is an opportunity for Greece to work on several long standing problems ranging from education to labour market institutions, while dealing with youths' unemployment at the same time.
- Careful preparation, planning, implementation and evaluation are needed, along with a continuous communication campaign to inform all social partners and eligible youths of the effort.
- There should be an effort to expand the age span of those eligible from 25 to 30 years of age if we wish to realise the full impact of the Youth Guarantee, since the unemployment rate amongst those aged 25-29 is also the highest amongst EU28 member countries in the second quarter of 2013.





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## 1. Introduction

What started out as a financial crisis closely linked to mortgage loans in the USA in 2007, quickly evolved into an economic crisis, which spread to Europe and the rest of the world. Greece found itself in the eye of the economic storm suffering a large debt to GDP ratio (129.4 per cent in 2009) and a spectacular budget deficit (15.6 per cent in 2009), both of which could no longer be sustained, especially in a period of economic distress and uncertainty. In 2010 the country was forced to resort to lending the necessary funds from its fellow members of the Eurozone in order to avoid bankruptcy. Strict austerity measures followed along with major structural changes, so that Greece could regain its credibility and find its way back to economic prosperity. Unfortunately, and despite bold measures aiming at increasing labour market flexibility to allow the economy to swiftly and smoothly adjust, these policies caused significant side effects, such as historically high unemployment rates, especially for the youths (55.3 per cent in 2012).

Greece is not alone in this though. Other countries facing economic difficulties also experience high unemployment rates, especially amongst the youths (15-24 years of age). Based on Eurostat's data, in the EU 27 the average unemployment rate for youths in 2012 was 22.8 per cent, while for older workers it was 9.1 per cent. During the same year unemployment rates for youths were very high in several countries other than Greece, such as Spain (53.2 per cent), Portugal (37.7 per cent), Italy (34.0 per cent) and Ireland (30.4 per cent). And despite the fact that unemployment is a problem for everyone, it is an even more pressing problem when it comes to youths, simply because they constitute the most dynamic part of the society, thus the threat to social cohesion is greater and more reliable. Moreover, unemployment has a long-term impact on economic potential and competitiveness through concepts like brain drain (skilled individuals leaving the country in search of a job) and human capital depreciation (skills lose their value) that could lead to a phenomenon known as lost generation.

One more issue involved with unemployment in general is the cost associated with it which can be divided to two categories. The first one is current cost including unemployment benefits paid, foregone earnings and taxes. The second category is future cost including

scarring effects on future income level (lower realised earnings due to unemployment spells in the past), future risk of unemployment (higher probability of losing one's job due to unemployment spells in the past), the negative impact on health status, well-being, pension reserves (unemployed persons pay no social security contributions) and, finally, the role of unemployment as a counterincentive to start a family with all the adverse effect that can have on demographic trends.

For all the above reasons it is essential for society to deal with youth unemployment in a decisive and effective manner. The aim of this study is, first, to discuss various aspects of the implementation of the initiative entitled Youth Guarantee in Greece, the answer of the European Union to the plague of youth unemployment across its members, caused or heightened by the economic crisis, and second, to provide policy recommendations for its successful implementation. According to the plan, Youth Guarantee will ensure that all youth up to 25 years of age who are not in employment, education or training (NEETs) will receive a good-quality offer of employment, further education, an apprenticeship or a traineeship within four (4) months of leaving formal education or becoming unemployed (COM (2011) 933 Final, 20.12.2011 and COM (2012) 729 Final, 5.12.2012). The case of Greece is distinct and very interesting given the fierce economic crisis the country is going through and the peculiarities of the Greek economy, such as the large number of the unemployed and the NEET, the lack of national funds in order to finance both passive and active labour market policies, the inadequate social safety net, the insufficient operative capacity of public administration, etc.

## 2. Historical Background: How Did It All Start and Where Do We Stand Today?

As a consequence of the world economic crisis that originated in the USA in 2007, Greece had to resort to international financial support in 2010. In order to avoid default and the associated collateral damages to the Eurozone, a troika consisting of the European Central Bank, the International Monetary Fund and the European Commission took over the role of international markets in providing Greece both with the necessary amount of liquidity and with the necessary time to restore fiscal imbalances. In order to make sure

that Greece will repay the loans, the Troika, together with the Greek government, introduced a strategy for regaining the country's lost competitiveness and international creditworthiness. Up to today, multiple agreements known as Memorandums of Understanding (MoU's) have been signed, each of which referring to ever more specific routes of actions. The main targets of this strategy, which is fully deployed, is achieving fiscal consolidation through austerity policies (cutting down expenses and increasing revenues, thus taxes), accelerating structural changes through public administration reforms and privatisations, as well as increasing labour market flexibility through the introduction of individual work contracts, the slackening of the legislative framework regarding hiring and firing restrictions and rules, the determination of the minimum wage by the government, the changes in the terms of temporary employment contracts, the increased flexibility of employment (e.g. part-time arrangements, work in shifts), etc.

The ultimate purpose was (and still is, since it is an ongoing process) to increase the country's competitiveness and boost exports. Indeed, it seems that the trade balance has improved significantly over the last four years: in 2009 the trade balance deficit amounted to 11.5 per cent of GDP, while in 2012 it amounted to 5.0 per cent of GDP (Table 1, col. 10). This improvement was driven primarily by declining imports that went down 40.2 per cent between 2008 and 2012 and, secondarily, by increasing exports that went up 3.0 per cent between 2009 and 2012<sup>1</sup> (Table 1, col. 7-8). As a result, the trade balance deficit continued to decline from 2008 onward at an increasing rate, at least until 2013 (-21.5 per cent in 2009, -48.9 per cent in 2012 and -43.9 per cent in 2013, Table 1, col. 9). Further, fiscal cuts and tax increases managed to lower the budget deficit as a percentage of GDP (Table 1, col. 2) by around five percentage points (pp) in 2010 and one more pp in 2011, but they seem to have lost their momentum (+0.5 pp in 2012).<sup>2</sup> Nevertheless, that is only the bright side of the Greek story.

Austerity measures and structural changes caused collateral damages: income and, consequently, both private and public consumption declined leading to 20.8 per cent less total consumption spending in 2012 compared with 2008, driven initially by public consumption and secondarily by private consumption spending dips, and 52.6 per cent less investment spending and a further decline in the first semester of 2013 of 7.5 per cent and 11.2 per cent respectively (Table 1, col. 3-6). As a result, the Greek economy, which grew at rates as high as 5.9 per cent in 2003, the year before the Olympic Games, started to contract at an accelerating pace from 2008 until 2011, reaching -7.1 per cent in 2011 (Table 1, col. 1), and then continued to shrink, but at a decelerating pace (annual estimate of -3.6 per cent for 2013 by KEPE, 2013). Negative growth in period 2008-2012 resulted in a lower GDP of almost 20 per cent between 2008 and 2012. Lower consumption means lower demand for goods and services produced both locally and abroad (imports) to which local firms need to adapt. With the help of legislative initiatives from the government referred to above, Greek firms are attempting to adapt to the new era not only through quantity (layoffs, flexible work arrangements, etc.), but also through prices (wages) as presented next.

1. Exports declined by 19.4 per cent in 2009, as shown in Table 1, due to the world economic crisis and then started to increase again.

2. This increase is somewhat misleading, since the budget deficit in volume continued to decrease according to Eurostat's data: 19.360 millions in 2012 compared with 36.127 millions in 2009.

**Table 1. Main macroeconomic figures**

	GDP growth rate (%)	Budget deficit (% of GDP)	Private consumption (% change)	Public consumption (% change)	Total consumption (% change)	Investment (% change)	Exports (% change)	Imports (% change)	Trade balance (% change)	Trade balance (% of GDP)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
2001	4.2	-4.5	5.0	0.7	4.1	4.8	0.0	1.2	3.3	-13.2
2002	3.4	-4.8	4.7	7.2	5.2	9.5	-8.4	-1.3	11.8	-13.5
2003	5.9	-5.6	3.3	-0.9	2.4	11.8	2.9	3.0	3.0	-12.3
2004	4.4	-7.5	3.8	3.5	3.8	0.4	17.3	5.7	-13.3	-10.1
2005	2.3	-5.2	4.5	1.1	3.8	-6.3	2.5	-1.5	-10.3	-9.3
2006	5.5	-5.7	4.4	3.1	4.1	14.9	4.3	11.1	28.1	-11.4
2007	3.5	-6.5	3.6	7.1	4.3	22.8	7.1	14.5	29.4	-14.1
2008	-0.2	-9.8	4.3	-2.6	2.9	-14.3	1.7	0.9	-0.4	-14.5
2009 <sup>1</sup>	-3.1	-15.6	-1.6	4.9	-0.3	-13.7	-19.4	-20.2	-21.5	-11.5
2010 <sup>1</sup>	-4.9	-10.7	-6.2	-8.7	-6.8	-15.0	5.2	-6.2	-25.3	-9.3
2011 <sup>1</sup>	-7.1	-9.5	-7.7	-5.2	-7.2	-19.6	0.3	-7.3	-25.7	-8.1
2012 <sup>1</sup>	-6.4	-10.0	-9.1	-4.2	-8.2	-19.2	-2.4	-13.8	-48.9	-5.0
2013 <sup>1</sup>	-4.7 <sup>2</sup>	-2.6 <sup>4</sup>	-7.5 <sup>2</sup>	-7.4 <sup>2</sup>	-7.5 <sup>2</sup>	-11.2 <sup>2</sup>	-3.1 <sup>3</sup>	-6.5 <sup>3</sup>	-43.9 <sup>2</sup>	-0.8 <sup>4</sup>

1. Provisional data.

2. Data refer to the first semester of 2013 compared with the first semester of 2012 (KEPE, 2013). Therefore, they are not directly comparable with annual figures reported in the text.

3. Eurostat estimates.

4. Own estimates using data on budget deficit provided by the General Accounting Office (GOA) for the first semester of 2013, estimates of a GDP decline in 2013 equal to -4.0 per cent contained in the preliminary draft budget and ELSTAT quarterly data on trade balance.

Source: ELSTAT, Eurostat, published data.

### 3. The Consequences of the Crisis on the Greek Labour Market and Particularly the Youths

Developments in the real economy could not have left the labour market unaffected. A variety of government interventions attempted to increase its flexibility and allow its smooth adjustment, always in accordance with the debtors' guidelines. Some of the most crucial interventions include the determination of the minimum wage by the government, which replaced the former practice of collective bargaining between employers' associations and employees' unions, the abolition of collective agreements and their often replacement by individual contracts or firm-level agreements, the introduction of a lower minimum wage for youths up to 25 years of age and the following reduction of the minimum wage for

everybody, the provisions for more relaxed restrictions regarding hires and fires (lower severance pay, short-time notice, etc.), more flexible working time arrangements and types of job contracts (allow for work in shifts and part-time work or prolonging the maximum duration of temporary work agency contracts, etc.), lower over-time pay and stricter requirements for resorting to arbitration<sup>3</sup>. These interventions had several effects on labour market functioning, some considered desirable and others not.

Both economic theory and international experience dictate that unemployment rises during a recession, because firms attempt to reduce their costs and volume of production

3. For a more comprehensive description of institutional changes that took place during the crisis (laws 3863/2010, 3899/2010, 4047/2012 and 4093/2012) see the section entitled "Labour Market Developments" in the Greek Economic Outlook, issues no.13, 14, 18 and 20.

either through cutting wages or through firing their least productive employees or some combination of the two.<sup>4</sup> In addition, it is very likely that some firms will go out of business leaving employees looking for new jobs. Greece is no different, apart from the fact that its labour market was considered highly inflexible, thus the necessary adjustment had to go through dismissals, at least at the beginning. This is probably why unemployment rates skyrocketed and are still climbing for both youth and prime age workers forcing legislative reforms aiming at a more flexible labour market since 2010, two years after the beginning of the crisis, and opting for adjustment through the cost of labour (wages and salaries) and work time arrangements.

One way to make the labour market more flexible and allow it to swiftly adjust to the new economic circumstances is to liberalise it in terms of relaxing employment protection legislation (EPL), because that way it is easier for the firms to hire or fire employees. Table 2 reports selected indices reflecting the extent of EPL in Greece from 2000 until

2013. The first observation is how remarkably stable these measures are up to 2010,<sup>5</sup> since no interventions were attempted in the first two years of the recession, despite the long standing criticism for the rigid Greek labour market. A simple comparison to the USA, Germany or even Sweden verifies that this was indeed the case, at least before the crisis occurred. The second observation is that legislative initiatives taken during the crisis seem to have made the Greek labour market more flexible. Apart from EPC, regarding additional costs and procedures involved in dismissing more than one worker at a time compared with the cost of an individual dismissal, the other two indices are lower in 2013 compared with 2008. This means that both individual dismissals of employees on regular/indefinite contracts (EPR\_v3) and the use of temporary employees (EPT\_v3), either through fixed-term contracts or work-agency contracts, have become less restrictive. That is generally considered a good thing for the labour market and the employers, but it has an ambiguous effect on the well-being of the employees.

**Table 2. Indices of Employment Protection Legislation (EPL)\***

	EPR_v3**	EPC ***	EPT_v3****
Greece			
2008	2.802	3.250	3.167
2009	2.802	3.250	3.167
2010	2.802	3.250	3.167
2011	2.167	3.250	3.250
2012	2.167	3.250	2.917
2013	2.119	3.250	2.917
USA			
2008	0.490	0.285	0.333
2013	0.490	0.285	0.333
Germany			
2008	2.978	3.625	1.542
2013	2.978	3.625	1.750
Sweden			
2008	2.524	3.125	4.958
2013	2.524	3.125	4.958

\* The most recent versions of EPL indices are used, since they are constant before 2008 for Greece.

\*\* Strictness of employment protection – individual dismissals (regular contracts).

\*\*\* Strictness of employment protection – collective dismissals (additional provisions).

\*\*\*\* Strictness of employment protection – temporary employment.

Source: OECD indicators of employment protection.

4. According to economic theory the more flexible the labour market, the less costly is the adjustment in terms of unemployment at times of recession.

5. Some indices are available since 1985, a few since 1998 and the rest since 2008 (mostly enriched versions of previous indices), so it is easy to observe stability over time for the great majority of countries reported.



The relaxing of labour market restrictions is expected to drive more people towards precarious/flexible employment, such as part-time work, temporary contracts and work in shifts, which is not necessarily bad considering the alternative, i.e. unemployment. According to published Labour Force Survey (LFS) data, part-time work expanded during the crisis. In the second quarter of 2008 (2008b) just 5.5 per cent of employees were working part-time, while in the second quarter of 2013 (2013b) that share increased to 8.2 per cent and the absolute number of part-time workers went up by 18.5 per cent, when overall employment shrunk by 20.7 per cent. Furthermore, using LFS raw data to trace the evolution of part-time work during the crisis (Table 3), it seems that part-time schemes are more common amongst the youths <sup>6</sup> compared with older workers (25+ years of age) and became even more common because of the crisis: a 9.0 pp increase compared with

2008b is recorded. On the other hand, although youths work more often under temporary contracts (three out of ten), the share of temporary workers fell during the crisis irrespective of age. One plausible explanation is that firms relied on temporary workers to adjust their labour force to the falling demand for their goods and services, since it was cheaper and demanded simpler legal procedures to be dismissed. Last but not least, work in shifts has expanded during the crisis accommodated by the reform of the legal framework and the need of firms for more flexibility. For example, 4.3 per cent of new contracts involved work in shifts in 2009, while the respective share climbed to 9.6 per cent in 2012 (SEPE, 2012). But, according to the data for the first semester of 2013, it seems that this type of contracts decline steadily both concerning new hires and conversions of full-time contracts to work in shifts contracts (SEPE, 2013).

**Table 3. Shares of various precarious/flexible work contracts (%)**

	2008b		2013b	
	15-24	25+	15-24	25+
Part-time employment	12.3	5.0	21.3	7.7
Temporary employment	29.0	10.2	26.1	9.2
Duration of temp. empl.				
<12 months	69.4	65.4	80.1	74.3

Source: Labour Force Surveys, ELSTAT, author's calculations.

Regarding cost figures, a number of observations can be made. First, the recession matched with institutional changes in the labour market seems to have resulted in lowering average monthly cost (Table 4, col. 1-4). The annual fall exceeds 12 per cent in 2012 for the entire economy leading to 19.8 per cent overall decrease since 2009. The higher the cost of labour was, the larger the fall that followed. Over the four year period (2009-2012) the cost went down by 20.1 per cent in the tertiary sector, followed by the secondary sector (-19.1 per cent), while the primary sector proved more resilient (-12.2 per cent). An important note is that serious cost reductions started to take place in 2011. This leads to the conclusion that government interventions seems to have triggered adjustment through wages as intended.

Second, annual compensation per employee exhibits similar fluctuations (Table 4, col. 5). It increases up to 2009 with rates of growth as high as 11.4 per cent (2002), but at a decreasing rate after 2002 to end up close to 4.0 per cent, and then it becomes negative and growing for the last three years (maximum: -4.2 per cent in 2012). Accordingly, during the last three years the annual compensation per employee decreased by 9.8 per cent. Third, annual average wages in Euros regarding employees (Table 4, col. 6) exhibit fluctuations over time, but overall they increased by 16.0 per cent between 2001 and 2008 and decreased by 3.2 per cent between 2008 and 2011 (latest available data). The increase recorded in 2010 (5.6 per cent), while the crisis was underway, probably reflects the deficiencies of the regulatory framework concerning wage setting mechanisms in the Greek labour market. Fourth, this argument is reinforced by the increase in minimum wage during the crisis (Table 4, col. 7). Since the beginning of 2001 the minimum wage increased by 61.3 per cent before it decreased by 22 per cent on February

6. It is also interesting to note that in 2013b almost 15 per cent of youth working part-time did so because no full-time job could be found compared with just 5.0 per cent of older workers.

2012 by Law 4046/2012.<sup>7</sup> Despite the fact that minimum wage concerns only a fraction of the labour force and particularly those who enter the labour market for the first time, e.g. youth, it demonstrated significant rigidity at times of climbing unemployment rates.

Fifth, unit labour cost, which is often used as a measure of competitiveness from a cost point of view,<sup>8</sup> also declines marginally in 2010 and more so in the next two years (-1.6 per cent in 2011 and -6.5 per cent in 2012). That means that the country's competitiveness grew substantially only in 2012, which is the year of introducing major labour market reforms regarding both minimum wage and work agreements. This cannot be entirely a coincidence. Sixth, it is interesting to investigate what happened to the productivity of employees. Lower wages

and salaries reflected in the three variables presented above could reduce employees' motives, increase disappointment and lead to lower productivity. On the other hand, the fear of rising unemployment could have cancelled out that reaction. Moreover, the knowledge that least productive workers are (or should be) the first to be laid off, could lead to higher average productivity of the remaining workers. Available data (Table 4, col. 7) show that labour productivity in Greece increased until 2008 and started to decline thereafter, that is until 2012.<sup>9</sup> The highest value for labour productivity is recorded in 2008, so in total productivity decreased by 8.3 per cent. Given that labour productivity and labour cost are two opposing forces driving unit labour cost, part of the gains realised in terms of competitiveness due to decreasing labour cost are counterbalanced by lower labour productivity.<sup>10</sup>

**Table 4. Key labour market figures: costs, rewards, productivity**

	Average monthly cost of labour				Annual employee compensation	Average annual wages <sup>1</sup> (in Euros)	Monthly minimum wage <sup>2</sup> (in Euros)	Unit labour cost	Hourly labour productivity
	Total	Primary sector	Secondary sector	Tertiary sector					
	(1) <sup>3</sup>	(2) <sup>3</sup>	(3) <sup>3</sup>	(4) <sup>3</sup>	(5) <sup>3</sup>	(6)	(7)	(8) <sup>3</sup>	(9) <sup>3</sup>
2001	76.8	76.0	76.4	77.0	78.2	19.402	543.6	83.8	92.2
2002	79.8	79.3	80.1	79.8	87.1	19.467	571.7	92.3	93.8
2003	93.9	99.8	92.4	94.5	92.6	21.110	606.5	93.7	98.5
2004	98.6	85.7	98.1	98.9	96.5	21.757	630.8	95.8	101.3
2005	100.0	100.0	100.0	100.0	100.0	22.117	667.7	100.0	100.0
2006	102.1	97.9	102.4	102.1	102.4	22.366	709.7	98.9	105.0
2007	105.6	108.9	106.3	105.3	107.2	22.241	730.3	101.4	108.7
2008	108.1	107.2	109.4	107.7	111.0	22.498	794.0	106.6	111.9
2009	113.9	107.0	115.2	113.6	115.0	22.442	817.8	113.2	106.5
2010	110.8	103.1	114.5	110.0	112.0	23.689	862.8	113.1	102.9
2011	104.1	103.7	105.4	103.7	108.2	21.768	862.8	111.0	100.2
2012	91.3	93.9	93.1	90.7	103.7	-	876.6	104.1	102.6
2013	-	-	-	-	-	-	683.84	-	-

1. Average annual wages per full-time equivalent dependent employee are obtained by dividing the national-accounts-based total wage bill by the average number of employees in the total economy, which is then multiplied by the ratio of average usual weekly hours per full-time employee to average usually weekly hours for all employees. For more details, see: [www.oecd.org/employment/outlook](http://www.oecd.org/employment/outlook).

2. Eurostat's biannual data on minimum wages (first semester). Bear in mind that calculations refer to minimum wage times 14/12, since in the private sector wages are paid on a 14 month basis. (extracted on 29/8/2013)

3. 2005=100.

4. The decline in minimum wage reported in 2013 is already evident from the second semester of 2012.

Source: ELSTAT (Labour Force Surveys and administrative data), Eurostat and European Central Bank (Statistical Data Warehouse), author's calculations. (extracted on 29/8/2013)

7. The decrease was 32 per cent for youth below 25. Minimum wage decreases are reported in the second semester of 2012, although they were introduced on February, due to the biannual nature of the data collected by Eurostat.

8. It ignores quality along with other characteristics of goods and services produced, e.g. marketing and promotion techniques.

9. It should be noted that productivity depends crucially on technological advances and capital accumulation, i.e. investment spending, which of course has been severely contracted in Greece due to uncertainty and the fear of payment halt.

10. For a more detailed discussion and the extent to which labour productivity was affected by the crisis and measures introduced see Gavroglou (2012) and Ioakeimoglou (2011).

The distribution of employed individuals across industries was not significantly affected by the crisis, although some industries suffered more than others and at a different speed, i.e. some earlier and some later during the crisis. On the other hand, the number of employed individuals declined in almost all industries, but more so amongst the youths: between 2008b and 2013b employed youths declined by 55.2 per cent, while older employed individuals by 18.5 per cent (Table 5). Partly this is interpreted by youths being employed part-time or with temporary contracts as shown above, which automatically made them easier to dismiss. Moreover, employed youths seem to be quite segregated. For

instance, 42.5 per cent of youth in 2013b were employed in two industries alone (Accommodation and food services, Wholesale and retail trade etc.) compared with 31.6 per cent of older individuals (Agriculture, forestry, fishing and Wholesale and retail trade etc.). The crisis seems to have intensified youths' segregation in these two industries as an increase of 15.2 per cent is recorded since 2008b. In the four industries which recorded an overall decline in employed persons of more than 30 per cent during the crisis (Mining and quarrying, Manufacturing, Construction, Real estate activities), youths proved much more vulnerable than older individuals.

**Table 5. Employed individuals by industry and age group**

	15-24		25+	
	2013b share (%)	2008b-2013b change (%)	2013b share (%)	2008b-2013b change (%)
Agriculture, forestry and fishing	10.8	-47.8	13.7	-2.5
Mining and quarrying	0.1	-92.5	0.3	-35.1
Manufacturing	10.3	-62.7	9.3	-35.5
Electricity, gas, steam and a/c supply	0.1	-87.9	0.8	-22.0
Water supply, sewerage, waste management and remediation activities	0.5	-25.6	0.7	-20.6
Construction	6.1	-79.3	4.7	-54.6
Wholesale and retail trade, repairs of motor vehicles and motorcycles	22.6	-49.5	17.9	-19.2
Transportation and storage	1.8	-71.3	5.1	-14.1
Accommodation and food services	19.9	-37.3	6.9	-15.9
Information and communication	1.1	-71.0	2.2	12.2
Financial and insurance activities	1.8	-66.5	3.2	-2.9
Real estate activities	0.0	-100.0	0.1	-73.7
Professional, scientific and technical activities	4.0	-46.4	5.5	-8.9
Administrative support and service activities	2.8	-17.5	1.6	-22.1
Public administration and defence	8.1	-26.9	9.2	-12.2
Education	2.1	-66.4	8.0	-10.9
Human health and social work activities	3.3	-45.7	6.2	-2.4
Arts, entertainment and recreation	1.1	-64.8	1.1	-27.1
Other service activities	2.4	-78.1	2.0	-13.7
Activities of households as employers	1.0	-62.1	1.5	-24.0
Activities of extra-territorial organisations and bodies	-	-	0.0	-17.8
Total	100.0	-55.2	100.0	-18.5

Source: Unpublished Labour Force Surveys, ELSTAT, author's calculations.

Next, we investigate the evolutions in the labour market brought about by the crisis using participation, employment and unemployment figures for two age groups: youths and individuals older than 25 years (Table 6). With respect to participation rates, individuals older than 25 years are more likely to participate in the labour market, since youths always have the option of attending education, if things in the labour market become difficult, in order to improve their chances (through improving their employability) of getting a better compensated job.<sup>11</sup> It is no wonder then that the youths participation rate fell during the crisis (-1.9 per cent), while that of older individuals decreased less (-0.6 per cent), despite the mass early retirement plans introduced mainly in the public sector. For that same reason, employment rate (the ratio of employed to total population) is also

much lower for the youths, but its drop during the crisis matches that of older individuals. Last but not least, the unemployment rate was traditionally much higher for the youths even before the crisis reflecting various deficiencies of the labour market, as we will discuss in the next section. For example, back in 2008b the unemployment rate for the youths was 20.6 per cent while for older individuals it was 6.2 per cent. During the crisis the number of unemployed youths increased by 2.5 times while that of the unemployed of 25+ age group by 4.1 times, which is consistent with a 13.2 per cent drop of youths' labour force versus a 4.9 per cent drop of the inactive youths recorded between 2008b and 2013b. As a result, youths' unemployment rate skyrocketed to 59.0 per cent at the second quarter of 2013 twice as high compared with that of older individuals.

**Table 6. Participation, employment and unemployment rates by age group**

	15-24		25+	
	2013b	2008b-2013b change (p.p. *)	2013b	2008b-2013b change (p.p. *)
Participation rate	28.4	-1.9	56.2	-0.6
Employment rate	11.6	-12.4	42.1	-11.2
Unemployment rate	59.0	38.5	25.0	18.8

\* p.p. stands for percentage points

Source: Unpublished Labour Force Surveys, ELSTAT, author's calculations.

Given the evolution of unemployment related figures, it seems persons older than 25 years suffer more from the crisis, since both the unemployment rate and the number of the unemployed more than tripled within a period of four years outmatching the respective numbers for youths. What should be noted, though, is that youths have the option of prolonging their stay in education, which affects their decision to participate in the labour market and probably the intensity of their efforts to get a job. In addition, youths' unemployment rate grew to unprecedented levels endangering their smooth transition from education to work and, consequently, their future prospects in the labour market with multiple consequences on their social and economic integration.

Last but not least, youths' employment declined faster than that of older individuals (as already discussed in Table 5). Thus, efforts should focus on youths also.

The evidence presented should come as no surprise. Economic theory predicts that youths will equally suffer if not more during a crisis and Greek youths are no exception to the rule. For starters, youths have less human capital accumulated especially when it comes to specific types, such as experience and tenure, thus they are less productive (Becker, 1964). Especially those who are entering the labour market for the first time, like those targeted by Youth Guarantee, have no work experience at all; therefore they have a disadvantage compared with older candidates. During a crisis, that disadvantage is exaggerated: demand for labour decreases along with available jobs, so that competition increases and favours more experienced individuals (although more expensive). In an insider-outsider framework (Lindbeck and Snower,

11. Among others Mitrakos, Tsakoglou and Cholezas (2010a and 2010b) show that tertiary education graduates have better chances (i.e. lower unemployment probability) of getting a better compensated job (i.e. higher wages throughout their lifetime).

1988) youths are the outsiders. Introducing a lower minimum wage for youths up to 25 years aims exactly at providing the incentive to employers to hire them. Another youths' disadvantage is the lack of information (Mortensen, 1970), particularly in the Greek labour market where social networks are important, and of mechanisms which could accommodate youths' transition to work. This is also a reason why it takes longer for Greek youths to find their first job: it takes time to set up a network and gather all necessary information.

Speaking of networks, the role of the Greek family has been often criticised on the grounds of providing excessive protection to its offspring in order to allow them to get the *right* job, which probably increases frictions and, in a setup of limited labour demand, heightens the problem of unemployment. Last but not least, youths who manage to get a job are often employed under flexible forms of work contracts, as already shown above, or industries with highly seasonal volatility (Doeringer and Piore, 1971). One possible reason for that is that youths are more willing to accept precarious job offers perhaps because they consider them as a stepping stone to finding a better compensated and more secure job (maybe a part of setting up their own social network). Irrespective of the reasons behind such a phenomenon the fact remains that youths are more likely to be dismissed at times of economic distress.

#### 4. The Peculiarities of the Greek Case Determine the Necessary Preconditions for a Successful Implementation of the Youth Guarantee

Greece is currently going through the most severe economic crisis in its history after WWII and no one was prepared for that, especially institutions and public administration. Policies weaving a safety net for the unemployed are no exceptions. For instance, although the number of the unemployed increases because of the crisis, at the same time the number of those eligible for the unemployment benefit declines. According to Manpower Employment Organisation (OAED) data,<sup>12</sup> the share of registered unemployed individuals receiving an unemployment benefit in August 2010 was 33.7 per cent

(191,653 out of 569,222 registered) and it further declined to 16.9 per cent per cent in August 2013 (145,865 out of 861,279 registered).<sup>13</sup> The most plausible explanations involve the increase of long-term unemployed who are usually not eligible for an unemployment benefit<sup>14</sup> and the increase of people entering the labour market for the first time who fall under the same category. Most of them are youths. Given the size of the economic recession and the inevitable budgetary constraints, the unemployed should be supported with the lowest cost possible. Probably the best solution is the expansion of active labour market policies aiming at mobilising the unemployed and re-introducing them to the labour market. Numerous such programmes are already in effect<sup>15</sup> and the Youth Guarantee could complement and reinforce them increasing the focus on the youths.

Perhaps the most important element missing from all initiatives combating unemployment, though, is the lack of cooperative culture and trust between the public and the private sector of the economy. Thus, a new social contract needs to be introduced between firms, employees and the state which will promote cooperation and mutual social responsibility. Nevertheless, introducing an initiative of the size and nature of the Youth Guarantee is bound to present additional and more practical difficulties due to the unfriendly economic and institutional environment in Greece. These difficulties need to be dealt with, if one wishes to lay the grounds for a successful implementation of the Youth Guarantee. To start with, the number of youth that would be involved in Youth Guarantee is expected to be too high in Greece mostly due to the weak demand for labour. In order to estimate the exact number of eligible youth we rely on official estimates for NEET youths: those not in employment, education or training. The official definition by Eurostat includes the unemployed plus those who have not participated in an official education or training programme for the past four weeks before the LFS interview (i.e. inactive or who do not wish to work). According to Eurostat, NEET youths in Greece amounted to 11.7 per cent and 15.0 per cent of the

12. Available at: [http://www.oaed.gr/index.php?option=com\\_content&view=article&id=726:2012-06-22-09-30-54&catid=95:2012-06-22-09-10-03&Itemid=747&lang=el](http://www.oaed.gr/index.php?option=com_content&view=article&id=726:2012-06-22-09-30-54&catid=95:2012-06-22-09-10-03&Itemid=747&lang=el)

13. It is obvious that because of the deviation between registered (OAED) and reported unemployed (based on LFS) the actual share of those receiving an unemployment benefit is much lower.

14. With the exception of those aged 45-65 years who are entitled to unemployment benefit of €200 for an extra period of 12 months.

15. OAED is responsible for a number of such initiatives. For more information see: [http://www.oaed.gr/index.php?option=com\\_content&view=article&id=630&Itemid=764&lang=el](http://www.oaed.gr/index.php?option=com_content&view=article&id=630&Itemid=764&lang=el) and [http://www.oaed.gr/index.php?option=com\\_content&view=article&id=632&Itemid=638&lang=el](http://www.oaed.gr/index.php?option=com_content&view=article&id=632&Itemid=638&lang=el)

whole population in 2008, for age groups 15-24 and 15-29 respectively, and these figures went up to 20.3 per cent and 27.1 per cent in 2012, further widening the gap with EU28 average (15.9 per cent in group 15-29). These shares represent (with population figures from 2013b) from 216,000 to 470,000 individuals, depending on the age group chosen. We consider this to be an upper limit or maximum number of eligible individuals, the largest share of which involves unemployed youths. According to LFS data, in the second quarter of 2013 unemployed youths amounted to 180,000 (group 15-24) or 434,000 (group 15-29) individuals. These figures are quite big and they have two very specific consequences.

The first one is the associated cost which is enormous. Assuming that youth participating in the programme will be paid the legal youth minimum wage (€510.94 gross), finding a work place for everyone (assume for a moment that all unemployed will prefer getting a job over education or training) requires around €92/€221 million per month or €1.1/€2.6 billion per year (15-24/15-29). Given that EU funding so far is estimated to amount to no more than €6 billion divided amongst its 28 member states and despite the fact that we expect some kind of emphasis (i.e. more resources) put on countries with very high youth unemployment rates like Greece, then it becomes obvious that the amount of finance needed is hard to ensure.<sup>16</sup> Do remember that we have not included the inactive. Thus, other sources of funding would have to be considered. Unfortunately, strict austerity measures make national state funding look like an untenable option. The only alternative is to increase the amount of EU funds appointed to the initiative or find some other formula of co-funding. This calls for specific policy actions from the Greek government and European policy makers.

But, even if all necessary funding is obtained, another difficulty that has to be dealt with is the limited demand for labour. In a period of falling domestic aggregate demand for goods and services along with uncertainty emanating from both within the country and abroad, it is very difficult, if not impossible, to persuade firms to hire new employees, even if they are cost free. On top of that, entire sectors of the Greek economy have collapsed during the crisis, e.g. construction, real estate, banking

etc., making the equation even harder to solve, since these sectors a) produce highly skilled unemployed and b) it is considered very unlikely that they will consider hiring youths (or anyone else) in the middle-term. Thus, probably the most rational thing to do is to address export oriented firms first. But, in such a case, the number of eligible firms decreases considerably along with available job posts. In addition, close monitoring is required in order to avoid substituting old for new employees, which is easier said than done given the dismantling of public services and the widespread disappointment due to blind wage cuts throughout both narrow and broader public sector and the enforced mobility schemes, which often lead to dismissals of public sector employees.

Another feature of the Greek labour market involves long transition periods from education to the labour market, which differ widely across fields of study.<sup>17</sup> One of the most common explanations offered regards the mismatch between skills supplied by graduates and those demanded by employers. It is also often argued that graduates of all levels of education lack basic skills and core competencies required by the labour market, therefore more time is needed after graduation in order to acquire those traits outside the formal educational system. Geographical immobility is also mentioned as a barrier to labour market mismatch or even the overly protective family environment. The truth is, though, that during the crisis vacancies throughout the country have reduced considerably leading one to consider that the problem is nowadays mainly the result of very low demand for labour. Another argument refers to the rigidities of the Greek labour market which do not allow for trial and error practices from both sides of the market, i.e. potential employees and employers, so that they all look for the one and optimum match. Last but not least, some claim that there are informal social and occupational networks operating in the Greek labour market and graduates need time to build their own or find their way into an existing one, before they can find a suitable job. As it is easily understood, the crisis has probably made the situation even worse by making employers even more eclectic, if and when they wish to hire someone.

16. A quarter of a billion would suffice to subsidise employment for around 35,000 youth.

17. Moreover, there seem to be different employment prospects according to the field of study regarding tertiary education graduates (see Mitrakos, Tsakoglou and Cholezas, 2010a), so efforts should focus on those who face greater difficulties in finding a job.

One additional issue which needs to be considered in the Greek case is the age span of those eligible set by the Youth Guarantee initiative. Due to factors which fall outside the scope of this study, the stay in tertiary education is often prolonged beyond the regular duration of studies, which means that a considerable number of individuals graduate from Universities or Higher Technical Institutions after the age of 24. In addition, the same thing applies to those holding a Master's degree, usually not before the age of 24, or those following studies of longer duration, e.g. medical school or the national technical university. To make the argument stronger, in the second quarter of 2013 persons aged 25-29 face an unemployment rate of 44.4 per cent. In order to account for such discrepancies a wider age span is required so that participation is allowed to all graduates. According to Eurofound (2012) from 2013 Youth Guarantee in Finland will include young tertiary education graduates under the age of 30. So, why not expand the age group for Greece also?

Before implementing the Youth Guarantee in Greece a few more facts also need to be considered. One of them has to do with the distorted demand for specific fields of study over the years catered by regulated professions and consequent rent seeking behaviours, opportunities for extended tax evasion, boosted social status etc., which led to oversupply of certain types of graduates. Another fact that needs to be considered is the low prestige associated with vocational education and, respectively, with technical professions, since it will make it difficult to drive youths towards vocational studies and related occupations in general. One more barrier that could block the way of implementing the Youth Guarantee is the numerous clauses rule on the way to tertiary education, both universities (AEI) and technical institutions (ATEI), since one path provided for by the Youth Guarantee scheme is blocked: the path that leads to further education.

An additional potential problem is naturally associated with the heterogeneity of the youths' population consisting of natives, immigrants' descendants and various other minority groups, i.e. Roma, Muslims residing in Thrace, etc. The reason is pretty simple. These groups have different needs and aspirations which will be difficult, but not impossible, to accommodate. Last but not least, there is a long standing and extensive informal labour market in Greece operating next to

the official one. In the last annual report of the Labour Inspection Body (SEPE) for the first semester of 2013, it is estimated that almost 40 per cent of all employees in specific industries are informally employed.<sup>18</sup> On the other hand, economy wide informal labour is estimated to be around 12 per cent on average, from 2006 until 2011, and exhibit a clear seasonal pattern (Kanellopoulos, 2012). But what is more important than the actual size of the problem, is to neutralise all institutional twists that push both employees and employers towards informal labour.<sup>19</sup> That way, neither firms nor individuals will have the incentives to substitute cheaper (for firms) and often better compensated (for employees) informal labour for more expensive (for firms) and less well compensated (for employees) formal labour.

## 5. Proposed Policy Actions for Implementing the Youth Guarantee

### 5.1 A New Local Social Contract Needs to be Signed

The first thing that needs to be done on the way to implementing the Youth Guarantee effectively in Greece is to communicate both economic and social cost associated with high youth unemployment rates and a lost generation to all stakeholders, i.e. employers, employees, public servants, youths and their families, etc. This is the only way to mobilise everyone and make them take responsibility for their actions. Thus, a new social contract needs to be signed based on trust and cooperation for the mutual benefit of all, which is probably easier to accomplish at a local level. For example, give youths of the city, prefecture or region the opportunity to socialise and be acquainted with local institutions, both public and private. In other words, build a local exemplar and promote it as a role model for others to follow.

18. The exact figure is 38.4 per cent. For more details see SEPE (2013).

19. One example is the minimum number of working days required in order to be entitled to the minimum pension.

## 5.2 Freeing Up the Paths to Further Education

Regarding the first path of the initiative, the one encouraging youths to continue their studies, it is obvious that obstacles should be lifted and youths should be allowed to freely access tertiary education, both general and vocational. As far as vocational education is concerned, efforts should focus on boosting its social status and acceptance. One way to accomplish that is by improving the link between vocational studies and the labour market, thus facilitating the transition of youths from education to work. Adopting the dual system, that has proven very efficient in Germany and elsewhere, is definitely an option; naturally after all necessary adjustments to fit the Greek needs are made. Perhaps professional schools (EPAS) run by OAED, the closest thing to the German dual system of vocational education, could serve as a field for attempting the necessary educational reforms.

## 5.3 Mobilising and Supporting Private Sector Firms

As far as the second path is concerned, there is a solid belief that Greek firms cannot hold the burden of a widespread initiative like the Youth Guarantee, especially under increased uncertainty and shrunken demand for their products and services prevailing today. The observation that the great majority of them are small to medium sized firms draws the complete picture. Given that the initiative will fully compensate youth employees, paying them both wages and social security contributions so that firms will just benefit from new ideas and project results without incurring any costs, what is further needed is state support. Not through protection, finance or subsidies this time, but through providing guidance and counselling, perhaps in cooperation with professional associations, in order to help firms overcome their deficiencies and take steps towards securing their presence and growth in the world market. Credit channels of course are the next step and Greek banks have a crucial role to play.

## 5.4 Going Abroad

Alternatively, in order to fight limited job places offered domestically the Youth Guarantee could involve firms of Greek ownership operating abroad and encourage youths to migrate for a given period of time. Foreign firms operate under different economic circumstances and might be willing to contribute to a national effort, given they are convinced of the soberness of the attempt. In order to avoid mistakes of the past, youths could be allocated to firms (domestic or foreign) in order to run specific and predetermined social or business projects according to the needs of each firm. Every project will have a target and prescribed deliverables, while youths could also participate in groups or even be encouraged to do so. Networks could be formed that way and a cooperative culture could be cultivated. A project could probably involve ways to improve a firm's economic and operational efficiency regardless of the field of operation, e.g. education (increase the effectiveness of Career Services Offices established in all tertiary education institutions), health (improve the supply of services given the lack of nursing staff), partnerships (improve operational efficiency and promote exports), etc. Such projects could have a local dimension by mobilising municipalities and local communities, since it would probably be easier to determine local firms' needs and youths' goals and aspirations.

## 5.5 Boost Youths' Entrepreneurship and Promote Public-Private Entities Cooperation Through Them

Another way to overcome the weakness of Greek firms to provide new job places is to accommodate and encourage the establishment of new firms, preferably by young people. So long these new attempts are directed towards exports, one more goal could be achieved at the same time, i.e. the openness of the Greek economy. Naturally, results will be realised in the medium-term, not in the short-term as others mentioned above. Moreover, participation of both public institutions and private firms could be pursued, in order for the youths to be acquainted with both of them and be able to propose ways of closer and more efficient cooperation between them. What is actually proposed is a kind of a rotation scheme, which of course presents certain difficulties (high operational cost), but it is feasible.



## 5.6. Operational Efficiency and Use of International Best Practices

As with any other policy, the implementation of the Youth Guarantee initiative should be closely monitored in order to pinpoint inefficiencies and trace space for improvements. The assessment of the results in terms of decreased early school leaving, which is a problem for specific minority population groups in Greece, increased employment rates, dropping unemployment rates and decreased poverty should be continuous. Luckily, Greece is not alone in this. Thus, it should look for cases of successful implementation of the Youth Guarantee, seek cooperation with countries which have already introduced it, e.g. Austria, Sweden and Finland, and acknowledge best practices. Last but not least, an important prerequisite for the success of the initiative is a single institution which will organise, direct and be responsible for all actions and policies aiming at preparing the ground for the Youth Guarantee, implementing it and constantly evaluating it, in order to continuously improve its effectiveness. OAED is the public entity chosen, but only time will tell if it has the required human resources and necessary technical efficiency to fulfil the task successfully.

## 6. Conclusions

Unacceptably high unemployment rates for youths all around Europe have mobilised policy makers to come up with a solution. The result of this process is the Youth Guarantee initiative. The case of Greece demands special attention, because the country is characterised by certain peculiarities and unfortunately, although unsurprisingly, it has been severely hurt by the crisis. Despite efforts to reverse the course of things, Greece is still suffering from negative growth rates, high debt to GDP ratio, public deficits and high unemployment rates. This calls for both active and passive labour market policies reinforcement and the Youth Guarantee initiative appears to be an opportunity to do exactly that for a group which greatly affects the future of the country and its prospects of economic recovery.

Naturally, the road ahead is not without problems, but the analysis presented in this paper suggests that attention should be paid on five broader axes. The first one involves giving the initiative a local dimension

assuming it would be easier to communicate, organise and implement necessary actions at a local rather than a national level. The second axis proposes specific projects for the youths getting a job, in order to be easier to access the results and avoid failures of the past. National borders should not be allowed to compromise the results of the initiative, while public-private entities cooperation is expected to produce only positive outcomes. Combining these the two axes leads one to the third axis, which is building role models at a local level involving serving specific firms' needs and setting an example for others to follow. The fourth axis requires the appointment of a single institution sufficiently staffed which will be responsible from the beginning until the final evaluation of each initiative and will bear the whole responsibility. This role is given to OAED and time will show the soundness of this choice. Finally, the fifth axis stresses the need for continuous monitoring and evaluation of the results in cooperation with authorities in partner countries, so as to make necessary improvements and increase efficiency.

To conclude, the Youth Guarantee is an excellent opportunity for Greece to rectify some long standing problems ranging from education to labour market institutions while dealing with youths' unemployment at the same time. In order to accomplish that, though, careful preparation, planning, implementation and evaluation are needed, along with a continuous communication campaign to inform all social partners and eligible youths of the effort. Last but not least, in order for the initiative to have its full impact the expansion of the age span of those eligible should be negotiated with our European partners so as to include those under 30. The stakes are too high for Greece. Let us hope that this opportunity will not be wasted.



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