Greece at a Glance
Policies for a Sustainable Recovery

OECD

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Foreword

The global economy appears to have turned the corner following the worst recession in the post-war period. However, all indications point to a slow and hesitant recovery, with strong headwinds coming from the need to embark on fiscal consolidation. Public finances have indeed suffered badly, but in most countries, the withdrawal of fiscal stimulus, which is needed to ensure the sustainability of public finances, must be balanced against the risk of undermining the nascent recovery.

In Greece, economic difficulties go deeper than the direct effects of the recent crisis and fiscal consolidation is urgent. Difficulties have been brewing for years, so when the crisis came, Greece was significantly more exposed than others. Besides the severity of its fiscal problems, Greece has, over the past several years, gradually but persistently lost international cost competitiveness, resulting in widening current account deficits, a deteriorating international investment position, and a poor record of inward foreign direct investment.

Resolving these problems urgently requires policy action on a broad front. The Member States of the European Union have sent a clear political message of solidarity and have demonstrated their willingness to take co-ordinated action. The essential starting point is a large and sustained fiscal consolidation in Greece, to stabilize public finances and reassure markets. But if recovery is to be durable, Greece's structural problems also need to be tackled. An ambitious structural reform programme holds the promise of unleashing productivity and restoring competitiveness, which would yield sustainable increases in economic growth, jobs and living standards. This in turn, will facilitate fiscal consolidation in a mutually-reinforcing dynamic.

The crisis opens a 'window of opportunity' for Greece to engage in deep fiscal structural reforms, rather than relying too much on one-off temporary measures, as has often been the case in the past. Tax collection needs to be improved by fighting tax evasion and simplifying and widening the tax base. Control over government spending needs to be strengthened by improving administration, reducing the public-sector wage bill, and more strictly controlling public entities (including in the health system) and loss-making state enterprises. Measures need to be taken to substantially reduce the increase in public pension outlays in the years ahead, including bringing Greek pensions more in line with OECD best practice and introducing measures to increase the effective retirement age. Greece should also embark on reforms of wage bargaining, which remain too rigid, and of product markets, which remain over-regulated and insufficiently innovative. In fact, Greece has been slow in taking advantage of the potential of the knowledge and green economies, with innovation indicators consistently lagging those of other advanced economies.

The Greek government has already set out ambitious reforms, including its updated Stability and Growth Programme. These initiatives should bring important fiscal structural benefits, including a more efficient and modern tax system, improved budgetary process and monitoring and more reliable Greek statistics. But Greece should consider putting these measures into a broader framework of longer-term reforms to address its structural weaknesses.

In this spirit, the OECD has prepared this brochure to share its knowledge and analysis of practices and reforms that have worked well in other countries. It proposes a strategy to correct imbalances and modernize the economy, accompanied by action plans in each of the following nine critical areas: (i) public administration and budgets; (ii) pensions; (iii) the governance of state owned enterprises; (iv) tax policies; (v) employment and social policy; (vi) education; (vii) new sources of growth, innovation and green growth; (viii) competition; and (ix) the complex political economy problems associated with reforms in the public sector.

The current crisis showed that no single country has all the answers. The OECD looks forward to working with Greece in shaping policies and solutions to rise to its challenges. Only by pooling efforts and sharing experiences we can achieve a sustainable economic recovery and turn our vision for a stronger, cleaner and fairer global economy into a reality.

Angel Gurría
Secretary-General

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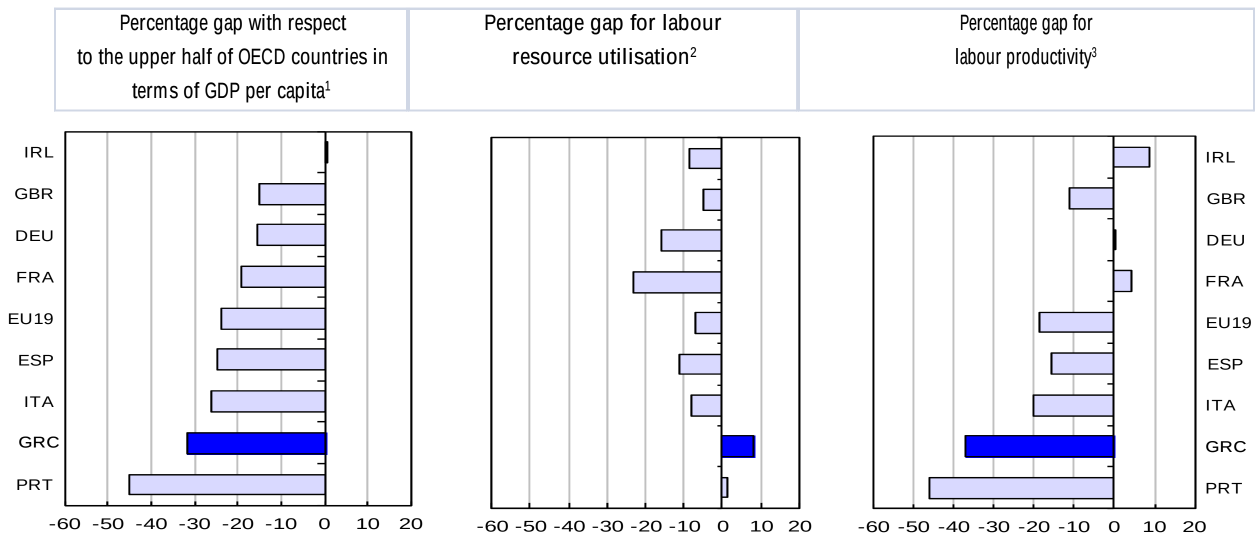
A Strategy to Correct Imbalances and Modernise the Economy

Greece has large imbalances. The fiscal deficit has reached close to 13% of GDP in 2009. Public debt was about 100% of GDP in 2008. The fiscal position is further challenged by two longer-term trends – the programmed reduction of European Union structural funds from 2013 and cost pressures from rapid ageing. The current account deficit has also widened to around 11 % of GDP, leading to a rapid rise in net foreign debt to more than 70% of GDP in 2008. This reflects both low savings and the gradual loss of competitiveness in relation to its euro-area partners. Productivity is hampered by slow structural reforms, and wage and price inflation has remained constantly above the euro area average. Structural unemployment remains high.

Priority should be given to boosting productivity

Productivity gains and wage restraint are necessary to recoup international competitiveness, sustain growth and reduce the sizeable external deficit. Ambitious structural reforms are needed to boost productivity and employment. Greek labour and product markets are rigid by international comparison, which points to the potential for productivity gains from further liberalization. Steps to simplify the start-up of businesses, promote exports, reinforce the Competition Authority, and liberalise professional services are welcome and should be implemented quickly. OECD simulations suggest that aligning product market regulations with best practices, including in the network industries, would increase labour productivity by around 20%. The current downturn makes it all the more important to adopt more flexible institutions in both labour and product markets. This would improve labour market outcomes and reduce the risk of a further rise in the level of structural unemployment, which is already high (around 9%) by international standards.

Decomposition of GDP per capita in selected OECD countries, 2008



1. *Simple average of the highest 15 OECD countries in terms of GDP per capita, based on 2008 purchasing power parities.*
2. *Labour resource utilisation is measured as total number of hours worked per capita.*
3. *Labour productivity is measured as GDP per hour worked.*

Source: OECD, National Accounts Database; OECD, Economic Outlook 86 Database and OECD Employment Outlook (2009).

Summary of OECD Recommendations

Simplify and modernize the tax system. Broaden the tax base, in particular for the VAT and proceed with the proposed rationalization of the personal income tax. Fight forcefully against tax and social security contribution evasion. Unify the administration of taxes and social security contributions

Improve the process of budget preparation. Move swiftly toward a programme–based budget and a multi–year budgetary framework. Consider adopting a stricter fiscal rule, perhaps with constitutional rank, imposing expenditure control. Establish a parliamentary budget committee.

Tigthen control over public spending. Proceed rapidly with reforms rationalizing and limiting the wage bill. Further increase transparency of recruitment and limit regularisation of contractual staff. Enhance budgetary control over public entities and restructure loss-making state enterprises. Depoliticise boards and managements of state-owned enterprises (SOEs) so as to make them more professional and accountable. Stop Ministries' day-to-day interference in the affairs of SOEs and public entities, like hospitals.

Reform urgently the pension system to ensure its long-term financial viability. Increase the effective retirement age. Extend the period over which pension benefits are calculated to the entire working life. Extend the number of years required to qualify for a full pension. Change the conditions for awarding minimum pensions limiting access to persons having reached the statutory retirement age

Raise labour market flexibility and tackle poverty. Improve activation policies. Target existing employment subsidies on the most disadvantaged youth. Reduce employment protection legislation and tackle the widespread dualism in the labour market, through the introduction of a single contract with moderate protection against dismissal. Ensure that the minimum wage does not act as a disincentive for hiring young people. Encourage more decentralized wage bargaining by avoiding administrative extension of collective agreements to parties not directly represented in the agreements. Reform the tax and benefits system to limit widespread poverty among the working population.

Enhance the effectiveness of competition policy. Reduce the administrative burden to start-ups and the barriers to entrepreneurship. Liberalise professional services. Proceed with privatization and foster competition in network industries. Introduce centrally-led review of stock of laws and regulations for competitive effects with follow-up revisions of laws and regulations that unnecessarily restrain competition.

Strengthen efficiency of the education system. Develop and modernise the childcare sector through better regulation and increased supply of services. Ehance school autonomy and accountability and teacher incentives and accountability. Improve the curriculum in secondary and vocational education. Enhance competition in the higher education sector and introduce reforms to improve the way education institutions are financed, looking at different options that emphasise the focus on diversification of resources and equity issues. .

Foster innovation and knowledge-based activities and promote a Green fiscal reform. Foster firms in-house learning capabilities, in particular in the service sector, to help them develop innovation in broad sense, including in organization, marketing, business models, etc. Strengthen environmental financing efforts, moving towards the fuller implementation of the polluter-pays and user-pays principles

Resolutely pursue efforts to restore confidence in the management and impartiality of the State. Use the crisis as a window of opportunity to establish an efficient and modern public sector. Consider creating a specialized, non-partisan "reform institution" to foster understanding of the cost of no reform. Improve public communication on the costs of not-ambitious-enough reforms.

Public Administration and Budget

The imbalances of the Greek public sector are driven by multiple structural factors (2009 OECD Economic Survey of Greece). The control of government spending is not adequate. The dramatic rise of public expenditure by about 9% of GDP between 2006 and 2009 is the main cause of the widening fiscal deficit. The efficiency of supply and quality of public services, including education and health, are below par. The pension system, which is among the most generous in the OECD, is not financially viable. According to the most recent European Commission long-term projections, pension spending is expected to rise by more than 12% of GDP by 2050, compared with less than 3% of GDP in the average of other EU countries.

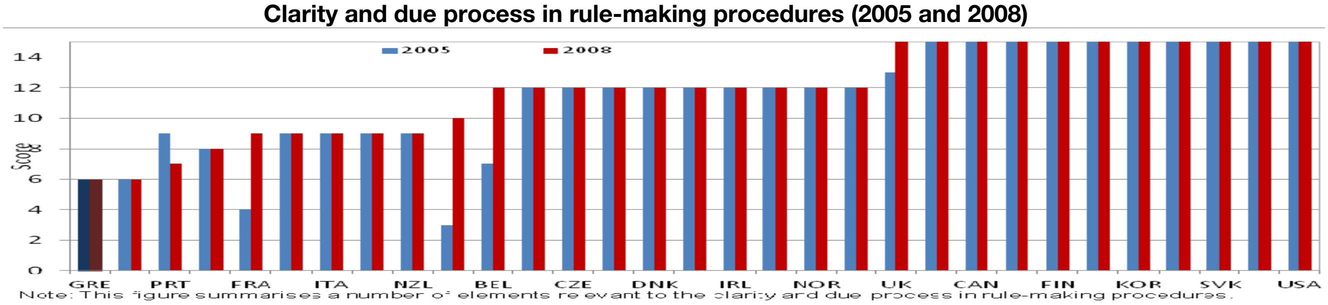
Fiscal consolidation in Greece needs to encompass tighter control over spending, including a cut in administrative costs, rationalisation and limitation of the wage bill, reforms in loss–making state enterprises see section on SOEs) and lower military expenditures. Defense spending is estimated at 4¼% of GDP in the mid 2000s, much above the world and OECD averages (around 1¾-2% of GDP). Longer term financial viability also calls for an urgent reform of the pension system (see respective section).

Implementing the Greek Stability and Growth Programme (SGP) and restoring competitiveness depends, to a large extent, on the existing public service's capacity to increase its efficiency and effectiveness. To assist the Greek authorities in developing a common Roadmap for public administration reform, the OECD has proposed a Plan for Action in critical areas. These proposals also form the core of the OECD's Comprehensive Governance Review of Greece, which will be completed in fall 2010 and will show the importance of having an overall coherent strategy for modernising the Greek public administration. In the short-term, clear and systematic rules and accountability are needed to introduce immediate change. Over the longer-term, however, sustainable reforms will depend on internalising public values, such as efficiency and transparency, supported by clear performance frameworks and oversight.

What are the issues?

Fostering private sector development. The private sector in Greece suffers from weighty and complex regulations and from the lack of a coherent and systematic approach to rule-making (See also the Section on Competition). The SGP seeks to improve the business environment by improving the quality of regulation, promoting external competitiveness, and strengthening competition. The EU-funded *Public Administration Reform Operational Programme 2007-2013,* which sought to systematically introduce better regulatory procedures and practices, seems to have lost momentum.

Clarity and due process in rule-making procedures (2005 and 2008)

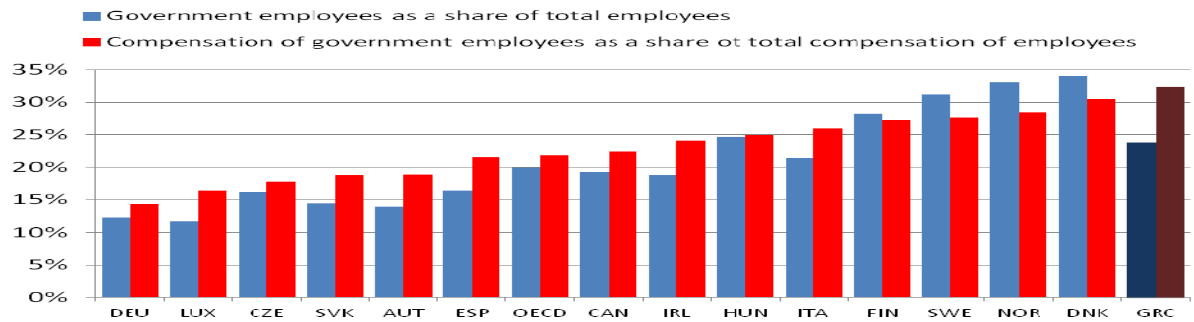


Source: OECD

More efficient and transparent public administration. Compensation of civil servants in Greece is reltively high. Greece has one of the highest disparities between the number of public servants as percentage of the workforce and their compensation as percentage of total compensation.[1] The SGP focuses on recruitment policy including a hiring freeze, an attrition policy (5:1 rule of retirements/recruitments in the public sector from 2011) and a reduction in the use of short-term contracts, and improving transparency and accountability. The improvement of tax administration is an additional government priority (See section on tax reform).

1 This may also reflect under-reporting of private sector wages, as well as non-salary compensation such as tips.

General Government Employees: Numbers and Compensation as Share of Total in Economy 2007



Source: OECD National Accounts Database.

Recommendations

Fiscal consolidation will demand a collective commitment within and across government. A common reform agenda, enhanced strategic planning, and improved co-ordination and accountability within agencies and across all government levels are needed to implement integrated reforms to achieve the SGP objectives. Reforms should introduce explicit regulatory quality leadership, guidelines and oversight, including clear central responsibility; regular *ex post* review of new regulations; and a common approach to codification and simplification. Also required are improved mechanisms for prioritising public investment which is currently highly centralised and which may not optimally take into account specific territorial needs and challenges. Critical pre-conditions are to improve transparency in local finances and performance monitoring across levels of government.

More could be done to better use existing staff through mobility policies, incentives to improve behaviour or work practices. A government-wide competency management framework for the entire public administration would improve workforce planning and career management, and would increase the fluidity of the public sector labour market. Introducing an integrity framework to set norms and expectations for civil servants (and reinforcing it with monitoring) would provide strong incentives to raise the quality of services. Additional steps to increase the transparency of recruitment would increase public trust.

Finally, a credible medium-term consolidation plan, backed by political commitment, is essential to ensure fiscal sustainability and gain credibility. An improvement in budget process and monitoring is a key element in this regard. The planned transition to a programme budgeting by 2012 should be implemented without delay, as it would allow for a better evaluation of spending efficiency. As foreshadowed in the SGP, the government should also adopt multi-year spending budgets by the ministries and fiscal rules. Consideration should be given to a legally binding fiscal rule that would cap expenditure and prevent structural deficits. Enhanced independent overshight of fiscal policy is indispensible if the fiscal rule is to be effective. In this context, the creation of an independent budget office under the auspices of Parliament is a welcome step.

Summary of OECD Recommendations

Improve co-ordination and central steering: 1) Strengthen policy co-ordination; 2) Introduce explicit regulatory quality guidelines, leadership and oversight; 3) Simplify business start-up processes; 4) Establish a competency management framework.

Increase transparency and reduce loopholes on budget and personnel: 1) Limit regularisation of contractual staff; 2) Further increase transparency of recruitment.

Improve the process of budget preparation, monitoring and evaluation. 1) Move swiftly toward a programme–based budget and a multi–year budgetary framework. 2) Consider adopting a stricter fiscal rule, perhaps with constitutional rank, imposing expenditure control; 3) Establish a parliamentary budget committee.

Improve data and analysis: 1) Require regulatory impact analysis; 2) Put in place a systematic and strategic review of government needs.

Strengthen performance management and accountability: 1) Reinforce current performance budgeting pilots and expand them to cover additional sectors; 2) Develop a system-wide performance management process; 3) Introduce an Integrity Framework.

Pension reforms

Financial sustainability of the Greek pension system is a major challenge. Greece is ageing rapidly and pension entitlements are generous. Fertility rates are among the lowest of the OECD countries, while life expectancy is relatively high. In 2050, there will be fewer than two working-age people (1.6) for each of pension age, compared with about four currently. In 2005, pension expenditures at 11.5% of GDP were among the highest in the OECD, against an average of 7.2%.

Main parameters of public pension schemes in selected countries
For employees in the private sector, from 2008 onwards

	Statutory retirement age (men/women)	Contribution period for full pension (years)	Reference period for benefits	Average benefit accrual rate	Average pension level[1]	Average pension wealth[2] (men/ women)	Indexation of benefits
Greece	65	35	Last 5 years	2.57	93.6	14.2/16.5	discretionary
Canada	65	40	Best 34 years	0.63	42.0	7.9/9.2	prices
France	60	40	Best 25 years	1.75	51.2	9.5/11.0	prices
Germany	65	not applicable	Career	1.00	40.5	7.0/8.3	wage
Italy	65/60	not applicable	Career	1.75	69.3	10.0/10.8	prices
Japan	65	40	Career	0.55	33.5	6.0/6.8	prices
Portugal	65	40	Career	2.00–2.30	53.6	8.1/9.5	prices with additional adjustments[3]
Spain	65	35	Best 15 years	2.90	73.0	12.0/14.0	prices
United Kingdom	65	44	Career	Flat–rate	28.9	4.7/5.4	prices
United States	67	35	Best 35 years	≈ 1.2	37.1	5.9/6.8	prices

1. Pension level as a percentage of economy–wide average earnings.
2. Pension wealth as a multiple of economy–wide average earnings.
3. GDP growth is also taken into account in the indexation of benefits.

Source: Pension at a Glance, OECD, 2009.

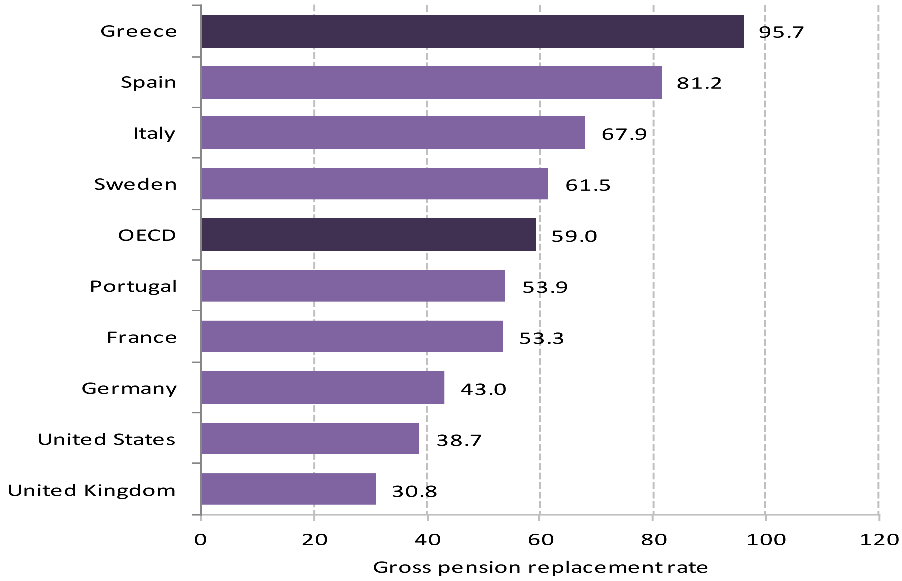
What are the issues?

Greek public pension entitlements are among the most generous in the OECD. Based on current rules, 20-year old earners starting to work now and working a full career (i.e. until the age of 65) would receive on average a pension corresponding to 96% of their previous earnings in gross terms, compared with an average of 59% for the OECD.

The official retirement age in Greece is currently 65 years, but early retirement is still widespread. The average age of labour market exit is 62.4 for men and 60.9 for women. Only 44% of workers aged between 55 and 64 are still at work, compared with an OECD average of 52%.

Despite the relative generosity of future public pensions, old-age poverty is currently widespread. In the mid-2000s, 23% of people aged over 65 were poor compared with 13% on average in OECD countries. This is partly explained by the fact that a large share of workers are in the informal sector, and thus have no other pension rights than last-resort, relatively low safety-net benefits. At the same time, the comparatively lax conditions to qualify for a minimum pension tend to increase incentives for early retirement. Despite their low level, minimum pensions are relatively “generous” in relation to the contributions paid by their beneficiaries, which creates perverse incentives for certain workers to retire early without an actual reduction in benefits. This calls for a clearer separation of pension entitlements and income support.

Pensions for workers entering the labour market today are generous



Source: OECD (2009), Pensions at a Glance

Recommendations

The Greek government announced in February 2010 a long overdue set of reforms to its pension system. Access to early retirement schemes will be reduced and incentives for workers to stay in the labour market beyond 65 will be adopted. The aim is to postpone the average retirement age by two years to 63 years by 2015. Pensions will be calculated on the basis of the average contribution workers make during their career, rather than just the last five years. The maximum pension would not exceed 70% to 75% of previous earnings. These measures are important steps in the right direction and they should be implemented vigorously. They would bring Greece closer in line with other OECD countries that have already reformed their pension systems.

However, further efforts will be needed to ensure the long-term sustainability of the public pension system. Measures could include linking the retirement age to life expectancy and extending the number of years of contributions needed for a full pension. Conditions for entitlement to a minimum pension also ought to be revised to give access only to persons who have reached the statutory retirement age. This would better focus the benefits of the minimum pension scheme, which is meant to shield older people from the risk of poverty and, at the same time, would reduce incentives for early retirement. This would need to be complemented by sound policies to address poverty, notably through the implementation of better targeted income support mechanisms.

Summary of OECD recommendations

Extend the retirement age in line with increases in life expectancy

Increase the effective retirement age by further restricting access to early retirement and providing incentives in the pension formula to work longer;

Extend the period over which pension benefits are calculated to the entire working life

Extend the number of years required to qualify for a full pension

Change the conditions for awarding minimum pensions so that access is limited to persons who have reached the statutory retirement age

Governance of State Owned Enterprises

Enhancing the prospects for fiscal consolidation and a sustained recovery of the Greek economy will require ambitious reforms of the State Owned Enterprises (SOEs) sector. Although Greece was one of the most active privatisers in the OECD area over the period from 2000 to 2008, Greece's SOEs sector remains relatively large, with 74 enterprises and a value estimated at around EUR 44 billion

Wholly or partly state owned enterprises in Greece, by sector

Sector	Publicly traded[2]	Directly controlled	*Total*
Productive activities	1	7	*8*
Finance	2	3	*5*
Utilities and transportation	6	21	*27*
Real estate	0	9	*9*
Other	1	24	*25*
Total	*10*	*64*	*74*

Source: Greek State Budget 2010, Introduction Report, Ministry of Finance, page 117-119.

Main policy issues

SOEs act as a major drag on the government budget. Over the years, the use of SOEs as a source of patronage has rendered large segments of the sector overstaffed. At the same time, there are wide technology gaps relative to other OECD countries. The resulting combination of relatively high labour costs and low productivity explains poor performance. Greece's SOEs also fulfil heavy public service commitments without matching compensation and prices are set low by international standards. As a result, funding is short for productivity improving investment and the quality of service rendered by SOEs is poor. Poor performance in utilities, transportation and finance where SOEs are dominant has in turn had negative externalities on the rest of the economy.

This calls for a number of urgent policy initiatives, which will be essential not just for fiscal consolidation but also for helping put the Greek economy in a sustained growth path.

Recommendations

Greece needs to consider a further transfer of SOEs to private ownership, through an accelerated resumption of the privatisation programme. Reforms to improve the economic performance of SOEs should also be contemplated. This will help the financial viability of these companies, boosting future privatisation revenues.

A particularly important set of structural reforms will be those targeting the implementation of high standards of corporate governance. Such reforms should be guided by internationally agreed standards such as the OECD Guidelines on Corporate Governance of State-Owned Enterprises. To this end, the government should act to depoliticise the boards and management of SOEs. This could be done by appointing professional independent board members and making it clear they have responsibility for engaging and dismissing executives. Ministries will also need to avoid any interference in day to day management and orient their role towards setting strategic orientations. Boards also need to take responsibility for the financial condition of companies and given commensurate powers. Ultimately, disguised subsidies will need to be removed and competition in key sectors promoted. It is crucial that SOEs be given clear signals regarding the future corporate governance landscape so that they can begin to adjust.

[2] Includes companies where the state owns more than 10% of the common stock.

Summary of OECD Recommendations

Depoliticise boards and managements of SOEs so as to make them more professional and accountable.

Stop Ministries' day-to-day interference in the affairs of SOEs and transfer responsibility for performance to management and boards. This will require a new approach to policy formation.

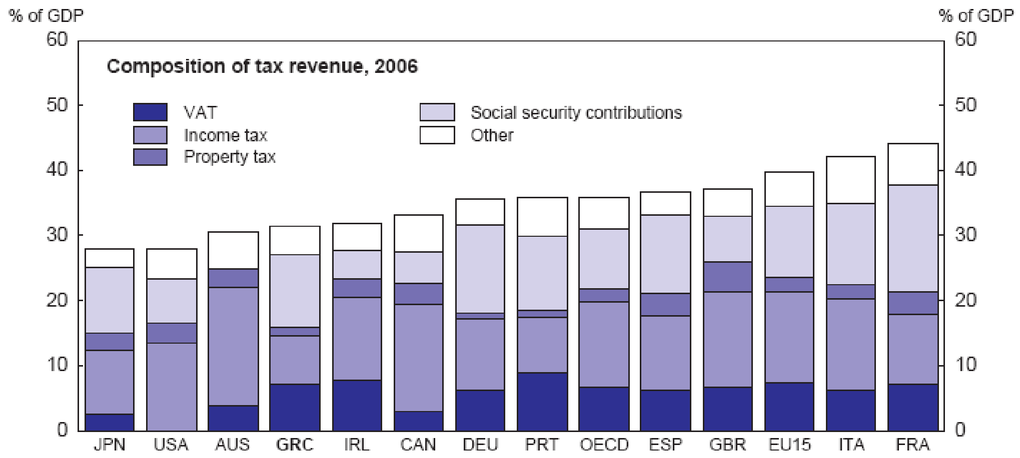
Enforce boards' accountability for the financial performance of the company and strengthen their ability to hold management accountable.

Consider privatisation for SOEs in competitive sectors such as finance, drawing on recent OECD best practices in this area.

Strengthen competition and regulatory frameworks for other sectors dominated by SOEs, so as to improve efficiency.

Tax policies

The large needed fiscal consolidation should rely on structural fiscal reforms. The Stability and Growth Programme (SGP) and additional measures adopted by the government in early 2010 are appropriate. They include many measures on the revenue side. These measures should be implemented immediately. Government receipts should be raised by a combination of higher tax rates and a more efficient tax system.The tax-to-GDP ratio, at 32% , is nearly four percentage points below the OECD average and eight percentage points below the EU15 average. Tax collection needs to be improved, the fight against tax and social security contribution evasion must be strengthened, and tax bases simplified and widened.



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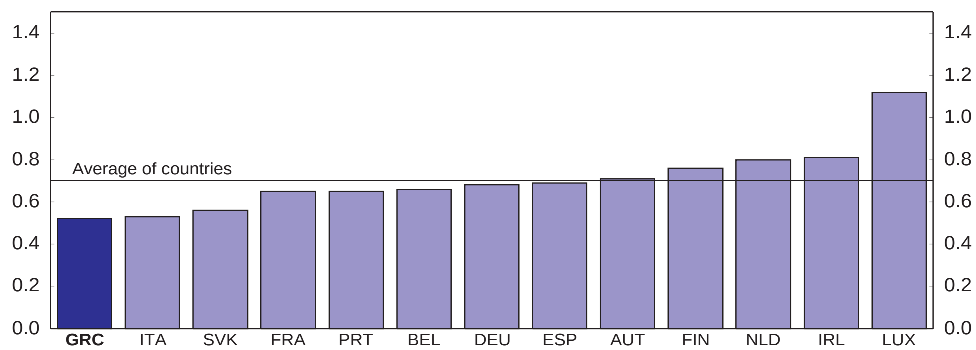
Source: OECD, *Tax Revenue database.*

Current statutory tax rates are average for labour and corporate income by international comparison. The marginal tax wedge, including social security contributions and income taxes, ranges between 50-60% for incomes at two-thirds of average full-time earnings, a relatively high rate among OECD countries. The standard VAT rate of 21% is about the EU average, but collection is low. Reducing the gaps between the effective and statutory rates of VAT, employers' social contribution and corporate income tax to the EU average would boost fiscal revenues by about 3.5% of GDP.

Efficiency of VAT collection[1]
2006, in percentage

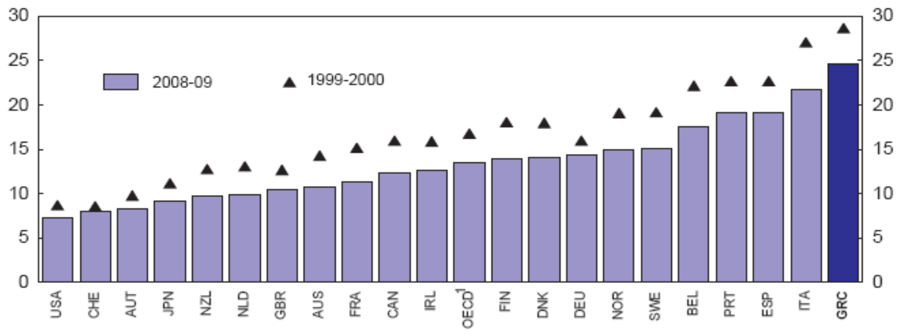


Tax efficiency is calculated as the ratio between effective (revenue from value added taxes to private consumption) and statutory rates.
Source: OECD Economic Surveys: Greece 2009.

Recommendations

To fight widespread tax evasion, a sustained and major effort to strengthen tax administration is necessary. Particular emphasis should be placed on enforcement to ensure that those in informal economy are brought into the tax net. Auditing activities need to be improved through better qualified personnel, better infrastructure, and the development of a comprehensive system of information exchange. Auditors need better access to taxpayers' bank account information. The administration of taxes and social security contributions should be unified and their collection centralised under a single authority.

Figure 2.2. **The size of shadow economy: An international comparison**
In per cent of GDP



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1. Unweighted average over 21 OECD countries.

Source: Schneider, F. (2009), "The Size of the Shadow Economy in 21 OECD Countries Using the MIMIC and Currency Demand Approach".

Tax bases should be reviewed with a view to rationalizing all exemptions and deductions. This applies in particular to the personal income tax system. VAT revenue should be enhanced by moving to a more uniform rate structure and shortening the list of goods and services that are eligible for reduced rates. VAT was recently increased from 19 to 21%. A simple VAT structure would bring Greece closer to modern international practice.

Taxes that are hard to evade could be increased. Property taxes constitute a smaller share of revenues in Greece than for the OECD on average. The new recurrent tax on property, which does not apply for primary residences, except for the largest, should be broadened. Excise tax rates are low by international comparison, and it is therefore welcome that they are now being raised. A more widely based CO2 tax, as recently introduced by Ireland in its fiscal consolidation, might also be considered.

The government announced in its updated Stability and Growth Programme the main elements of its tax reform, and provided more concrete directions in early February 2010. The envisaged reforms aim at a more progressive tax scale, a broader tax base and a crack down on tax evasion, including through the introduction of presumptive taxation and harsher penalties for tax offenders. If rigorously implemented, these measures will contribute to the consolidation of public finances. They will also make the tax system fairer by reducing arbitrary avoidance and evasion of the duty to pay. A close monitoring of their effectiveness is essential however.

Summary of OECD recommendations

Strengthen the tax administration in order to effectively fight against tax evasion.

Consider concrete steps to improve auditing activities.

Unify the administration of taxes and social security contributions and centralise their collection under a single authority, as announced by the government.

Review tax bases with a view to rationalize all exemptions and deductions. This applies in particular to the personal income tax system.

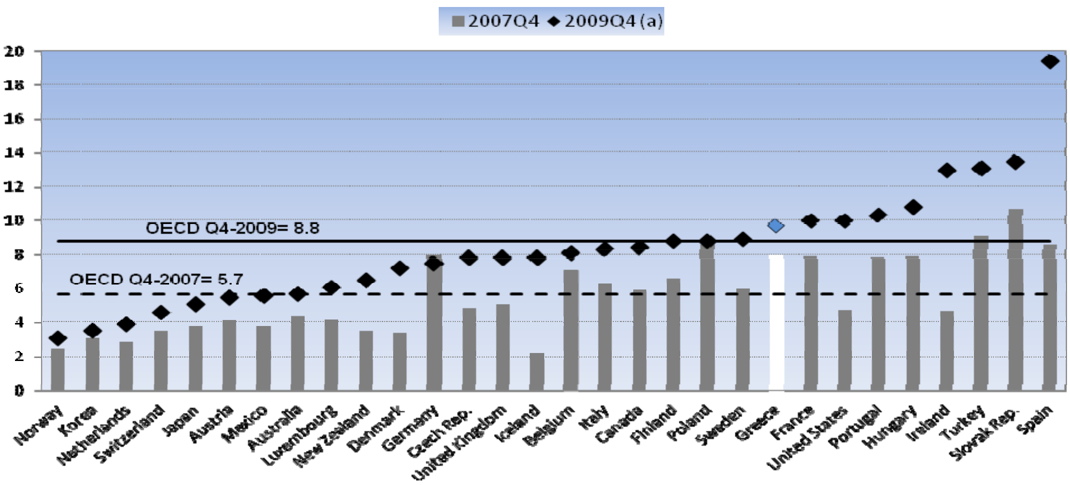
Simplify the VAT structure to bring Greece closer to international practice.

Increase harder-to-evade taxes (property taxes, excise tax rates on petrol and diesel, a more widely based CO2 tax).

Employment and Social Policy Reforms

Labour market conditions in Greece deteriorated significantly during the global economic crisis and the short-term outlook remains grim. The unemployment rate increased by less than the OECD average since the onset of the crisis in late 2007, but hit 9.7% in September -- the 8th highest in OECD. Unemployment is expected to rise further, to over 10% in 2010. The current deterioration in labour market conditions is exacerbating pre-crisis imbalances in the Greek labour market. Even before the crisis, almost half of the unemployed had a joblessness spell of more than 12 months (the share of long-term unemployed was 26% on average in the OECD).

Unemployment rate
Percent of the labour force

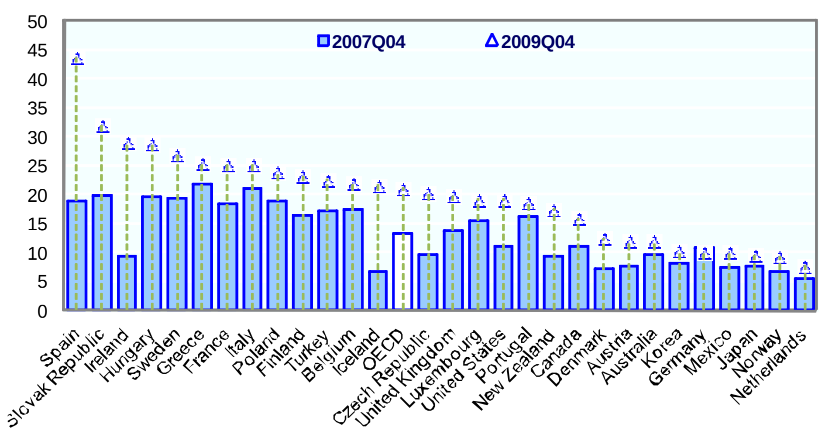


a) 2009Q3 for Greece, New Zealand, Norway, Switzerland, Turkey and the United Kingdom.
Source: OECD Main Economic Indicators.

What are the issues?

Disadvantaged youth. Youth are among the most disadvantaged groups in the Greek labour market, despite recent improvements. The youth (aged 15-24 years) unemployment rate stood at 25.3% in the 3rd quarter of 2009, far exceeding the OECD average, and is expected to rise further in 2010. A gap *vis-à-vis* the OECD counterparts also exists in terms of access to employment, length of the unemployment spell and the duration of transition from school to work and pay.

Youth unemployment rate, seasonally adjusted data



2009Q3 for: Australia, Greece, Iceland, Italy, Japan, Mexico, New Zealand, Norway, Turkey and United Kingdom
Source: National Labour Force Surveys.

The poor labour market outcomes of Greek youth may be partly explained by the combination of relatively high minimum wages, taxes on labour and dismissal costs that discourage employers from hiring inexperienced youth. Moreover, unemployment benefit recipiency is not subject to mutual-obligations, and job-search support is limited. The nature of the Greek youth labour market problems and OECD recommendations to tackle them are documented in our *Jobs for Youth: Greece report*.

Poverty. According to the *OECD Employment* Outlook, total poverty in Greece is 13%, or 2 percentage points higher than the OECD average and the second highest in the EU. Unemployment is a key driver of poverty and 25% of jobless households in Greece are poor. Although this is a high number, it is well below the OECD average and in-work poverty appears to be an even more important challenge for Greece. Nine per cent of individuals living in househoulds with at least one worker are poor, which is 2 percentage points higher than the OECD average. Groups with the highest risk of poverty include workers in temporary contracts and part-time jobs. Importantly, households with children fare worse than their childless counterparts with comparable employment status.

Assessment of social policy also suggests a need for re-shaping social transfer mechanisms to strengthen the incomes of poor families and low-earners. Net social transfers appear to be much more targeted towards jobless households, thus reducing their poverty rates to a much greater extent than those of working households. In addition, they tend to be less effective in reducing poverty among families with children than in childless households.

Recommendations

Existing employment subsidies should be better targeted to the most disadvantaged youth, such as early school leavers and individuals who have not been in employment, education or training for a long-term. Furthermore, employers should be required to provide training in exchange for the subsidy. Job-search training should be the top priority in individual action plans drawn with the help of personal advisers and participation should be mandatory after a period of unfruitful independent job search. Employment protection legislation should be eased by considering a single contract with moderate protection against dismissal. Reducing employment protection legislation for the white collar and workers in temporary contracts is also necessary.

The current reform of the tax and benefits system should take into account the high, compared to other OECD countries, rate of in-work poverty. In-work benefits, which redistribute resources to low-income families while making employment more attractive for workers with low earnings potentials, could be considered. Greece could benefit from the experience of other OECD countries (Ireland, New Zealand, the United Kingdom and the United States) with means-tested in-work benefits that have the advantage of focusing on low-income families.

Summary of OECD recommendations

Place a greater emphasis on activating the unemployed, especially youth and women. Higher participation in job-search training should be required and the mutual-obligations principle should be applied.

Tackle widespread dualism in the labour market. Recent proposed reforms go in the right direction, but consideration should be given to introducing a single contract with moderate protection against dismissal.

Target existing employment subsidies on the most disadvantaged youth and ensure training is offered by the employer.

Ensure that the minimum wage does not act as a disincentive for hiring young people, while providing training to remove barriers to work.

Reform the tax and benefits system to strengthen incomes of poor families and limit widespread poverty among the working population.

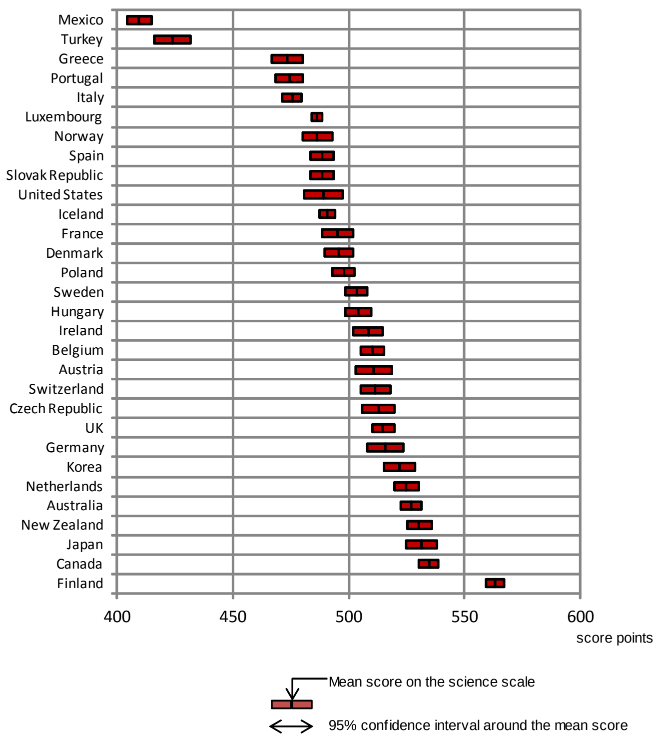
Education

High educational outcomes are of major importance for raising productivity and living standards, thus ultimately allowing Greece to realise its economic potential. Despite progress over the past decades, reforms remain necessary to improve education quality in all key levels of education.

What are the issues?

Participation rates in early childhood education and care are low, reflecting supply and quality problems as well as social preferences for home care. Weak PISA scores, point to quality problems at primary and secondary levels. Problems reflect poor incentives for teachers and the lack of rigorous requirements for “in-service teacher training”. They are reinforced by shortcomings in the curricula of key competences, which lack to prepare students for post-school life, especially in vocational and technical education. At Fupper secondary levels, the curriculum is too oriented towards passing the university entrance examinations. The focus of the new government on the early and compulsory education is welcome. The Greek university system, which is composed of public universities, is rigid and lacks a well-performing evaluation mechanism. Closing gaps in performance with the other OECD countries would require increasing responsiveness and flexibility to changing demand conditions.

Mean science scores – OECD countries

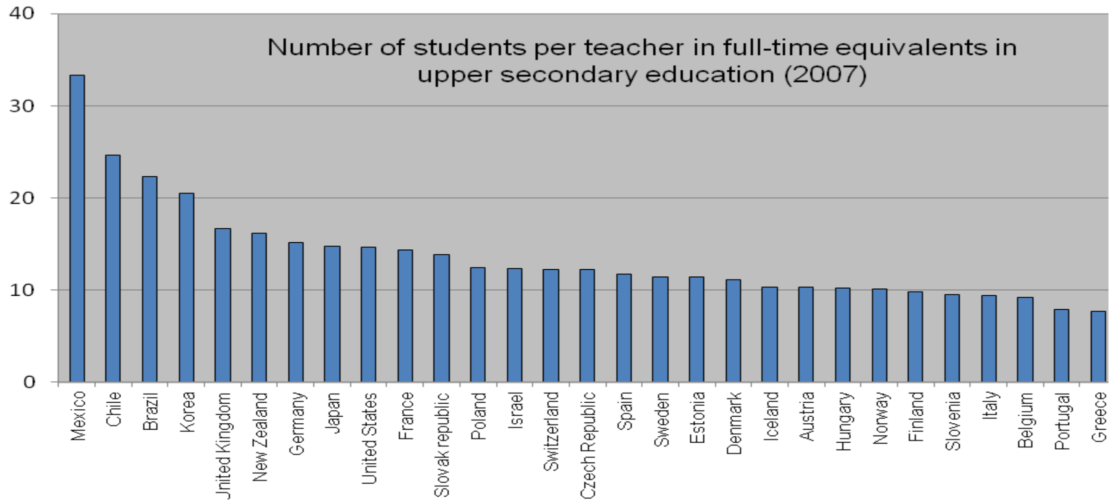


OECD (2007), *PISA 2006 - Science Competencies for Tomorrow's World*, Table 2.1c

Recommendations

Early childhood education and care. Recent steps towards developing a regulatory framework and modernising the operation of the childcare sector--setting technical standards for the premises, and developing a pedagogical programme for pre-school education -- need to be speeded up. The supply of services, especially for children under 3 years, can be increased by eliminating bottlenecks that limit the daily hours of operation and diversity of the services. Providing universal access to early childhood education for four year-olds would be in line with international trends and would ensure an affordable place for all children who need it. A more integrated approach to early childhood education would also improve policy efficiency and resource allocation in order to contribute to better access and quality of services.

Primary and secondary school reform. Greece should increase school autonomy and teacher incentives. In other OECD countries these changes have helped to improve education quality. For instance, by increasing the low student to teacher ratio could release resources to reward good teachers (see graph below). Further autonomy, however, would need to be accompanied by increased school accountability. Assessments that monitor student performance and allow benchmarking between schools should be part of these reforms. Accountability policies could also concern teachers. Upgrading upper secondary school curricula and changing the system for entering university are of great importance.



Tertiary education. Recent reforms aiming at improving the governance and increasing the accountability of universities go in the right direction, but more needs to be done. Quality would be improved by enhancing competition in the higher education sector through an amendment of the Constitution to allow private universities. The funding of institutions could be related to simple and transparent indicators of performance, helping to boost efficiency. Such initiatives could be complemented, at a later stage, with reforms to . improve the way education institutions are financed, looking at different options that emphasise the focus on diversification of resources and equity issues. Other countries have for instance introduced moderate tuition fees for undergraduate students accompanied by an income-contingent loan scheme, as a means of easing liquidity constraints faced by the less affluent students.

Summary of OECD recommendations

Proceed with the implementation of recent steps to develop a regulatory framework and modernise the operation of the childcare sector by setting technical standards for the premises, and developing a pedagogical programme for pre-school education.

Increase primary and secondary school autonomy and accountability, as well as teacher incentives and accountability.

Improve the curriculum in secondary and vocational education, better equipping students with the competencies to succeed in their post-school life.

Enhance competition in the higher education sector and introduce reforms to improve the way education systems are financed, looking at different options that emphasise the ficus on diversification of resources nad equity issues, as a means to ensure that access by less affluent students is eased.

New Sources of Growth: Innovation and Green Growth

One key challenge faced by the Greek government is to take advantage of new drivers of growth. Greece innovation policies should contribute to developing more knowledge-based activities and increase Greek firms' competitiveness, both in manufacturing and services. At the same time Greece needs a green fiscal reform. Both would help overcome the economic crisis, achieve convergence with the more advanced OECD economies and increase living standards.

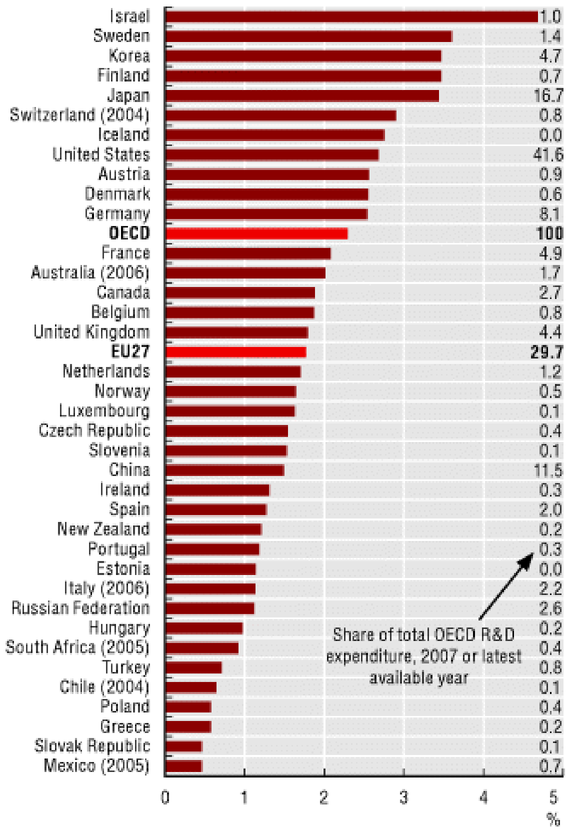
What are the issues?

Overall, Greece's innovation performance according to many standard indicators is low, and Greece invests little in R&D. Business sector R&D expenditure (as a share of GDP) is one of the lowest among EU countries. This corresponds to the sectoral specialisation of the Greek economy, with an enterprise structure characterised by a high share of traditional, family-owned businesses producing often relatively unsophisticated goods and services for local markets.

While many Greek researchers are well-known owing to their international scientific careers, the Greek public research system in its present form is in most parts of relatively recent origin. It has been put in place over the past decades, largely with the support of European funding. Unlike public research in more mature innovation systems, it has not co-evolved with industry. Public research is in general weakly linked to domestic demand, especially from domestic business firms.

Despite the growing emphasis on green growth in public debates, Greece's development in green technologies, infrastructures or programmes has been limited so far. In recent years, a large part of Greece's environment-related investment have been financed with the support of EU funds and about 25% of the EU funds available to Greece for the period 2007-13 have been earmarked for green investments. Greece's own environmental expenditures represent less than 1% of GDP, which is low compared to OECD countries in a similar development stage.

R&D intensity (GERD/GDP), 2007 or latest available year



Recommendations

Foster innovation in the business sector. Innovation policy for the Greek business sector should be broadened beyond a narrow focus on R&D. It should encompass innovation in organisation, marketing and business models. Likewise, it should be designed to help Greek firms develop their in-house learning capabilities, and to foster incremental innovation of products and processes combining existing knowledge in new ways.

Particular measures should be taken to encourage innovation in services. Although this sector accounts for the vast majority of the Greek economic activity, R&D and innovation policy are still disproportionately focused on manufacturing. The Greek government should consider measures to foster innovation in the knowledge-intensive market services – comprising finance and insurance, post and telecommunications and business services – that could help boosting innovation and productivity performance throughout the economy, as well as innovation in the tourism industry. Furthermore, the Greek government should foster market development for innovative goods and services, for example, through procurement, regulation and standards.

Strengthen the links between public research and Greek industry. The development of innovative industrial clusters, which have become an important tool of Greece's regional innovation policy in recent years, needs to be further enhanced, accompanied by state-of-the-art monitoring and evaluation mechanisms, and complemented by an improvement of some of the instruments used to promote collaborative innovation. Current and future programmes aimed at fostering industry-science relations (ISR) should be designed to better correspond to the needs of industry. For example, "collaborative" projects between public research institutions and enterprises should take place with significant participation or contribution from enterprises. In current Greek practice, many, if not most, of the research topics and output of ISR-oriented projects are university-initiated and driven, partly reflecting distorted incentives in current funding schemes. Increasing the funding of public research institutions, notably through performance-based and competitive mechanisms, may reduce the risk of "strategic behaviour" consisting in submitting collaborative project proposals that are actually academic research.

A Green fiscal reform should be part of the Greek response to the economic crisis. Greece should strengthen its environmental financing efforts, moving towards the fuller implementation of the polluter-pays and user-pays principles. This would decrease pressure on the highly-constrained public budget, as well as reliance on EU sources. Indeed, the crisis presents opportunities to put in place structural reforms the country needs. This includes strengthening the environmental policy framework, for example by implementing a green tax reform (see also the Section on Tax policies). Moreover, removing environmentally-harmful subsidies (as for irrigation water and tax exemptions on heating oil) would help to ease pressure on government budgets while reducing pressure on the environment. Overall, Greece should continue to focus on integrating environmental considerations into sectoral and economic policies with a view to achieving a low carbon and energy-efficient economy and to better exploit the associated employment and innovation opportunity.

Summary of OECD recommendations

Foster firms in-house learning capabilities to help them move from R&D to incremental innovation of products and processes and a wider range of innovation activities. Pay particular attention to service sector.

Develop policies to enhance regional industrial clusters while improving instruments used to promote collaborative innovation.

Develop and systematically apply advanced monitoring and evaluation practices.

Strengthen the human resource base for science, technology and innovation in reforming the tertiary education sector especially the Greek university system (see Section on Education).

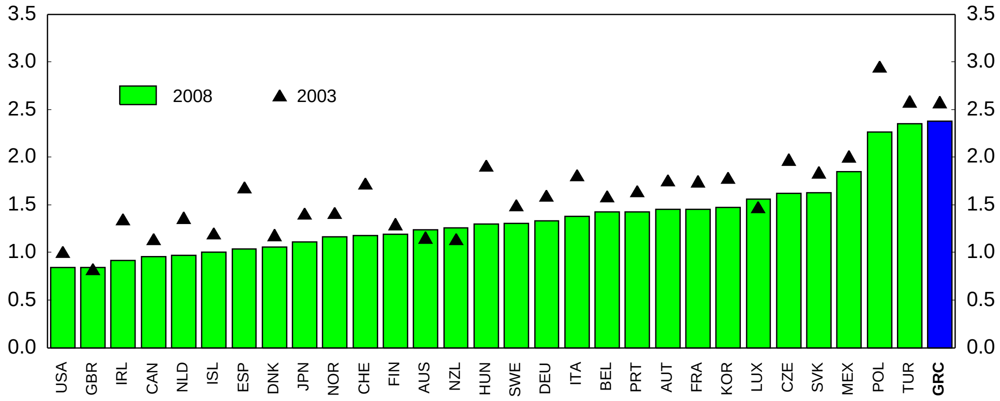
If consideration is given to a further fiscal response to the crisis, investments that can foster long-term economic growth and support a move to a green economy should be prioritised.

Strengthen environmental financing efforts, moving towards the fuller implementation of the polluter-pays and user-pays principles. This would decrease pressure on the public budget and reliance on EU sources.

Competition

Product market regulation in Greece is among the strictest in the OECD area, hindering competition. In addition, according to the OECD's latest aggregate indicator, there has been little progress since the beginning of the decade towards moving to a pro-competition regulatory stance. This holds back productivity and affects growth by limiting the entry and expansion of more productive firms, inhibiting foreign investment and contributing to poor innovation.

Product market regulation remains stringent
Index scale of 0-6 from least to most restrictive



Source: OECD (2010), Product Market Regulation database, http://www.oecd.org/eco/pmr.

What are the issues?

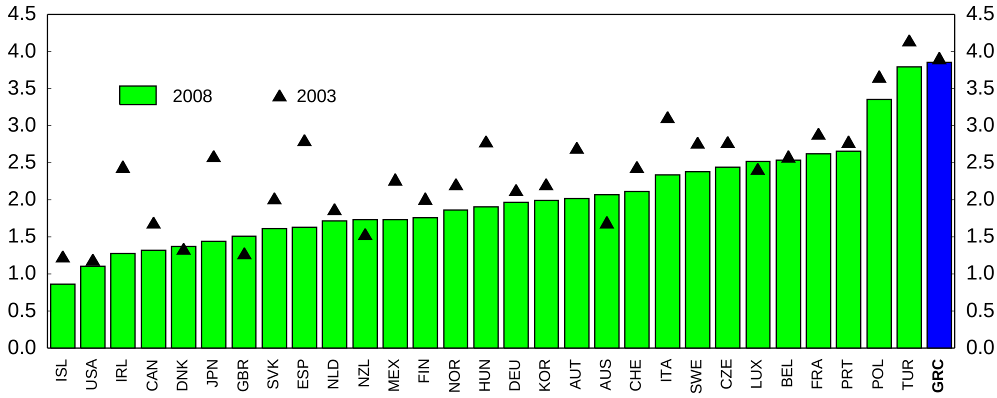
The effective competition in network industries remains weak. Several state-owned enterprises have been privatized but the involvement of the government in economic activity remains excessive. The energy sector has a high level of public ownership, and is vertically integrated. Price regulation is still pervasive, especially in the transport sector. Competition has evolved more favourably in the telecommunications market, but access to broadband services – though rapidly increasing – remains limited as the unbundling of the local loop has not progressed fast.

Recommendations

Product market regulations ened to be scaled back and competition improved in many areas. The largest scope for improvement is in: reducing the number of procedures and time taken for starting a business; easing regulation of professional services, where cumbersome licensing requirements and restrictions on fees or prices charged raise important obstacles to competition; and making the regulatory framework in retailing more conducive to competition. Easing licensing requirements and specific regulations relating to large outlets and protection of existing firms would be helpful in this regard. Specific recommendations on how to improve the institutional setting so as to facilitate private sector development are provided in the Section on Public Administration and Budget.

Steps spelled out in the update Stability and Growth Programme to simplify the start-up of businesses, reinforce the Competition Authority, and liberalise professional services go in the right direction and need to be implemented quickly. This should be accompanied by renewed efforts to foster competition in the network industries. In this sector, strong and effective regulators are critical, as are further steps towards privatisation.

Public ownership and involvement in business operation is excessive
Index scale of 0-6 from least to most restrictive



Source: OECD (2010), Product Market Regulation database, http://www.oecd.org/eco/state.

Greece should also establish institutional mechanisms for ensuring that the legal framework does not unduly restrict the ability and incentives of firms to compete. The authorities could consider adopting the OECD Competition Assessment Toolkit, one of the main elements of which is a checklist that asks a series of simple questions to identify laws and regulations that have the potential to unnecessarily restrain competition. This approach can be implemented by Greece in three main ways:

1. An overall evaluation of existing laws and regulation (in the economy as a whole or in specific sectors).
2. In the evaluation of draft new laws and regulations (for example, through regulatory impact assessment programs at the center of government).
3. By government bodies engaged in development and review of policies, such as the competition authority in its evaluation of competitive impacts of regulations.

Summary of OECD recommendations

Introduce centrally-led review of stock of laws and regulations for competitive effects with follow-up revisions of laws and regulations that unnecessarily restrict competition.

Add competition assessment to regulatory impact analysis of regulations overseen by the office of the Government's Secretary General.

Assess competitive effects of regulations at the ministry level as new regulations are developed or existing regulations examined.

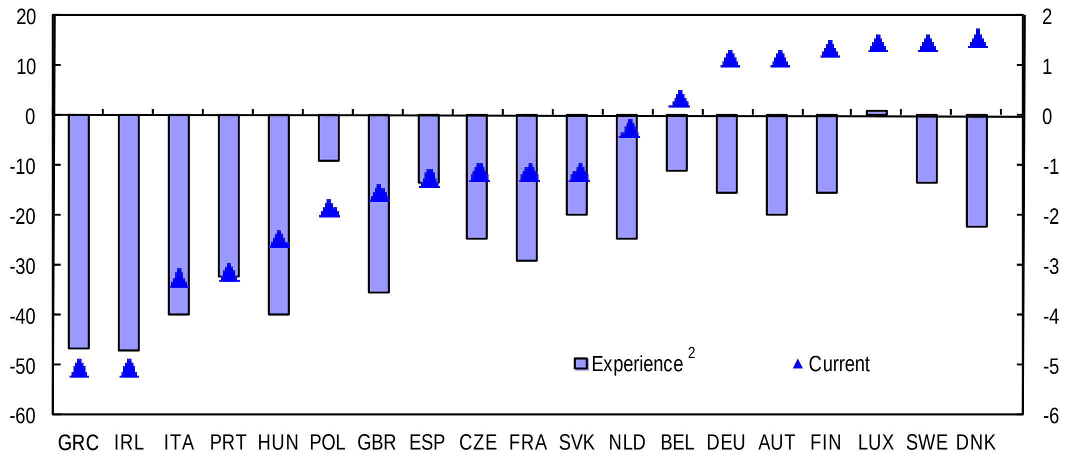
Reduce the administrative burden to start-ups and the barriers to entrepreneurship. Liberalise professional services. Ease the regulatory framework in retailing.

Proceed with privatization and foster competition in network industries. Promote strong and effective regulators.

Reforming the Public Sector: Some Lessons from the Political Economy of Reform in OECD Countries

Frequently missed fiscal targets and statistical revisions have led to a serious credibility problem. Although there is a widespread dissatisfaction with the way the public sector is run, Greek people also have a tradition of opposing reforms, even mild ones. As a result, there is great uncertainty regarding the implementation of the announced programme of fiscal adjustment and public sector reform.

The Greeks are the least satisfied in the EU about the way their administration is run[1]



1. A negative score indicates a low satisfaction with the way the national public administrations are run. A positive score indicates a high satisfaction with the way the national public administrations are run.
2. Evaluation of how national public administrations are currently run in contrast to their perceptions of how the situation was five years ago.

Source: Special Eurobarometer, Number 315.

What are the issues?

Greeks' trust in government is relatively low. This is linked to the slow pace of structural reforms to improve the functioning of the public administration and services. Perceptions of lack of transparency, politicization of public services and weak accountability make any reform attempt more difficult to accept by public opinion. This also explains fears of an uneven sharing of the burden of adjustment and sacrifices requested from the population.

Some may not see the need for reform. Living standards have improved substantially since Greece joined the euro in 2001, perhaps creating an illusion of sustainability despite widening imbalances.

Recommendations

The new government was elected with a strong mandate to fight corruption. To achieve this, it must pursue efforts to increase confidence in the management and impartiality of the State by enhancing transparency and accountability. It is also crucial to communicate the potential costs for the economy of no reform, which would be much harsher for Greece.

Although the crisis is likely to have a significant social cost, it also opens "windows of opportunity" by forcing investment in modernization and efficiency of the public sector. To achieve this, it is worthwhile to stress one important lesson drawn from the 2009 OECD analysis, The Political Economy of Reform: government cohesion is key for the success of reforms.

www.oecd.org/greece

Structural adjustments are necessary on a continuous basis to adapt to the ever more rapid changes in the global environment. To prepare the future, the authorities should consider establishing an independent institution, which could serve to promote a non-partisan debate at the technical level on the trade-offs of reforms in particular areas. Countries like Australia (with the Productivity Commission), the Netherlands (with the Central Planning Bureau) or Sweden (with the Fiscal Policy Council) have created such institutions. International evidence shows that an evidence-based and analytically sound case for reform helps improve the quality of policy and enhances the prospects of adoption. This might also involve a more systematic and wider consultation process using opportunities provided by ICT that the government is keen to promote.

Summary of OECD recommendations

Resolutely pursue efforts to restore confidence in the management and impartiality of the State

Improve public communication on the costs of not-ambitious-enough reforms

Maintain strong cohesion to promote the government's reform programme

Consider creating a specialized, non-partisan "reform institution" to foster understanding of the cost of no reform.