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EU-induced Financialisation and Its Impact on the Greek Wage Share, 1999-2021

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Abstract

This paper examines the determinants of the income share of wage earners in the non-financial, private sectors of Greece since its introduction to the Eurozone in 1999. The main outcome of the integration of Greece into the Eurozone has been the financialisation of its economy, which has been particularly influential for households since it led to the rapid rise of household indebtedness. Building on recent research within industrial relations, sociology of work, and political economy, which shows that financialisation is a key driver of wage bargaining outcomes, we demonstrate that the relative size of the FIRE sectors and the increase in household debt have been negative drivers of the wage share in Greece over the last 22 years. Our findings also suggest that the employment-tied social benefits system and tertiary education provision have also been important determinants of workers' income share.

1. Introduction

This paper examines the determinants of the income share of wage earners in the non-financial, private sectors of Greece since its introduction to the Eurozone in 1999. More specifically, this paper is contributing to the growing body of research within industrial relations, sociology of work, and political economy that looks at whether financialisation is negatively associated with the wage share in the non-financial sectors of the economy. Recent studies provide compelling evidence that the growing dependence of non-financial corporations (NFCs) and households on credit and other financial instruments lead to wage cuts in both advanced and emerging economies (Gouzoulis 2021, 2022; Gouzoulis et al. 2021; Kohler et al 2019; Stockhammer 2017; Alvarez 2015). On the one hand, financialised NFCs face rising financial payments and target reducing costs related to the stakeholder with the least bargaining power, which is typically workers. On the other hand, indebted workers who face high default risk are likely to avoid aggressive wage demands and/or even accept a lower wage to avoid losing their job and defaulting. This study focuses on an overlooked case study within the labour share literature: Greece throughout its integration into the Eurozone.[1]

Greece constitutes an ideal example to examine the financialisation-wage share relationship for two reasons. First, it has experienced one of the most aggressive supply-side-oriented economic adjustment programmes in recent economic history (Koukiadaki and Kretsos 2012; Kornelakis and Voskeritsian 2014; Koukiadaki and Kokkinou 2016; Tourtouri et al. 2020). Second, in contrast to the export-oriented economies of the EU south, the main structural change that took place in Greece as part of its integration into the Eurozone has been the rapid financialisation of its economy, and, particularly of its households via the interbank market (Varoufakis and Tserkezis 2016; Lapavitsas 2019). Thus, the first contribution of this paper is to offer a historical-institutional analysis of the relationship between the size of the Finance, Insurance, and Real Estate (FIRE) sectors, the household debt-to-GDP ratio, and the income share that accrues to wage earners in private NFCs in Greece since the launch of the Eurozone in the first quarter of 1999. Our analysis also traces parallel reforms related to wage bargaining structures and welfare provisions that are relevant to wage setting.

The second contribution of the paper is that, building on this historical analysis, we test econometrically whether these financialisation indicators are indeed negatively associated with the private, NFC wage share using quarterly data from the Eurostat database (1999Q1-2021Q4). Indeed, our findings demonstrate that the relative size of the FIRE sectors and the increase in household debt have been the two main negative drivers of the wage share in Greece over the last 22 years. Notably, the coefficients of both financialisation variables are substantially large and statistically significant in all cases included. This outcome highlights that the overall financialisation of the economy but also the self-disciplining effects of household indebtedness on Greek workers have been linked to a significant loss of income for them. Our results also show that the employment-tied social benefits system and tertiary education provision have also been important negative and positive determinants of workers'

income share over this period, respectively. From a policy perspective, since empirical research on the growth-wages nexus shows that increases in the wage share have positive effects on growth in a wide range of economies including Greece (e.g. Obst et. al., 2020), our findings can also inform the policy mixture of a more equitable, wage-led growth agenda.

The remainder of this paper is structured as follows. Section two discusses how different theories explain changes in the wage share and key findings of related empirical research. Section three analyses how Greece's integration into the EU and the Eurozone affected key economic institutions with a primary focus on how financialisation shaped the employer-employee balance of power and, thus, the wage share. Section four discusses the econometric methodology of this study and section five reports and discusses the main findings. Section six concludes and outlines potential policy insights.

2. Drivers of the Income Share of Wage Earners: Theory and Evidence

In recent years, an increasing number of studies within industrial relations, political economy, and sociology of work is concerned with the determinants of the balance of power between employers and workers, and the distribution of income between the two (e.g., Kristal 2010, 2013; Bengtsson 2014; Stockhammer 2017; Jayadev and Narayan 2020; Gouzoulis 2021, 2022; Gouzoulis et al. 2021; Gouzoulis and Constantine 2022). Evidence shows that the key drivers of fluctuations in the share of income going to workers are the (de-)regulation of the labour market, changes in public welfare provision, trade openness, and the financialisation of the economy. It is worth highlighting that due to the dynamic and context-specific nature of the employer-employee power differentials in a society, there is no framework for the analysis of capital-labour income distribution taking into account all factors in a unified way. Instead, different theories underline the importance of different complementary mechanisms that trigger such income shifts. This section presents the key mechanisms.

2.1 Labour Power Resources and Wage Bargaining

The Power Resources Theory (PRT) has been the key framework for the analysis of income shifts between employers and workers, focusing on changes in labour market regulation, labour market conditions, and public welfare provision (Stephens 1979; Korpi 1983). The main hypothesis of this framework is that when labour market slack exists, bargaining coordination becomes more decentralised, and/or union power decreases, employers become more powerful relative to workers and can impose wage restraint easier. Several empirical studies indeed show that since the late 1970s declining union density and strike activity as well as the widespread decentralisation of wage bargaining have been strongly associated with great earnings disparity and the decline of wage shares across countries (Cowling and Molho 1982; Leslie and Pu 1996; Dell'Aringa and Pagani 2007; Devincieti et al. 2019; Kristal 2010; Pontusson 2013; Bengtsson 2014).

The other main resource of labour power according to PRT is related to the relationship between welfare provision and the cost of job loss. In economies with increased

universal public welfare provision and unemployment benefits, the cost of losing your job is comparatively lower as the differential between the average wage and the unemployment income is smaller. Thus, such safety nets strengthen the bargaining position of workers and enable them to demand higher wages and extract a bigger share of the value added in the economy. Regarding empirical evidence, it is well-established that, typically, the more egalitarian economies have more extensive welfare states with universal coverage (Esping-Andersen 1990). Accordingly, the global policy shift towards welfare state retrenchment and employment-tied social insurance is closely linked to rising income inequalities (Esping-Andersen and Myles 2009).

Further, also linked to welfare provision is the issue of educational attainment. An increasing share of the population having better education translates to a rising proportion of the workforce having more transferable skills. In turn, transferable skills give workers more employment opportunities, which increases their bargaining power and, consequently, their wages (Weisstanner 2021). Thus, at the aggregate level, improving educational attainment can help reduce income disparities between high and low-wage earners as well as increase the share of wages.

2.2 Trade Globalisation, Price Competitiveness, and the Relocation Threat

The question of "*who benefits from globalisation?*" is far from new. Focusing on differences between advanced and developing economies, Stolper and Samuelson (1941) argue that since the demand for workers is lower in developing economies, the movement of capital to such regions will reduce unemployment and increase wages, generating a global 'convergence' in wages. However, several decades past the beginning of globalisation, there is significant evidence that the rise of global value chains and enhanced capital mobility encourages relocation to developing countries due to low wages (Gereffi et al. 2005). Under these circumstances, the capital mobility-related production relocation threat has given rise to a 'global race to the bottom' in terms of wages, with workers in advanced and developing countries accepting decreases in wages to avoid losing their jobs (Rodrik 1997).

Another dimension of trade globalisation that affects the bargaining power of workers is price competitiveness in the context of a currency union, like the European Monetary System. In the absence of independent monetary policy that can affect exchange rates, internal devaluation policies – despite their ineffectiveness in most cases - have become the main policy tool to improve price competitiveness and export performance (Armingeon and Baccaro 2012). Hence, workers who work in export-oriented industries in such economies (e.g., the European South) are likely to accept lower wages over risking suppressing exports and losing their jobs. By this logic, in an economy whose main driver of growth is the external sector – which means that the majority of the workforce works in export-oriented industries - trade openness will likely generate downward pressure on its aggregate wage share.

Overall, evidence from time series and panel data analyses demonstrate that capital account openness, trade globalisation, and increased FDI flows have reduced the wage shares

of both emerging and advanced economies (Jayadev 2007; Onaran 2009; Böckerman and Maliranta 2012; Stockhammer 2017; Gouzoulis 2022; Gouzoulis and Constantine 2022; Meloni and Stirati 2022).

2.3 Financialisation and the Labour Market

The financialisation of the global economy constitutes one of the most influential structural developments of the last five decades. Financialisation is an umbrella term that describes the increasing direct and indirect influence of financial institutions and goals for the non-financial parts of the society, both non-financial corporations (NFCs) and households. Both parallel processes have significant effects on labour management and the bargaining between employers and workers. Interestingly, many recent empirical studies find that the negative effect of financialisation on the bargaining of workers has been the key driver of the ongoing decline in labour shares across countries.

Regarding corporate financialisation, there are three distinct forms of it. The first is corporatist financialisation, where firms accumulate debt to finance their real investment. Second, the rise of shareholder value orientation, where managers of listed NFCs which are owned by a diverse group of shareholders are pushed to maximise dividend payments via share buybacks funded via business loans (Lazonick and O'Sullivan 2000). In both cases, rising financial payments commonly lead NFCs to lay off employees, cut wages, and pursue workforce casualisation to reduce costs and improve their deteriorating balance sheets (Froud et al. 2000; Thompson 2003; 2013). Third, several (mainly large) NFCs have diversified their investment portfolios by investing in financial assets and instruments, hence, the financial profits of NFCs as a share of their overall profits are rising (Krippner 2005, Tomaskovic-Devey and Lin 2011). This portfolio shift makes profitability dependent on financial returns rather than real investment, therefore, demand for labour becomes less crucial for accumulation which leads to more labour market competition and lower wage shares (Lin and Tomaskovic-Devey 2013). Econometric studies on the effects of corporate financialisation on the wage share provide concrete evidence in favour of the aforementioned hypotheses (Alvarez 2015; Dünhaupt 2017; Kohler et al. 2019).[2]

Beyond the financialisation of NFCs, the post-1980 financial liberalisation includes lowering collateral and income requirement for access to credit, which has given rise to the financialisation of households/everyday life. The main development this process has brought is the steep increase in household indebtedness, particularly for low-income, wage earners. Sociologists of finance argue that the accumulation of debt by poorer households makes them more self-disciplined and risk-averse on the fear of defaulting on their debt (Langley 2007; Lazzarato 2012). This argument has direct implications for labour market decisions since indebted individuals prioritise employment stability to secure repaying their debt over being militant in their negotiations about wages and working conditions, especially in economies with deregulated labour markets (Argitis and Dafermos 2013). Accordingly, indebted employees are commonly keen to accept lower pay and work under contingent contracts to

avoid conflicts with their employers which includes the risk of redundancy and, consequently, personal default. Empirical evidence suggests that personal indebtedness is strongly associated with the decline of wage shares and the rise of underemployment across many advanced and emerging economies (Karacimen 2015; Wood 2017; Gouzoulis 2021, 2022; Gouzoulis et al. 2021, 2022).[3]

## 3. EU Integration, Financialisation, and the Greek Labour Market

The most notable examples of wage restraint during the last decades are the cases of the southern European economies of the Eurozone, namely, Portugal, Spain, Italy, and Greece (Alfonso 2019). The decline in the income share of workers in these countries has been the outcome of reforms related to EU integration that have both direct and indirect effects. Yet, given the major structural differences between these economies before their integration into the EU and the Eurozone, wage reductions have been the result of a distinct combination of factors in each case. A particularly interesting case among them is Greece, where the main outcome of its integration into the Eurozone has been the financialisation of its economy.

In contrast to export-oriented economies, like Spain and Italy, which were already large exporters of goods and the adoption of the common currency harmed their price competitiveness, Greece has never been a primarily export-oriented economy (Kornelakis and Voskeritsian 2014). In this respect, in the absence of heavy industry, the relocation threat was minimalistic and, thus, trade openness has not been a major driver of economic performance or labour market outcomes (Varoufakis and Tserkezis 2016). Simultaneously, especially after the Greek crisis and the related Economic Adjustment Programmes, Greece indeed decreased the size of certain forms of public welfare and the public sector, and implemented further labour market liberalisation (Tourtouri et al. 2020). Yet, given that public welfare coverage has already been limited and exclusionary, and the labour market has been fairly liberalised, the wage bargaining effects of both reforms have not been comparable to the negative impact of the major structural change in the Greek economy since joining the EU: the rapid financialisation of its economy. Joining the Eurozone, allowed commercial banks in Greece to take advantage of the liquidity provided by the more homogeneous EMU financial market, increasing cheap private credit provision (Lapavitsas, 2019). This led to a sharp increase in debt held by NFCs and households, with the growth rate of the latter being higher than the former (*ibid.*) and with housing loans being the main component (Placas, 2021).

A common measure that roughly captures the overall extent of financialisation in a country is the size of the Finance, Insurance, and Real Estate (FIRE) sectors relative to the rest of the economy (e.g., see Gouzoulis et al. 2021). Therefore, given our focus on the relationship between financialisation and the labour share in Greece, Figure 1 reports the parallel evolution of the value added of the FIRE sectors (% of total value added) and the aggregated income share of wage earners in the non-financial, private sectors of the economy.[4] The

period covered is from the first quarter of 1999 (the official launch of the Euro) to the last quarter of 2021 (the last data point available by Eurostat).

Figure 1: FIRE Sector Size and the Private, NFC Wage Share, 1999Q1-2021Q4
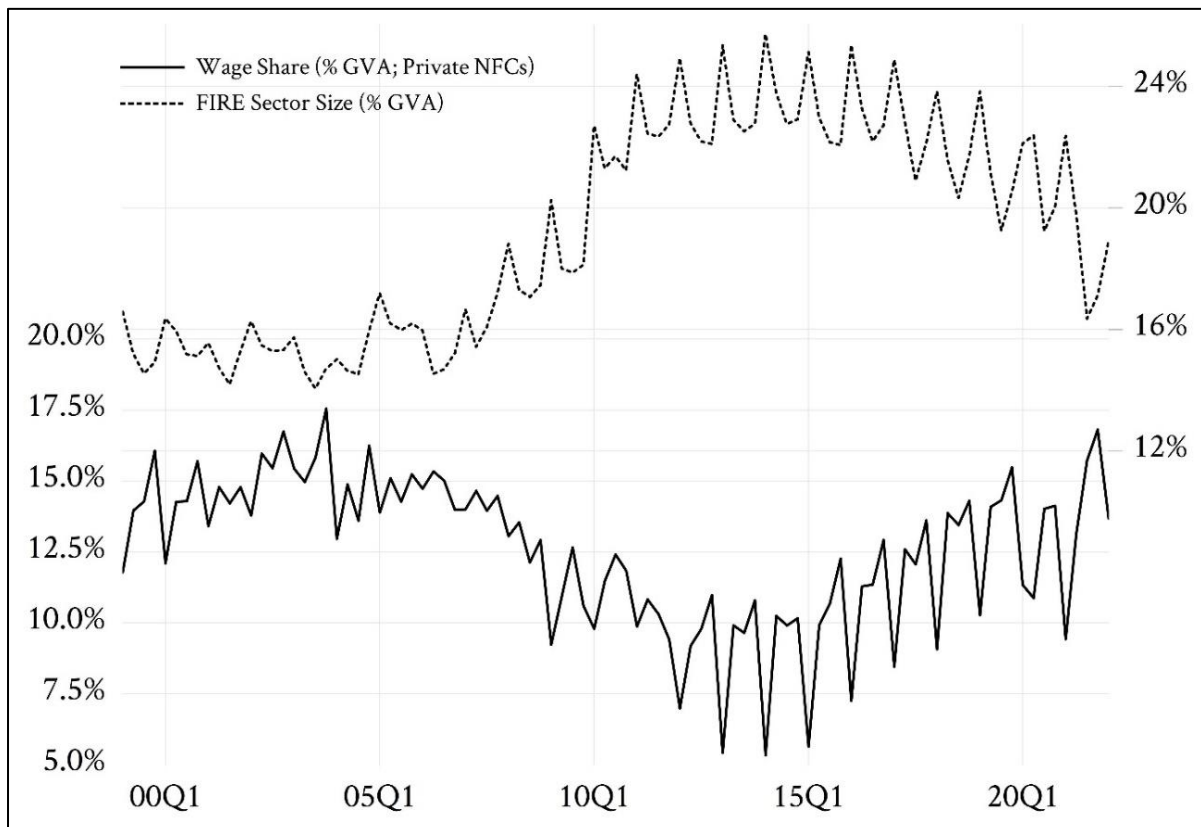
Notes: The data come from the Quarterly National Accounts of Eurostat (A*10 breakdowns). 'FIRE Sector Size' is the value added of the FIRE sectors as a share of the total value added. The 'Wage Share' is the sum of wages and salaries over the respective value added in the private, non-financial sectors of the economy (i.e., excluding [K] *Financial and insurance activities*, [L] *Real estate activities*, and [O-Q] *Public administration, defence, education, human health and social work activities*).

As shown in Figure 1, the negative correlation between the size of the FIRE sector size and the income share of wage earners in the Greek private NFCs between 1999 and 2021 is remarkable. From 1999 to the end of 2003, we can observe a small increase in the wage share from around 12.5% to around 16%, while the FIRE sector size remains relatively stable. During this period, Greece was governed by the centre (left) PASOK and a major construction boom took place in the context of the preparation for the 2004 Athens Olympics. The pre-2004 construction boom is important for this first stage of the financialisation of the Greek economy. In this early phase of integration into the Euro area, despite the size of the FIRE sectors expanding in real terms, the parallel growth of real sectors related to the temporary, Olympics-driven growth boom kept the relative share of the FIRE sector fairly stable until the end of 2004. Simultaneously, increased demand for labour driven by Olympics-related jobs temporarily decreased labour market slack. After the Olympics and up until the 2008 Global Financial Crisis, the wage share remained fairly stable at around 15%. The ruling party during this period, the (centre) right New Democracy, further facilitated financial integration within the Eurozone, which, combined with the contraction of value added in the NFC sectors

following the 2004 Olympics, led to the beginning of the expansion of the FIRE sectors in Greece.

In 2008, Greece enters its great recession period initially triggered by the sovereign debt crisis and, subsequently, by the supply-side-oriented Economic Adjustment Programmes that were initially signed by a PASOK government in 2010 and were renewed by New Democracy-PASOK coalition governments in 2012. With respect to private sector-related policies, the key idea behind these programmes has been to make the labour market even more flexible at the expense of workers to attract investment. The key policy implemented was the decentralisation of wage bargaining in the first half of 2010, when Greece moved from a multi-employer, state-sponsored wage setting system to a liberalised government signal-setting system, and the ease of dismissals (Koukiadaki and Kretsos 2012; Kornelakis and Voskeritsian 2014; Koukiadaki and Kokkinou 2016). In addition, since 2010, the duration and size of unemployment benefits have been restricted and the employment-tied model of social insurance in the country has become more pronounced (OECD 2020, Ch. 2; Immervoll et al. 2022). Also, part of the austerity-focused growth plans include cuts related to education, which have been particularly harmful concerning the quality of higher education provision (Koulouris et al. 2014). Last, major bank bailouts and the liberalisation of the financial sector aimed to maintain liquidity towards the real sectors of the economy and, thus, boost employment and growth. Eventually, this policy agenda failed to achieve high or sustainable growth rates and, simultaneously, increased the financial commitments of NFCs and households (Lapavitsas 2019). Under these circumstances, between 2010 and 2015, the relative size of the FIRE sectors in Greece grew from around 16 to around 25 percent of the total value added. At the same time, the wage share decreased to around 7.5 percent reaching not only the lowest point ever observed in Greece but also one of the lowest percentages observed internationally over the last 30 years.

After several years of recession and a failed pro-employer, supply-side agenda without any positive effects on growth, the election of SYRIZA in January 2015 - the first governing political party in Greece with radical left origins - marks a political and policy shift. During its first semester, the 2015 SYRIZA-led government rejected extending the Economic Adjustment Programmes. However, international economic and political pressure related to the threat of Grexit, pushed the government to ultimately implement a third Economic Adjustment Programme since August 2015 (Sheehan 2017). The two major reforms that were enacted as part of it and came with the 2016 supplemental bailout agreement were the end of any government intervention in the wage setting process and the scrapping of the right of the Ministry of Labour to veto against collective dismissals (Tourtouri et al. 2020). Meanwhile, in June 2018, certain labour rights related to collective bargaining were partially restored (Ministerial Decree 32921/2175/2018), as the suspension period of the 'principle of favourability' and the 'extension principle' that was introduced by Greece's creditors came to an end. Also, in February 2019, the minimum wage was increased by 10.9% for employees over the age of 25, and 27.2% for those below. During this period, we also observe the relative

stabilisation of the Greek economy with low growth rates since 2017, the continuation of the deleveraging of the financial sector as part of the third bank recapitalisation processes that took place in December 2015, and the implementation of policy reforms that facilitated the reduction of non-performing loans. Overall, from 2015 to 2019, the share of the FIRE sector reduced to around 20 percent and the wage share reaches the 2005 levels at 15 percent.

Concerning the last period of our sample, 2019-2021, where New Democracy rose again in power, the share of the FIRE sectors becomes relatively stable and the wage share begins to slightly decline. Yet, due to the impact of COVID-19 that restricted business activity since March 2020, and the corresponding income support and debt relief policies for wage earners and corporations (EBA 2020), this trend largely reversed with the wage share rising and the size of FIRE sectors decreasing. Taken together, overall, the robust association between increases in the size of FIRE sectors and reductions in the income share of wage earners in the private, NFC sectors since the introduction of the Euro in Greece is apparent.

Beyond the overall extent of financialisation, as mentioned earlier, the main aspect of financialisation that grew rapidly during the period of integration into the Eurozone interbank market is the rise of household indebtedness (Varoufakis and Tserkezis 2016; Lapavitsas 2019; Placas 2021). Therefore, exploring whether household debt-induced self-discipline is also negatively associated with the evolution of the Greek wage share is fundamental. Figure 2 presents the household debt-to-GDP ratio against the aggregated income share of wage earners in the non-financial, private sectors from the first quarter of 1999 to the last quarter of 2021.

Figure 2: Household Debt and the Wage Share, 1999Q1-2021Q4
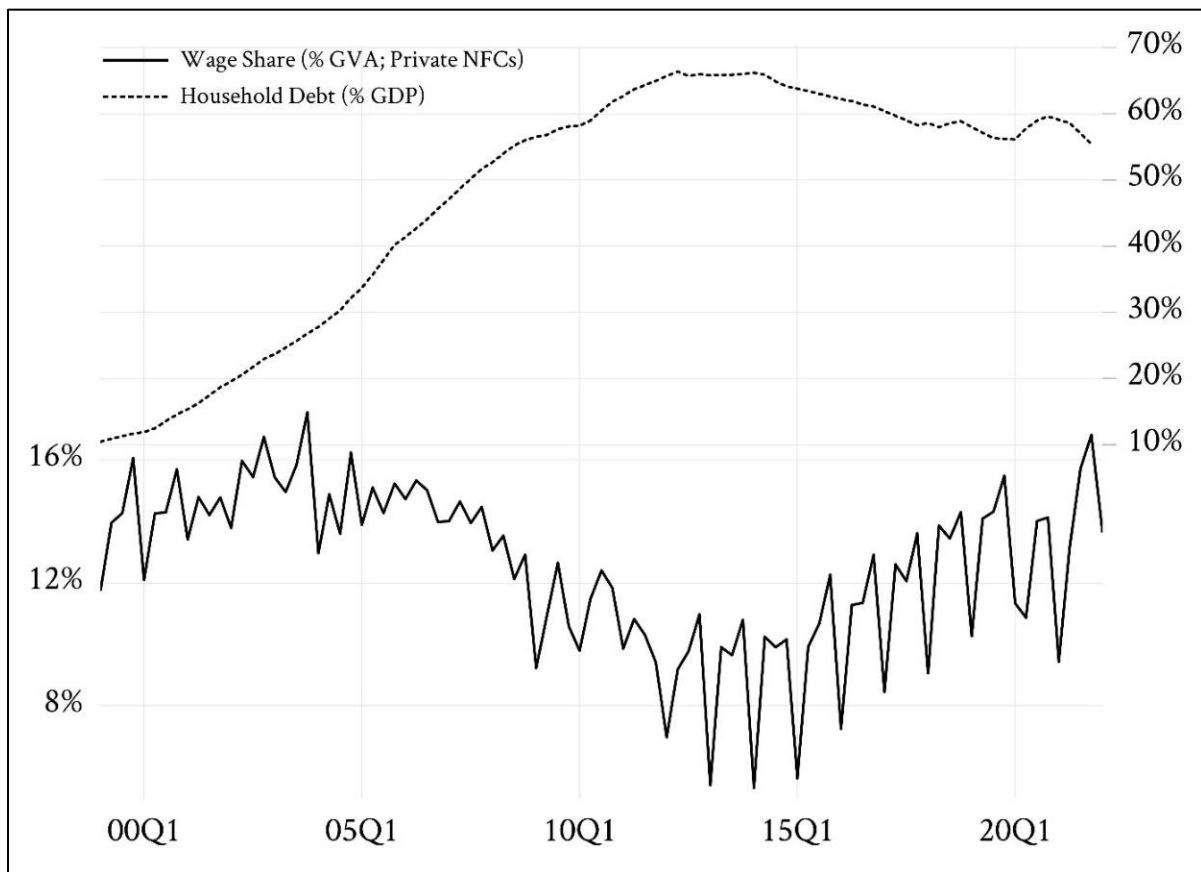
Notes: The source for 'Household Debt' is the dataset of the Bank for International Settlements. The wage share is the same variable plotted in Figure 1.

Focusing on the household debt ratio itself, it is remarkable that since the beginning of Greece's integration into the Eurozone market it has risen from 10.5 percent of GDP in the first quarter of 1999 to over 65.9 percent in the second quarter of 2014. Following this peak, it has become fairly stable around the 'new normal' of approximately 60 percent of GDP. While, admittedly, this ratio is lower than these of advanced economies (e.g., the Anglo-Saxon countries), where it often exceeds consistently 100 percent of GDP, the fact that such percentage change occurred in such a short period is extraordinary.

Contrasting the evolution of the household debt ratio with the income share of wage earners in private NFCs, similar to the wage share-FIRE sectors size relationship, the two variables appear to be loosely associated during the pre-2004 Olympics period. Following that, the association between increases in the household debt ratio and decreases in the wage share becomes stronger. The lowest point for the wage share over the whole period in the second half of 2014 (5.3 percent) coincides with the overall peak of household indebtedness during the same period. By the same token, the slight but steady reduction of the household debt ratio in the period after the peak also coincides with the recovery of the wage share until the last quarter of 2019. As regards the period of the latest New Democracy government that started in mid-2019, the household debt ratio began to increase again and the wage share started declining until the beginning of the COVID-19 period. As discussed earlier, lockdowns

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that restricted business activity as well as income support measures and debt relief schemes led to a slight reduction in household indebtedness compared to the previous two quarters and the recovery of the wage share. It is worth noting, however, that this peak of the wage share remains lower than the overall peak of the 1999-2021 period in 2003.

In terms of legal reforms that are related to the creditor-debtor relationship and the corresponding disciplinary effects on working-class households, despite all governments during this period adopting a market-oriented policy agenda, certain forms of debtor protection were enacted. The most notable example is the 'Katseli' Law of 2010 (Laws 3869/2010 and 3816/2010) which allowed debt settlement for over-indebted individuals, offered protection for the primary residence of households, and included a debt restructuring scheme for business loans (Placas 2021).[5] Post-2011 conservative coalition governments made the minimum requirements for the protection of primary residency and the penalties for repayment delays stricter (Law 4161/2013). Later, the post-2015 SYRIZA-led government followed a mixed approach with respect to the protection framework for borrowers (Laws 4336/2015, 4336/2015, 4549/2018). On the one hand, stricter requirements for the applicability of the protection of primary residence were imposed, and the establishment of electronic auctioning processes for the assets of bankrupt households and firms facilitated the process of selling non-performing loans to specialised distressed funds. On the other hand, it introduced debt service subsidies for poorer households and allowed repayment flexibility subject to personal economic conditions. According to Bank of Greece data on the ratio of non-performing loans to total loans in the Greek banking sector, the NPL ratio fell from 48.9% in March 2016, to 43.6% in June 2019. During this period, total household debt declined by approximately 10 percentage points (see Figure 2). The New Democracy government, soon after its re-election in July 2019, enacted the "Hercules/Heracles" scheme (Law 4649/2019) to deal with the rising share of non-performing private loans in the country. This law allowed commercial banks in the country to reduce non-performing loans and improve their balance sheets by selling them even to offshore hedge funds. In practice, this has cancelled any benefits of previous debtor protection schemes and reinforced the disciplinary effects of household debt accumulation.

4. Empirical Approach & Methodology

4.1 Econometric Specification & Data

Building on sections two and three, this section presents the econometric specification and modelling approach used to examine the drivers of the income share of wage earners in the private, NFC sectors of Greece from 1999Q1 to 2021Q4. Our baseline equation is the following:

$$Wage\ Share = f(Bargaining\ Coordination,\ Education,\ Social\ Benefits,$$
$$Trade\ Openness,\ Financialisation)$$

The measure of the *Wage Share* used is the series presented in Figures 1 and 2 calculated using data from the Quarterly National Accounts of Eurostat (A*10 breakdowns). That is the sum of wages and salaries over the respective value added in the private, non-financial sectors of the economy (i.e., excluding [K] *Financial and insurance activities*, [L] *Real estate activities*, and [O-Q] *Public administration, defence, education, human health and social work activities*).

Bargaining Coordination is measured by the categorical variable '*Type: Type of coordination of wage setting*' from Visser (2019), which captures wage setting changes through a 6-point scale (from '1: *No specific mechanism identified*' to '6: *Government-imposed bargaining*').[6] In the original dataset of Visser (2019) the series include annual observations, therefore, we extend them in quarterly form by specifying the exact cut-off points of change.[7] In general, we expect more centralised wage setting coordination to increase the bargaining power of workers and, thus, increase their income share.

Education captures the share of tertiary educated employees (as a percentage of total employment). These series come from the Eurostat data portal and its original source is the *European Union Labour Force Survey* (EU-LFS). As higher education is associated with a wider set of transferable skills which give workers more employment options and, accordingly, it increases their bargaining power, it is expected to exhibit positive effects on the wage share. Given that austerity policies have been affecting tertiary education provision in Greece, this mechanism is likely to have contributed to the changes in the wage share observed over this period.

Regarding *Social Benefits*, we use social benefits in-kind and in cash (as a share of GDP). Both variables come from Eurostat's Quarterly Non-Financial Accounts for General Government. The first variable is readily available, while the latter is calculated by subtracting social benefits in-kind from total social benefits. While higher welfare provision is commonly associated with higher bargaining power and increased wages, given the employment-tied character of public welfare in Greece, it is likely that the signs of the respective coefficients will be negative. This is because obtaining any job, even a low-pay one, allows a household to access social transfers.

Trade openness is incorporated in the equations via three different variables that are used interchangeably: trade openness (imports plus exports over GDP), the share of imports (% GDP), and the share of exports (% GDP). These three variables are widely used measures of trade globalisation that capture potential downward pressure on wages due to an economy's overall exposure to international trade, import penetration, and the effects of international price competitiveness as exports grow, respectively (Gouzoulis and Constantine 2021). While, in general, trade openness tends to increase the capital income share at the expense of wages in both advanced and developing economies, as discussed in section three, Greece was not an export-oriented economy before EU integration, hence, the effects of

trade openness are likely to have been negligible in the absence of relocation threat (Varoufakis and Tserkezis 2016).

Following the historical-institutional analysis of the previous section, *Financialisation* is captured via the inclusion of the size of the FIRE Sectors and the Household Debt-to-GDP ratio (see Figures 1 and 2). We expect both variables to exhibit significant negative effects on the income share of wage earners in Greece. As a robustness check for the main results, we also estimate an additional round of equations which incorporate the Corporate Debt-to-GDP ratio as an additional financialisation proxy.

4.2 Econometric Modelling Approach

The choice of the appropriate econometric modelling approach is typically dictated by whether the respective series are stationary or not, i.e., whether the statistical properties of each series change over time, and whether a cointegrating/long-run relationship between the dependent and the independent variables exists. According to the descriptive statistics and unit root tests reported in Table A1 of the appendix, all variables are stationary at either levels or first differences. Regarding cointegration, a common approach to evaluate this property is to run a stationary regression in levels between the dependent variable and the independent variables in each case, and test whether their residuals are stationary or not. In the case of our dataset, the residuals of these regressions are indeed stationary, therefore, we find evidence that a cointegrating relationship exists.

In cases where cointegration exists and the dataset includes a combination of stationary and non-stationary time series, the Unrestricted Error-Correction Model (UECM) is the standard modelling approach followed (Sargan 1964; Davidson et al. 1978). The typical form of the UECM includes the explanatory variables in first-differences (short-run coefficients) and levels (level coefficients), and also the dependent variable in first lag both as a level and a short-run independent variable. One of the main advantages of this model is that it accounts for serial correlation, i.e., the serial dependence between the errors, which is a frequent issue when econometric equations are estimated via the standard ordinary least squares (OLS) in levels. Furthermore, to address potential simultaneity biases, the level coefficients are typically included in first lags.

For these reasons, the UECM has become a very popular econometric strategy within industrial relations, both in the wage share and the union density literatures (see Checchi and Visser 2005; Kristal 2010; Bengtsson 2014; Vachon et al. 2016; Kristal 2019; Kollmeyer and Peters 2019; Gouzoulis 2021, 2022; Gouzoulis et al. 2021). The UECM specification of the present study is of the following form:

$$\Delta(Wage\ Share)_t = \beta_0 + \beta_1(Wage\ Share)_{t-1} + \sum_{n=2}^{N} \beta_n x_{t-1} + \sum_{k=1}^{K} \gamma_k \Delta\varphi + u_t$$

where the vector x contains the explanatory variables and the vector φ includes the lagged dependent variable, the explanatory variables, and the GDP growth rate (source: Eurostat) as a short-run coefficient to control for the short-term cyclicality of the wage share. β_0 and u_t are the constant and error terms, respectively. Our specifications are estimated via the Newey-West estimator (heteroskedasticity and autocorrelation-consistent errors). Similar to Lin and Tomaskovic-Devey (2013) and consistent with the theoretical arguments presented earlier that financialisation shapes long-term interactions between employers and workers, our interest is focused on the level coefficients rather than on the short-run coefficients that capture short-term adjustments to temporary deviations from the long-run trend.

5. Results & Discussion

Table 1 presents the main econometric findings of this study. The coefficients reported are standardised to allow size comparability between variables that are measured in different units. Overall, all eight specifications offer solid evidence that financialisation has indeed decreased the wage share of the private, non-financial sectors of Greece from the first quarter of 1999 to the last quarter of 2021. Regarding the first proxy for overall financialisation, the relative size of the FIRE sectors, its coefficient is consistently negative, fairly stable in size, and statistically significant in all four specifications included. As regards the household debt-to-GDP ratio, which represents the dominant form of financialisation in Greece after the adoption of the common currency, its coefficients are also consistently negative, substantially large, and statistically significant either at the one of five percent levels in all four specifications included. Taken together, the growth of the financial sector under the European Economic and Monetary Union and, particularly, its focus on credit provision to households have been the key negative driver of the Greek private, non-financial labour share.

Concerning the rest explanatory variables, the second consistent driver of the private sector, non-financial wage share of Greece is the share of tertiary educated workers. In all specifications, the coefficients for workers' education are positive and statistically significant. This shows that changes in educational provision and attainment have been fundamental for changes in capital-labour distribution in the country over the last 22 years. Another worth-noting result is that, in most cases, social benefits in cash or in-kind are negatively related to the labour share. This finding is probably related to the employment-tied nature of social insurance in the country, which empowers employers disproportionately as workers need even a low-paid job for basic access to social welfare. Last, the effects of trade openness and wage bargaining coordination are inconclusive and statistically insignificant in the vast majority of the cases. Given the discussion of domestic institutional change in the previous section, this is not a surprise since Greece was not an export-oriented economy before the introduction of the Euro and its wage bargaining was already fairly decentralised.

Table 1: Main Results – Greece, 1999Q1-2021Q4

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
FIRE Sector $_{t-1}$	-0.66***	-0.65***	-0.60***	-0.66**				
Household Debt $_{t-1}$					-0.44**	-0.56***	-0.39**	-0.61***
Trade Openness $_{t-1}$	0.05				0.31**			
Imports $_{t-1}$		-0.08				-0.03		
Exports $_{t-1}$			0.17				0.60***	
FDI Outflows $_{t-1}$				-0.06				0.01
Education $_{t-1}$	0.38**	0.43***	0.34**	0.26*	1.00***	1.34***	0.81***	1.05***
Wage Coord. $_{t-1}$	-0.15	-0.12	-0.07	-0.18	0.14	0.08	0.29*	-0.03
Cash Benefits $_{t-1}$	-0.39*	-0.32	-0.45*	-0.29	-1.30***	-1.32***	-1.16***	-1.30***
In-Kind Benefits $_{t-1}$	-0.14	-0.17***	-0.10*	-0.14**	-0.23**	-0.32***	-0.13	-0.23***
LDV	-0.76***	-0.71***	-0.77***	-0.73***	-1.23**	-1.25**	-1.12***	-1.41***
Adjusted R^2	0.82	0.82	0.83	0.81	0.67	0.63	0.72	0.24
BG Test	0.10	0.17	0.07	0.09	0.13	0.19	0.02	0.48
Harvey Test	0.77	0.56	0.81	0.28	0.14	0.05	0.08	0.25
Observations	91	91	91	79	91	91	91	79

Notes: *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. The dependent variable is the private sector wage share in first differences. The coefficients are standardised by multiplying the obtained coefficient with the ratio of the standard deviation of the explanatory variable over the standard deviation of the dependent variable. Breusch-Godfrey (BG) test at second lag (p-values reported). Constant terms and short-run (first-differenced) coefficients are included, but not reported.

To test for the potential effects of corporate financialisation and also to evaluate the robustness of the main findings for household debt, Table 2 reports standardised regression results that include the business debt-to-GDP ratio as an explanatory variable. Similar to the main findings, household debt exhibits consistently substantial negative effects on the labour share. These are statistically significant at the five percent level in all four equations incorporated. Combined with the main findings, this suggests that the negative association between household debt and the private, non-financial wage share of Greece over the last 22 years is statistically robust. As regards business debt, its coefficients vary in terms of size and sign, thus, its effects are inconclusive. This is not an entirely surprising finding given the size and nature of most NFCs, and the potential correlation between household and business loans in the country (see discussion in the previous section). The rest explanatory variables largely keep their signs, size of coefficients, and statistical significance compared to the main results.

Table 2: Results with Business Debt – Greece, 1999Q1-2021Q4

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

Bus. Debt $_{t-1}$	0.34	0.29	0.41	0.00	-0.08	-0.20	0.00	-0.33
Household Debt $_{t-1}$	-0.65**	-0.74**	-0.63**	-0.60**				
Trade Openness $_{t-1}$	0.30**				0.33**			
Imports $_{t-1}$		-0.05				-0.01		
Exports $_{t-1}$			0.62***				0.64***	
FDI Outflows $_{t-1}$				0.00				-0.07
Education $_{t-1}$	1.03***	1.36***	0.81***	0.99***	0.75**	1.06***	0.53*	0.84***
Wage Coord. $_{t-1}$	0.11	0.05	0.26*	-0.09	0.04	-0.05	0.20	-0.14
Cash Benefits $_{t-1}$	-1.42***	-1.42***	-1.28***	-1.37***	-1.47***	-1.48***	-1.33***	-1.42***
In-Kind Benefits $_{t-1}$	-0.27***	-0.36***	-0.18**	-0.23***	-0.24***	-0.34***	-0.14*	-0.24***
LDV	-1.16***	-1.35***	-1.03***	-1.39***	-1.06***	-1.08***	-0.91***	-1.23***
Adjusted R^2	0.67	0.62	0.72	0.64	0.64	0.61	0.71	0.62
BG Test	0.09	0.15	0.02	0.20	0.12	0.22	0.02	0.16
Harvey Test	0.20	0.02	0.06	0.09	0.25	0.00	0.28	0.10
Observations	91	91	91	79	91	91	91	79

Notes: *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. The dependent variable is the private sector wage share in first differences. The coefficients are standardised by multiplying the obtained coefficient with the ratio of the standard deviation of the explanatory variable over the standard deviation of the dependent variable. Breusch-Godfrey (BG) test at second lag (p-values reported). Constant terms and short-run (first-differenced) coefficients are included, but not reported.

Summarising the key findings of our econometric analysis, the negative coefficients for the size of the FIRE sectors and the household debt ratio are statistically significant in all equations included. These results provide robust support that, similar to other financialised economies, in Greece, financialisation is a key negative driver of labour's bargaining power and, thus, the wage share. Simultaneously, the impact of social transfers is also negative and robust, which is a strong indication of the employment-tied nature of the domestic welfare state, which, ultimately, disempowers workers as even a job with poor working conditions is essential to access basic social insurance. Lastly, the share of tertiary educated employees is also found to exhibit consistent positive effects, which, in line with our hypotheses, shows that formal qualifications and transferable skills related to educational attainment increase the bargaining power of workers and, consequently their income share.

6. Concluding Remarks

This paper contributes to the growing literature on the relationship between financialisation and wage bargaining outcomes by focusing on the relationship between the financialisation of the Greek economy and the income share of wage earners in the private, NFCs of the

country since its introduction to the Eurozone. As a first step, the historical-institutional analysis of section three discusses how Eurozone-induced reforms in wage bargaining, public welfare, and financial institutions since 1999 are related to changes in the Greek private, NFC wage share. Informed by this discussion, the econometric analysis of the paper provides robust support that the growing size of the FIRE sectors as well as the steep increase in personal indebtedness has been negatively associated with the income share of wage earners over the last 22 years. Furthermore, tertiary education provision has exhibited positive effects, whilst the employment-tied social insurance system has disempowered Greek workers and is negatively associated with the wage share.

Overall, the main finding of this paper is that, similar to several other advanced and developing economies, financialisation has been a negative driver of the wage share in Greece on top of the effects of educational attainment and welfare provision. Several policy implications regarding wage recovery arise from these results. First, regulating financial institutions and easing the debt burden of working-class households would decrease their risk of defaulting and allow them to negotiate fairer wages. Second, the expansion of tertiary education provision to a larger share of workers would give them more employment options and, thus, more negotiating power. Third, making social transfer coverage universal by de-linking them from the employment contract would also empower working class households and allow them to find jobs with better working conditions.

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Online Appendix

Table A1: Descriptive Statistics and Unit Root Tests

	Mean	Median	Max	Min	Std. Dev.	Obs	ADF Levels	ADF 1st Diff.
Wage Share	12.56	13.10	17.55	5.34	2.66	92	0.74	0.00
GDP Growth Rate	1.00	2.00	17.00	-15.00	8.00	92	0.42	0.00
Wage Coord.	2.41	2.50	4.00	0.00	1.62	92	0.73	0.00
Education	20.00	20.00	27.00	14.00	3.00	92	0.99	0.00
Cash Benefits	14.17	14.75	19.40	7.70	3.32	92	0.64	0.00
In-Kind Benefits	2.62	2.55	3.80	1.10	0.48	92	0.41	0.00
Trade Openness	60.85	58.00	97.00	43.60	12.05	92	0.95	0.01
Imports	33.98	32.75	55.30	25.90	5.25	92	0.97	0.04
Exports	26.87	25.55	50.00	15.10	8.30	92	0.92	0.00
FIRE Sector	19.24	19.26	25.73	14.06	3.57	92	0.59	0.00
Household Debt	47.62	56.90	66.40	10.50	18.36	92	0.08	N/A
Bus. Debt	56.41	60.65	71.50	33.00	11.30	92	0.29	0.00

Notes: ADF denotes the Augmented Dickey-Fuller test for stationarity. Intercepts included. *P-values* are reported.

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[1] The only paper in this literature that examines Greece is the study of Droucopoulos and Lianos (1992) on how increased market concentration decreased the wage share in its manufacturing industries in 1977 and 1983.

[2] Also, the rising influence of the financial sector on NFCs has undermined unionisation (e.g., Darcillon 2015; Meyer 2019; Kollmeyer and Peters 2019)

[3] While there are theoretical arguments claiming that the direction of causality can be the reverse (i.e., that households whose income is declining become indebted to maintain their consumption patterns), empirical evidence shows that household debt accumulation is primarily driven by rising house prices (e.g., Stockhammer and Wildauer 2018).

[4] Following relevant studies, we avoid including self-employment income and the wage bill of the public sector (Gouzoulis 2022; Gouzoulis et al. 2021; Gouzoulis and Constantine 2022; Stockhammer 2017). Including these would introduce biases since the theoretical mechanisms of the wage share literature, particularly those about financialisation, refer to the bargaining process between private employers and employees in NFCs.

[5] Named after the PASOK Minister of Finance who introduced it in 2010.

[6] The full 6-point scale is as follows: 6: *Government-imposed bargaining*; 5: *Government-sponsored bargaining (including pacts)*; 4: *Inter-associational by peak associations*; 3: *Intra-associational*; 2: *Pattern bargaining*; 1: *Government sets signals (public sector wages, minimum wage)*; 0: *No specific mechanism identified*.

[7] The cut-off dates are: (i) From 5 to 1 on May 2010 (First Economic Adjustment Programme); (ii) From 1 to 0 on June 2016 (Supplemental memorandum of understanding with Greece - June 2016); (iii) From 0 to 1 on August 2018 (Ministerial Decree No. 32921/2175/2018).