

Did the Financial Liberalization Process have any positive impact on Employment in Greece?

With this question I try to link two economic sub-markets – the labour and the financial market - which have been of highly interest for European economists during the last decade.

On the one hand the bad performance of the labour market with continuously raising unemployment rates in almost all European countries made economists worry and hardly think of possibilities which might have a positive impact on the further development of employment. On the other hand enormous changes in the financial markets and rapid developments of European Stock Exchanges took place.

Could there be positive impact for employment caused by a growing and developing financial sector, or have just these processes of the financial market been another element in the worrying situation of the Labour Market?

Following the Theory of Financial Liberalization the answer would be quite clear. According to the argument of Liberalization-Theorists (McKinnon, Shaw) the regulation of the Financial Markets - which imply among other measures: interest ceilings, high reserve ratios and implicit credit programs – will lead to lower investment ratios and have furthermore a negative impact on growth.

Therefore, according to their view, the financial market should be liberalized to gain positive growth effects, which will further have positive impacts on the development of the labour market.

In the 80s and 90s, many countries, especially 'emerging markets' have been following the advice of Liberalization Theorists and deregulated their financial markets, which led in the following to numerous banking crashes and financial crises. Facing these growing instabilities in financial markets, economists – especially Post-Keynesian economists like Arestis and Demetriades, have been criticizing the basic assumptions of perfect

competition and perfect information among market participants made by Liberalization-Economists and come to the conclusion that liberalization measures have negative impacts on the 'real' indicators of the economy.

Basically the theoretical background of my work are the contradictory arguments of economists, who are in favour of Financial Liberalization and those, who criticise the underlying assumptions made by Liberalization-Economists. The policy implications that can be drawn from my research concern the Role of the State in a free market economy and show how much regulation/ deregulation is best for the development of a country.

To compare the empirical effects of the two contradictory theories I chose a case study for my work. The country I have chosen is Greece, because at the first sight, it fulfils all the criteria made by the Liberalization-Economists and it looks like as if Greece would be an example of well done Liberalization policy. Unlike many other emerging markets Greece has faced no banking crises following financial Liberalization. In the last decade the Greek economy seems to develop and adjust to the standards of other members of the European Union. But if you dig a little deeper in the structure of the banking sector and compare the investment ratios and growth indicators before and after liberalization, positive effects seem not so clear anymore. To give a full insight in the development I will not only use the link between the financial sector and the labour market via growth rates that gives Liberalization Theory but consider as well employment effects that might arise in the banking sector itself due to changes in the structure of banks, like mergers, because of the Liberalization of the Financial sector. Also the development of the Stock Exchange will be considered and the employment effects that might arise due to changes in the creation of income.

Only if I analyse all these factors I can give an answer to the question if the Financial Liberalization Theory provides us with arguments which are

approved by empirical evidence and gives us a chance to combat the problems of raising unemployment.

For the data I need for my research I will partly - for aggregate indicators like investment ratios - rely on the data bases of the International Monetary Fund and the OECD Economic Surveys. Data concerning the employment development in the Greek banking sector itself I hope to find in various issues of Annual Reports of the biggest Greek Banks, especially the statistics of the National Bank of Greece and the Commercial Bank, which count for most of the employees in the sector. For the analyses of the influence of the Athens Stock Exchange and incomes distribution combined with the rapid development of the bourse in the last decade I hope to find Data at the National Bureau of Statistics – income distribution, Lorenz-Curve Analyses and the development of the Gini-Coefficient.