

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

The Greek Crisis: Social Impact and Policy Responses

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- Given the performance of the Greek economy prior to the crisis, austerity could hardly have been avoided in 2010. But the austerity policies pursued since then were regressive and did not compensate but rather reinforced the adverse effects of the recession on the distribution of incomes.
- In particular, the sharp rise in unemployment among primary earners has raised the risk of poverty. Because of the gaps in the social safety net, and because long-term unemployment will probably remain high in the foreseeable future, the plight of adults and children in jobless households has now become Greece's new social question.
- Policy responses to the social effects of the crisis have been misguided, inadequate or both. Welfare reform did produce some improvements, but most cuts were indiscriminate, causing hardship and disrupting health and social services. Labour market deregulation was guided by the belief that lowering workers' compensation and weakening labour market institutions was the key to restoring competitiveness. This is not the case: the trade balance has improved, but primarily through a fall in imports rather than a growth in exports. In the meantime, pay and conditions for workers have worsened. Reform of public administration was badly needed, but was conflated to a simple reduction in numbers of public employees. The sustained effort that is necessary to modernize the Greek state is still lacking.
- A progressive exit from the crisis will not be easy, and is not going to happen any time soon. In the meantime, progressive actors would do well to abandon the defence of entrenched positions, to respond to the needs of ordinary workers for decent jobs on adequate pay, and to address the demands of ordinary citizens for affordable public services, efficient administration and cleaner politics.





Table of contents

1. The Crisis	3
2. Social Impact I: Jobs and Wages	6
2.1 Job Losses.....	6
2.2 Earnings.....	9
3. Social Impact II: Inequality and Poverty	10
4. Social Impact III: Other Areas of Concern	15
5. Policy Responses I: The Welfare State	17
5.1 The Welfare State before the Crisis.....	17
5.2 The Welfare State under the Crisis.....	20
6. Policy Responses II: The Labour Market	27
7. Policy Responses III: Public Administration	31
8. Conclusions	33
References	35



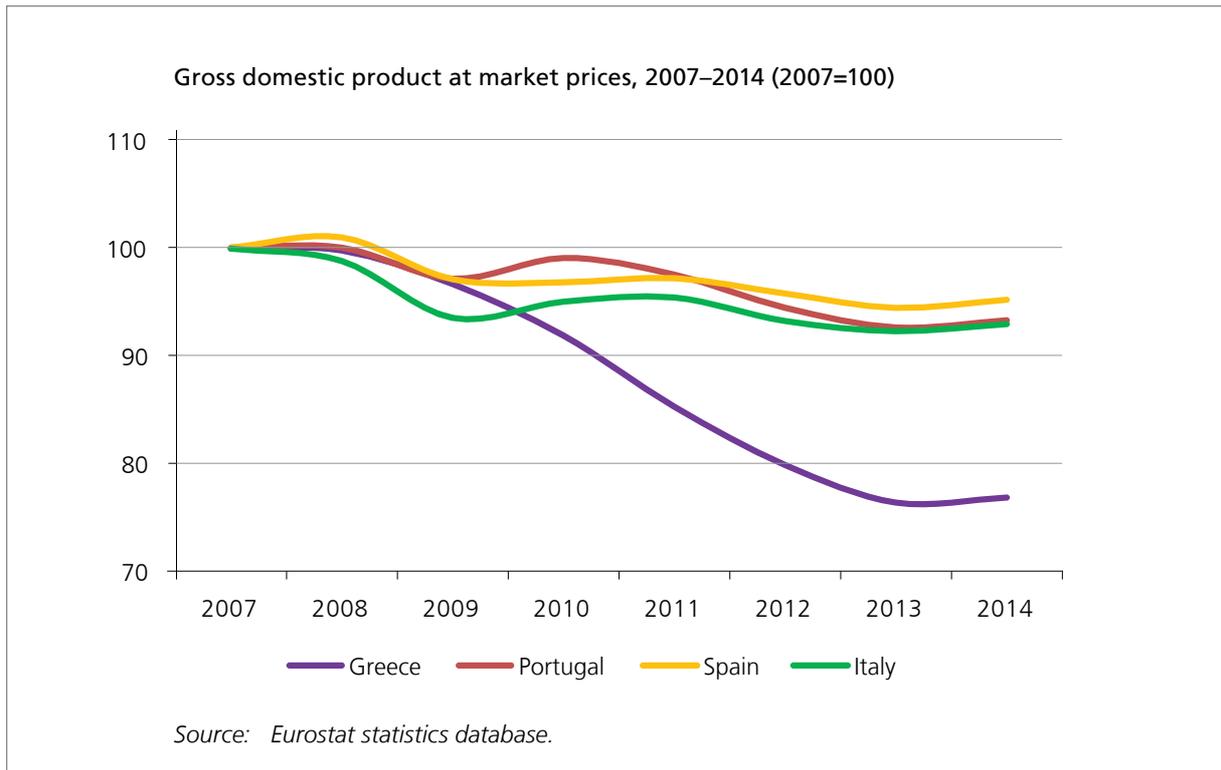


1. The Crisis

Dramatic Fall in Living Standards

Greece made the headlines in 2009 when its fiscal crisis turned rapidly into a sovereign debt crisis, which finally mutated into a full-blown recession. Based on the latest

official figures, by the end of 2013 the size of the economy will have contracted by 23.5 per cent in real terms relative to 2007. This is far greater than the equivalent contraction in other southern European economies – Spain: –5.5 per cent; Portugal: –7.4 per cent; Italy: –7.8 per cent or Ireland –5.0 per cent – over the same period. So deep and drawn out a recession has simply no precedent in the peacetime economic history of most advanced economies.

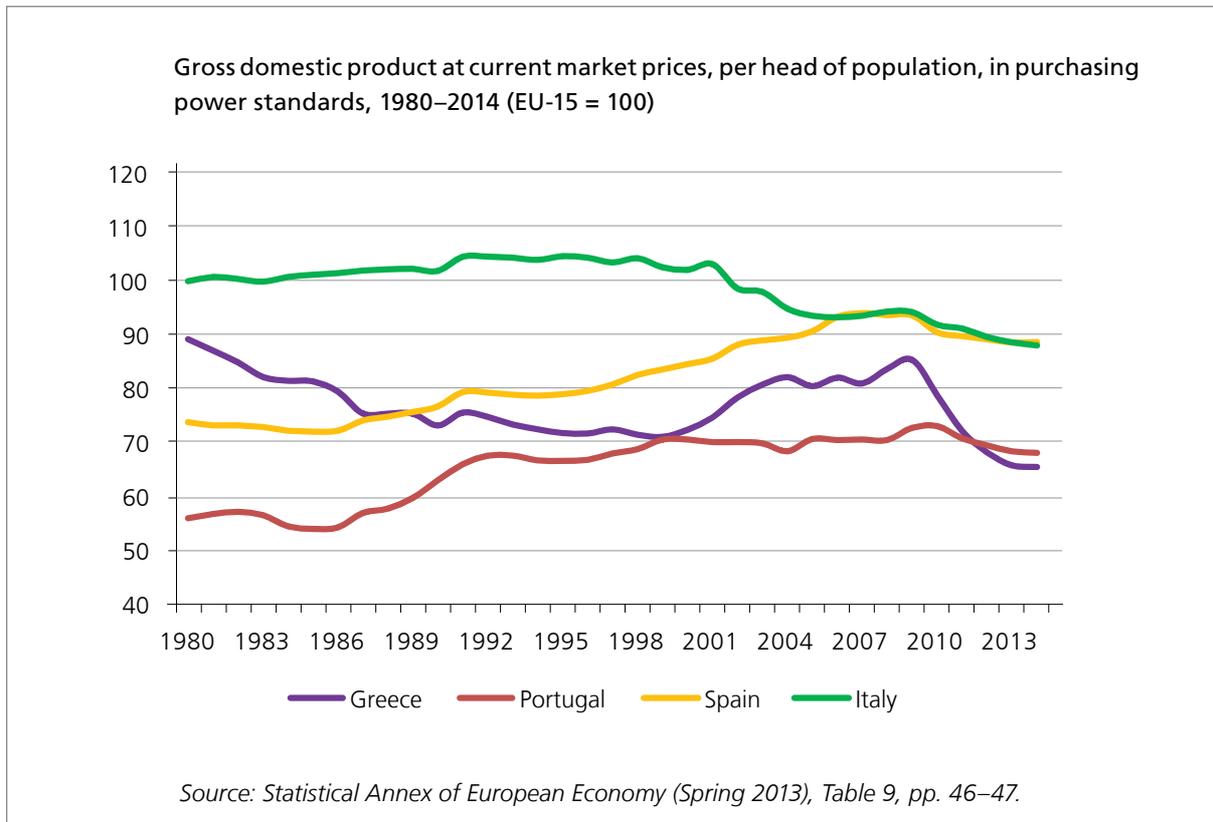


Convergence and Decline

A glimpse of just how massive a setback Greece has suffered in recent years can be obtained by looking at GDP per capita (in purchasing power standards) relative to the Western European average (more precisely, the average for the 15 member states that made up the European Union prior to the 2004 enlargement – EU15). In 1981, when Greece acceded to the then European Community, living standards in Greece were, on average, only 13.0 per cent below those of the average Western European, much better than the performance of Spain (27.0 per cent below the EU15 average) or Portugal (43.4 per cent below average). By 1996, however, Greece had lost considerable ground (28.4 per cent below

average), overtaken by Spain and almost caught up by Portugal (20.6 per cent and 33.3 per cent below average respectively).

Following the introduction of the euro, all three countries grew fast and Greece was fastest of all. On the eve of the crisis, in 2009, they had all converged towards the Western European average (Greece: 14.7 per cent; Spain: 6.5 per cent, Portugal: 27.3 per cent below the EU15 average). By 2013, relative living standards in Spain and Portugal had fallen back by around 5 percentage points, but in Greece, the setback was in the order of 20 percentage points (34.3 per cent below average), in other words, the gap with the rest of Western Europe was as large as it had been in the early 1960s.



Outbreak of the Crisis

The standard account of the country’s debt crisis begins at the end of 2009, when the incoming socialist government announced that earlier fiscal data had been misreported. Revised estimates for 2009 raised the budget deficit from 3.7 per cent to 15.6 per cent of GDP, and the public debt from 99.6 per cent to 129.4 per cent of GDP. Coming when the European economy was still smarting from the impact of the 2007 international financial crisis and coinciding with sluggish growth worldwide, the news revived speculation about the future of the euro zone and shattered the credibility of Greece’s claim to remain part of it. Immediately, the cost of borrowing began to climb to prohibitive levels. It was about then that the Greek crisis started to assume unanticipated dimensions.

The Bailout Package

In response to market pressure, the government announced a first round of austerity measures in March 2010. This cost the government a great deal in terms of popularity, but nevertheless failed to satisfy the markets. In April 2010, the rating agency Standard

& Poor downgraded Greece’s credit rating to below investment grade (that is, junk status). Spreads on 10-year government bonds – that is, interest rate differentials from German government bonds – began to rise sharply, reaching 1,000 basis points (that is, 10 percentage points), compared to 200 basis points three months previously. At that point, Greece effectively lost access to the international financial markets and a sovereign debt crisis threatened to develop into a solvency crisis.

After considerable vacillation, the «no-bailout» clause of the Maastricht Treaty was unceremoniously set aside, clearing the way for a massive €110 billion loan from the European Commission, the European Central Bank and the International Monetary Fund (the so-called Troika) in May 2010. The loan was designed to cover Greece’s borrowing requirements for the next three years, following which it was assumed that the country would return to the markets. In return for the loan, the government was forced to sign a Memorandum of Economic and Financial Policies. The Memorandum committed the government to sweeping spending cuts and steep tax increases, aiming to reduce the country’s public deficit below 3 per cent of GDP by 2014. To prove

the government's trustworthiness, a second round of austerity measures was promptly announced.

The provisions of the loan and the austerity programme have been revised several times since May 2010. When the Greek Parliament approved the Mid-term Fiscal Strategy Framework of 2012–2015, the euro-area summit of July 2011 improved the terms of the programme by conceding lower interest rates and a longer repayment period. As the deal proved ineffective against the markets' bet that the country could not realistically service its foreign debt and would therefore be forced to default, the European summit of October 2011 opened the way to a negotiated reduction in the nominal value of Greek government bonds and a new €158 billion loan. The latest revision of the programme (Mid-term Fiscal Strategy Framework of 2013–2016) specified structural fiscal savings to the tune of €13.5 billion (7.15 per cent of GDP) in 2013–2014.

Political Fallout

The *Greek programme* eventually managed to impress international markets, but caused a strong domestic reaction. Civil unrest reached its height on 5 May 2010, in the context of a huge and largely peaceful demonstration, when three workers lost their lives as extremists set fire to a high-street bank in Athens. The tragedy cast further doubt on the country's future and lengthened the odds that the bailout package might prove effective.

As subsequent developments have showed, that was the shape of things to come. The bailout package had thrown a lifeline to a practically bankrupt economy, at the price of effectively removing power over economic policy away from democratically elected domestic actors, handing it to external ones, widely seen as distant, inscrutable and largely unaccountable. This provoked a nationalist backlash across the political spectrum and transformed Greek politics almost overnight. Political rhetoric became virulent, often inflammatory. A new political cleavage emerged (those in favour versus those opposed to the bailout package), recasting with a vengeance older divisions (pro-Europe versus anti-Western) and partly eclipsing more traditional demarcation lines (Left versus Right). Populist formations on the radical Left and the extreme Right – including the criminal, avowedly neo-Nazi, Golden Dawn – flourished (Georgiadou 2013; Doxiadis and Matsaganis 2012).

Internal Devaluation

The austerity policies were introduced when the Greek economy was already in recession and merely exacerbated it. As the demand for goods and services fell, many businesses went bankrupt, others relocated, while most of those staying afloat resorted to layoffs and/ or pay arrears. As a result, unemployment rose sharply from 6.6 per cent in May 2008 to 27.6 per cent in April 2013. Things got worse after February 2012, when the Troika persuaded a clearly reluctant government to try *internal devaluation*. The strategy was intended to boost competitiveness, revive the economy and reverse the rise in unemployment. Its main feature was a drastic cut in the minimum wage by 22 per cent in nominal terms (32 per cent for workers aged below 25).

It is highly dubious whether *internal devaluation* actually worked. While the trade deficit did improve, on closer inspection this was brought about by changes in demand rather than a supply-side effect. As Bank of Greece (2013) figures show, imports of goods except fuel fell sharply in 2012 (–15.0 per cent relative to –4.3 per cent in 2011), while the corresponding exports actually grew less than the year before (+3.8 per cent in 2012 compared to +18.4 per cent in 2011).

Meanwhile, unemployment continued to rise, even though arguably at a slower rate. In terms of earnings, the fall in minimum wages had wider repercussions, reinforcing the adverse effects of the recession: average gross earnings in non-banking firms fell in real terms by 10.6 per cent in 2012, compared to a decline of 4.9 per cent in 2011 (Bank of Greece 2013).

The Austerity/Recession Nexus

The extent to which austerity policies contributed to the current recession, rather than simply being a response to structural weaknesses, is a matter of heated debate among economists. Clearly, international agencies had seriously underestimated the size of the *fiscal multiplier*, that is, the depth of recession associated with austerity. As a recent study by leading IMF economists Olivier Blanchard and Daniel Leigh (2013) conceded, early forecasts assumed a fiscal multiplier of about 0.5 (in other words, that reducing the budget deficit by €10 would lead to a drop in GDP of €5), while the actual effect turned out to have been around 1.5 (a deficit

reduction of €10 may have led to a drop in output of €15) or more. Larger fiscal multipliers seem to be present in the early phases of a recession and in countries in which fiscal consolidation is bigger. This seems a fair description of Greece in 2010, when the government's fiscal consolidation effort was most successful: indeed, at about 5 per cent of GDP, »no other OECD country has achieved such a fiscal improvement in a single year over the past three decades« (OECD 2011).

On the whole, there can be little doubt that austerity policies and the wider recession are closely connected. On one hand, austerity policies cause aggregate demand to fall and therefore lead firms catering for the domestic market to reduce output, cut salaries and lay off personnel. On the other hand, the recession weakens the deficit-reducing potential of austerity policies – for example, lower tax receipts, higher spending on social benefits – and stokes pressure for the adoption of harsher measures.

Nevertheless, domestic factors have also contributed to the recession. It is worth remembering that, for several years before the crisis erupted, Greece enjoyed a period of fast growth: real growth rates averaged 4.1 per cent in 2000–2007, compared to 2.5 per cent in the (then) EU27 as a whole. Nevertheless, behind the façade of prosperity based on strong consumer demand, boosted by cheap credit, lay a largely uncompetitive economy. The steady deterioration of the current account (mostly exports minus imports of goods and services), in chronic deficit reaching 14.9 per cent of GDP in 2008, was the clearest sign that the economy was in poor shape. The poor performance of Greek firms in export markets preceded the crisis and made the recession inevitable, at least to some extent. Furthermore, as already mentioned, the size of the Greek budget deficit, revealed to be 15.6 per cent of GDP in 2009, against the 3 per cent target stipulated in the Stability and Growth Pact (and the earlier assurance by the conservative government that it would not exceed

3.7 per cent of GDP), made fiscal consolidation and hence austerity largely inescapable.

Which Austerity?

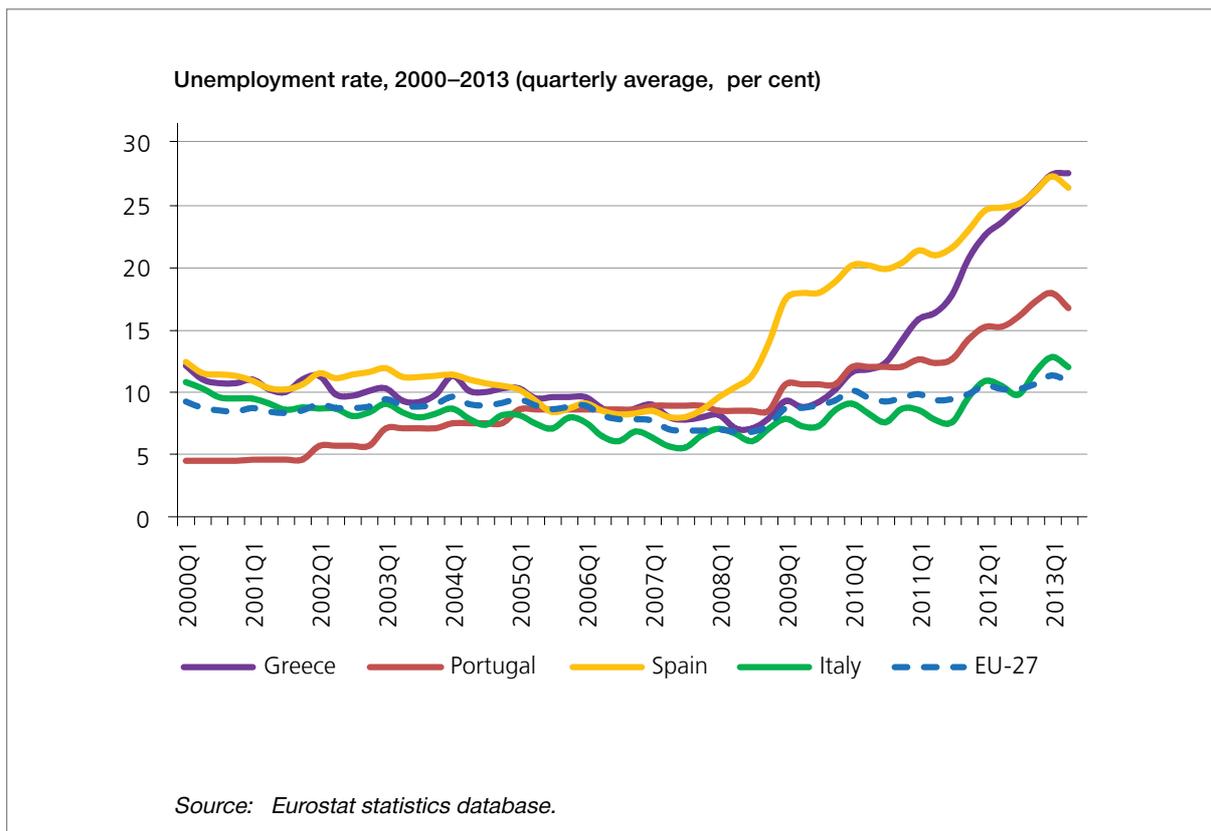
Even though it is difficult to see how austerity could have been avoided in May 2010, the continuing controversy about whether Greece should accept or reject the bailout package has certainly diverted attention from fundamental aspects of the current situation. What is the policy content of the *Greek programme*? Has it protected the weakest groups from the impact of the recession or has it caused poverty and inequality to rise? What are the social consequences of the crisis and its long-lasting effects on the welfare state? These questions are the subject of this report.

2. Social Impact I: Jobs and Wages

2.1 Job Losses

There is no doubt that the most characteristic feature of the Greek social landscape in the current crisis is the steep rise in joblessness. The unemployment rate had fluctuated around the 10 per cent mark in the first half of the previous decade. It then began to fall until May 2008, when unemployment figures reached their lowest level for over a decade (325,000 workers or 6.6 per cent of the labour force). Thereafter it started to rise, gathering pace as the recession deepened. In May 2013 (the last month for which data were available at the time of writing ¹), the number of jobless workers was almost 1.4 million and the unemployment rate at 27.5 per cent. That compared to 26.3 per cent in Spain, 17.2 per cent in Portugal, 13.5 per cent in Ireland and 12.1 per cent in Italy.

1. Except where otherwise indicated, the source of all statistics cited in this section is Eurostat.



Long-term unemployment increased even faster, to 889,000 workers or 18 per cent of the labour force in the first quarter of 2013 (from 184,000 and 3.7 per cent in the second quarter of 2008). As many as 65.6 per cent of all unemployed workers were out of work for more than 12 months in the first quarter of 2013, compared to 51.5 per cent in the second quarter of 2008.

Primary versus Secondary Earners

Until the onset of the crisis, labour market institutions and norms in Greece – such as those concerning hiring and firing – whether formal or informal, protected *male breadwinners*, often at the expense of their wives and (grown-up) children. Without doubt, this pattern stifled mobility, forced many women to remain housewives and prevented many young adults from leaving the parental home until an unusually late age. However, it had at least one key advantage: by protecting *primary earners*, it ensured that unemployment did not directly translate into poverty. Indeed, the unemployed and the poor seemed to be two different populations: the former comprised mostly wives of employed men and young persons sharing the parental home, while the latter concerned mainly the

elderly and others living in rural areas. For instance, shortly before the crisis, only 7 per cent the population below the poverty line were unemployed (Bank of Greece 2009).

This was to change dramatically under the impact of the crisis. In the second quarter of 2008, the unemployment rate for men aged over 30 was a mere 3.1 per cent, while for women aged 20–29 it was much higher (19.9 per cent). In the first quarter of 2013 young women faced massive unemployment (50.2 per cent), while their male counterparts did little better (43.5 per cent). However, this time, men of prime age were no longer spared: by the first quarter of 2013 their unemployment rate had gone up to 20.8 per cent.

That primary earners were badly hit by the crisis is also clear from an inspection of employment rates. As a matter of fact, the fall in employment was greatest among male workers aged 30–44: from 93.8 per cent in the second quarter of 2008 to 74.1 per cent in the first quarter of 2013, a massive drop of almost 20 percentage points in the space of less than five years. Many of the workers affected now found themselves living in jobless households and with few other resources to draw upon.

Public versus Private Sector

Official figures suggest that the number of public sector employees declined from 768,000 in July 2010 to 686,600 in June 2013, a fall of 81,400 (–10.6 per cent).

Eurostat data tell a similar story. In the core public sector, where job losses took the form mainly of retirement and nonrenewal of fixed-term contracts, personnel shrank by 11.3 per cent in 2008–2012. In the utilities (such as electricity and water supply), still largely under state control, employment over the same period fell more steeply, by 25.5 per cent. In education and health care, where public provision is less predominant, the number of those employed declined by 7.7 per cent and 2.5 per cent, respectively.

The decline in public employment, while substantial, was below average for the economy as a whole. Taken together, public administration and the utilities accounted for 59,000 jobs lost (in net terms) between 2008 and 2012, health care and education for another 30,000. By far the most job losses took place in private firms. As a matter of fact, over two-thirds of the 769,000 jobs lost in 2008–2012 were located in just three sectors of the private economy: construction (188,000), manufacturing (175,000) and wholesale or retail trade and repair of motor vehicles (153,000).

Native versus Foreign Workers

In terms of country of origin, foreign workers seem to have borne the brunt of the crisis. The unemployment rate for men aged 25–54 (often low-skilled, employed as manual workers in construction and other sectors) increased dramatically, from 3.3 per cent in 2008 to 32.0 per cent in 2012. Unemployment among foreign-born female workers of the same age group rose somewhat less steeply over the same period, from 10.0 per cent to 30.4 per cent. Employment figures tell a slightly different tale, their drop commensurate with the rise in unemployment for men (about 29 percentage points), but less so for women, whose employment rate fell by only 8 per cent percentage points, indicating changes in inactivity and, possibly, in the composition of the underlying population (such as those associated with return migration).

Other Dimensions

The impact of the crisis on jobs has been asymmetric in other respects. With respect to sector, more jobs have been lost in industry than in services, while the steady decline of employment in agriculture seems to have come to a halt.

In terms of professional status, the crisis seems to have changed the skill composition of the labour force. High-skilled non-manual occupations, such as managers, followed by technicians and associate professionals, accounted for just over half the total decline in employment. Skilled and semi-skilled manual workers also experienced considerable job losses. In contrast, job losses among lower-skilled non-manual occupations, such as clerical workers, were compensated by employment growth among service and sales workers.

In terms of tenure, temporary employment has receded in recent years, while part-time work has grown. Note that non-standard work is less common in Greece than in the rest of Europe: in 2012, 10.0 per cent of all employees were on temporary contracts, and 7.7 per cent of those in employment worked part-time (compared to 13.8 per cent and 23.1 per cent respectively in the EU15 as a whole). These figures do not include non-standard forms of dependent work disguised as self-employment (see below).

Self-employment

More than one-third of all workers in Greece are self-employed, the highest proportion in the EU. This is a fairly heterogeneous group, comprising farmers with often small land holdings, as well as shopkeepers, other traders, freelancers and also members of the liberal professions (law, medicine and engineering). It also includes dependent work disguised as self-employment, which involves an unknown number of »self-employed workers providing services to a single work provider in a continuous manner, hence acting de facto as employees« (OECD 2010).

Job losses in the form of business closures have been significant among the self-employed, too. Nevertheless, the contraction in self-employment was slightly lower than for total employment. Note also that an unknown number

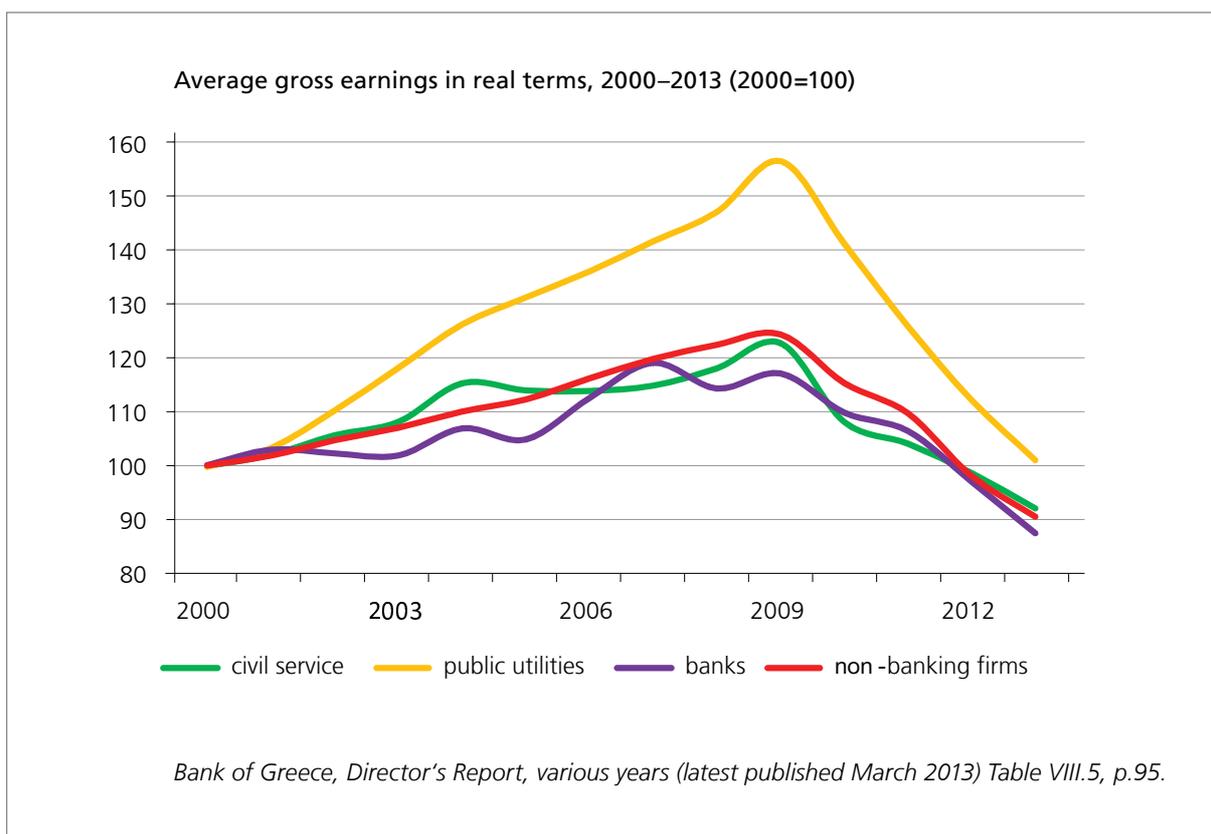
of self-employed workers remain nominally employed, even though business is so poor that their net income is close to zero (or less). Sometimes this is also the case with professionals, such as engineers, who have been left with little if any work as activity in the construction sector has often ground to a halt.

2.2 Earnings

While job losses involved an unusually high number of workers, loss of earnings for those still in employment was also significant. Average real gross earnings for employees have lost more ground since the onset of the crisis than they gained in the nine years before that. Specifically, having grown by 23 per cent in 2000–2009, by 2013 average earnings had fallen below their 2000

level by 9 per cent. Only in the public utilities, where pay awards had been extremely generous in 2000–2009 (+57 per cent in real terms), did recent losses leave real earnings in 2013 slightly above what they had been in 2000 (+1 per cent). On the whole, earnings losses in 2009–2013 were over 26 per cent on average (in gross terms). The rising fiscal pressure implied that losses were even more pronounced in net terms. Earnings from self-employment have also declined, but in that case reliable data are more difficult to procure.

Note that the above applies to the formal sector of the economy. In the so-called informal sector (part of the construction industry, agriculture, tourism and other services), where employers were subject to fewer constraints, earnings have almost certainly declined by even more.



3. Social Impact II: Inequality and Poverty

Estimating the Distributional Impact of the Greek Crisis

Most studies of the effects of the current crisis on poverty and inequality rely on published data, only going as far as the end of the previous decade. For instance, the latest wave of EU-SILC available at the time of writing was the 2011 survey reporting on incomes earned in 2010. In general, income statistics (national household budget surveys or cross-national ones, such as EU-SILC) often become available two or three years after their reference period, unlike labour force statistics, which are typically released within two or three months. This is unfortunate, especially in the context of the Greek crisis: even though GDP started to fall and unemployment to rise in 2008, disposable incomes actually did not begin to decline until 2010.

Predicting how a crisis will affect the distribution of incomes is not as straightforward as may appear at first sight. Its effects on family incomes vary substantially, depending not only on the earnings and employment status of workers directly affected, but also on those of other members of the households in which they live, as well as on the capacity of the tax and benefit system to absorb macroeconomic shocks (Atkinson 2009). Moreover, the distributional impact may vary depending on the dimension considered: in a crisis, average living standards may decline, but inequality need not rise, and the estimated effect on poverty will be less pronounced when the poverty line is set as a proportion of average (or median) incomes than when it is held constant in purchasing power terms (Jenkins et al. 2013).

In other words, the impact of the Greek crisis on the income distribution cannot be simply assumed, or read off labour-market or GDP-growth figures: it has to be estimated directly. Given the time lag involved in official statistics, the only realistic alternative is microsimulation. In particular, the European tax-benefit model EUROMOD, developed by universities and research centres in all 27 EU member states, led by the University of Essex and supported by the European Commission, has been used to analyse the distributional impact of the Great Recession in a number of European countries (for a recent example, see Avram et al. 2013).

Analyzing the distributional effects of the crisis in Greece using EUROMOD is a key task of the Policy Analysis Research Unit (PARU) at the Athens University of Economics and Business. Results for 2010 have already been published in Matsaganis and Leventi (2013), and those for 2009–2012 in Leventi and Matsaganis (2013), while more up-to-date findings are regularly posted in the PARU website (www.paru.gr) as they are made available. This section draws on earlier findings, and extends them by presenting our most recent estimates at the time of writing.

Poverty

Has the current crisis increased poverty in Greece? Perhaps paradoxically, the answer depends on how poverty is defined. We use two indicators. The first is the standard (relative) poverty rate, measured in terms of the proportion of population with a net equivalent income below 60 per cent of median. By construction, this poverty line goes up as median incomes improve, and goes down as median incomes fall (in this case, from €570 per month in 2009 to €458 in 2012). Our results show that relative poverty in Greece rose from 20.0 per cent in 2009 to 21.3 per cent in 2012. In other words, even though income losses have been drastic, the rise in relative poverty is shown to have been modest.

Is this misleading? Not exactly, but it is only half the picture. Allowing the poverty line to vary with median incomes is consistent with the concept of relative poverty, and may not matter much when income growth is relatively slow either way. However, at times of rapid change in living standards, individuals may compare their material circumstances not only with those of *the average person* in the society in which they live, but also with their own in a previous period.

To approximate that, our second indicator fixes (*anchors*) the poverty line at 60 per cent of the median of the 2009 income distribution, in real terms². As a result, this line moves up with prices rather than median incomes – here, from €570 per month in 2009 to €622 per month in 2012. In other words, the second poverty indicator captures the experience of those no longer able to purchase the goods and services that were just affordable on poverty-line incomes before the crisis erupted. As might be expected,

2. Note that this second poverty indicator is similar to the «at-risk-of-poverty rate anchored at a fixed moment in time» (a Eurostat indicator of the social inclusion strand).

anchored poverty has risen much more linearly and steeply, by almost 6 percentage points each year (from 20.0 per cent in 2009 to 37.0 per cent in 2012).

The impact of the crisis on poverty by population subgroup has been asymmetric. With respect to age, relative poverty appears to have fallen significantly for the elderly. This result may seem surprising. Nevertheless, it can be explained by the fact that recent policies (discussed

later) have reduced low pensions less than higher ones, while pensions as a whole were affected less by austerity than earnings and other incomes were affected by the recession.³ In contrast, relative poverty has risen for all other age groups, especially for children, reflecting the impact of job and earnings losses for people of working age. On the other hand, the rise in poverty was greater for men than for women, virtually eliminating the previous gender gap in favour of the former.

Table 1: Poverty, 2009–2012

		2009 (relative)	2012	
			Relative	Anchored
All		20.0	21.3	37.0
Gender				
	Men	18.9	21.2	36.5
	Women	21.0	21.4	37.4
Age				
	0-17	21.8	26.8	42.6
	18-29	18.0	22.7	38.1
	30-44	16.3	21.5	36.9
	45-64	19.0	19.9	33.9
	65+	24.6	17.1	35.1
Area				
	Athens	15.8	18.1	33.8
	Other cities	22.0	21.7	39.3
	Rural/semi-rural areas	21.4	22.7	37.8
Tenure				
	Rent or mortgage	16.2	22.7	36.3
	No housing costs	21.3	20.8	37.2
Labour market status				
	Unemployed	32.2	41.1	57.8
	Employee (private firms excl. banking)	9.3	10.7	23.9
	Employee (public sector and banking)	0.2	0.7	3.6
	Liberal profession	4.5	4.2	8.7
	Own account worker	13.4	15.0	27.4
	Farmer	38.9	31.9	52.0
	Pensioner	23.4	17.0	33.5
	Student	22.1	26.2	42.9
	Others not in the labour force	25.6	21.7	39.0

Notes: The standard poverty line (60 per cent of median) for a person living alone fell from €570 per month in 2009 to €458 in 2012. The «anchored» poverty line (60 per cent of the 2009 median, adjusted for inflation) was €622 per month in 2012.

Source: EUROMOD (version F4.00).

3. It should be noted that, as discussed later, the elderly experienced significant losses in terms of the «social wage» (that is, access to publicly-funded services, especially health care), even though relatively protected in terms of monetary income.

With respect to location, relative poverty has increased more steeply in Athens, even though it remains higher in other cities and in rural areas. With respect to housing tenure, the increase in relative poverty was greatest for households paying rent or mortgages, while for those owing their home outright it may have actually fallen slightly.

With respect to occupation, the rise in poverty has left certain categories virtually unaffected: in 2012, public sector workers and banking employees had a relative poverty rate of under one per cent, while the liberal professions of law, medicine and engineering did only marginally worse. Moreover, the relative poverty rate for farmers and pensioners has declined, albeit from a high level before the crisis. Also, the poverty rate for students has increased, while other groups – such as workers in private firms (outside banking) and own-account workers – faced a milder increase. In contrast, the unemployed are now facing catastrophic poverty rates: over 41 per cent of all unemployed workers in 2012 were in relative poverty.

Looking at *anchored* rather than relative poverty, the position of all categories seems to have deteriorated significantly. Nevertheless, the general pattern identified above still holds. Again, our results show that the plight of unemployed workers has become a social emergency: in 2012, almost 58 per cent of them lived on incomes below the 2009 poverty line.

Inequality

Has the Greek crisis made the distribution of incomes more unequal? Again, we use two indicators: the Gini coefficient and the income quintile share ratio S80/S20 (showing the total disposable income earned by the richest 20 per cent of the distribution divided by that

earned by the poorest 20 per cent). Note that the former is sensitive to changes in the middle of the distribution, whereas the latter is sensitive to changes at the two ends of the distribution.

Both indices suggest that inequality in Greece barely changed in 2010, went up somewhat in 2011 and increased significantly in 2012. In other words, the rise in inequality began a year or so after the onset of the crisis, and gathered speed as the recession deepened.

Moreover, the different performance of the two indicators implies that changes were more significant at the two ends (especially the lower end) of the income distribution, than was the case around the middle.

Disentangling the Austerity/ Recession Nexus

Have poverty and inequality in Greece increased because of the austerity policies introduced by the government (usually dictated by the Troika of donors), or, as is sometimes argued, despite these policies, designed to minimise the impact of the recession on the weakest groups in society? The political importance of this question is obvious. Can it be answered?

As a matter of fact, it can. But before we show how, we ought to keep in mind that the distinction between austerity and the wider recession is to some extent artificial. There can be no doubt that the two are closely connected. On one hand, austerity policies have caused aggregate demand to fall and have therefore led firms catering for the domestic market to reduce output, cut salaries and lay off personnel. On the other hand, the recession has weakened the deficit-reducing potential of austerity policies (for example, lower tax receipts, higher spending on benefits) and has led to the adoption of

Table 2: Inequality, 2009–2012

	2009	2010	2011	2012
Gini coefficient	0.350	0.347	0.353	0.368
S80/S20 income share ratio	6.067	6.063	6.439	7.544

Notes: The Gini coefficient varies between zero, which reflects complete equality and one, which indicates complete inequality. S80/S20 is the income share of the richest 20 per cent relative to that of the poorest 20 per cent of the population.

Source: EUROMOD (version F4.00), DASP (V.2.2).

harsher measures. After all, this is what the controversy over *fiscal multipliers* actually implies⁴. Nevertheless, while austerity has made the recession deeper and longer, domestic factors – such as the steady slide of Greek firms down the competitiveness league table (as shown by the country's large trade deficit before the crisis) – have also contributed to it.

It is clear that the relative importance of fiscal consolidation versus domestic factors for the depth and duration of the Greek crisis is likely to remain a matter of debate for some time. But because some recession was inevitable, given the poor performance of the Greek economy before the crisis, we believe that isolating the effects on poverty and inequality of austerity per se – that is, ignoring for a moment the wider recession – is of interest.

Our findings (presented in Leventi and Matsaganis 2013) show that austerity policies had an equalizing effect initially (in 2010–2011), which was stronger than the inequality-increasing effect of changes elsewhere in the economy (for example, job losses). The income distribution was compressed, resulting in a slight reduction in inequality. However, the direction in which the income distribution was compressed was downwards: large numbers of people fell below the 2009 poverty threshold in real terms, and the austerity was as much to blame for this as the wider recession. In 2012, both poverty and inequality registered significant increases, driven primarily by the steep rise in unemployment. Austerity policies failed to compensate and actually reinforced the inequality-increasing effect of the deepening recession.

That austerity policies per se – as distinct from rising unemployment and falling earnings for private sector workers – did not actually cause inequality to rise (at least not before 2012) seems at odds with established views about what is going on in the country. In fact, our finding is the combined effect of two opposing tendencies: some policies distributed the burden of austerity fairly and/or affected groups located towards the top of the income distribution, while other policies cut incomes across the board and/or affected low-income households more.

On the whole, we find that the redistributive impact of changes in personal income tax (in 2010 and 2011) and cuts in public sector pay was progressive. The introduction of pensioners' solidarity contribution and cuts in pension benefits also seemed to have a progressive effect, albeit weaker. On the other hand, certain policies had a regressive redistributive effect. In order of significance: the emergency property tax (introduced in 2011), the cut in the level of unemployment benefit (following the reduction in the minimum wage in 2012) and the extra charges levied on liberal professions and other self-employed workers. The 2010 VAT hikes were also unambiguously regressive.

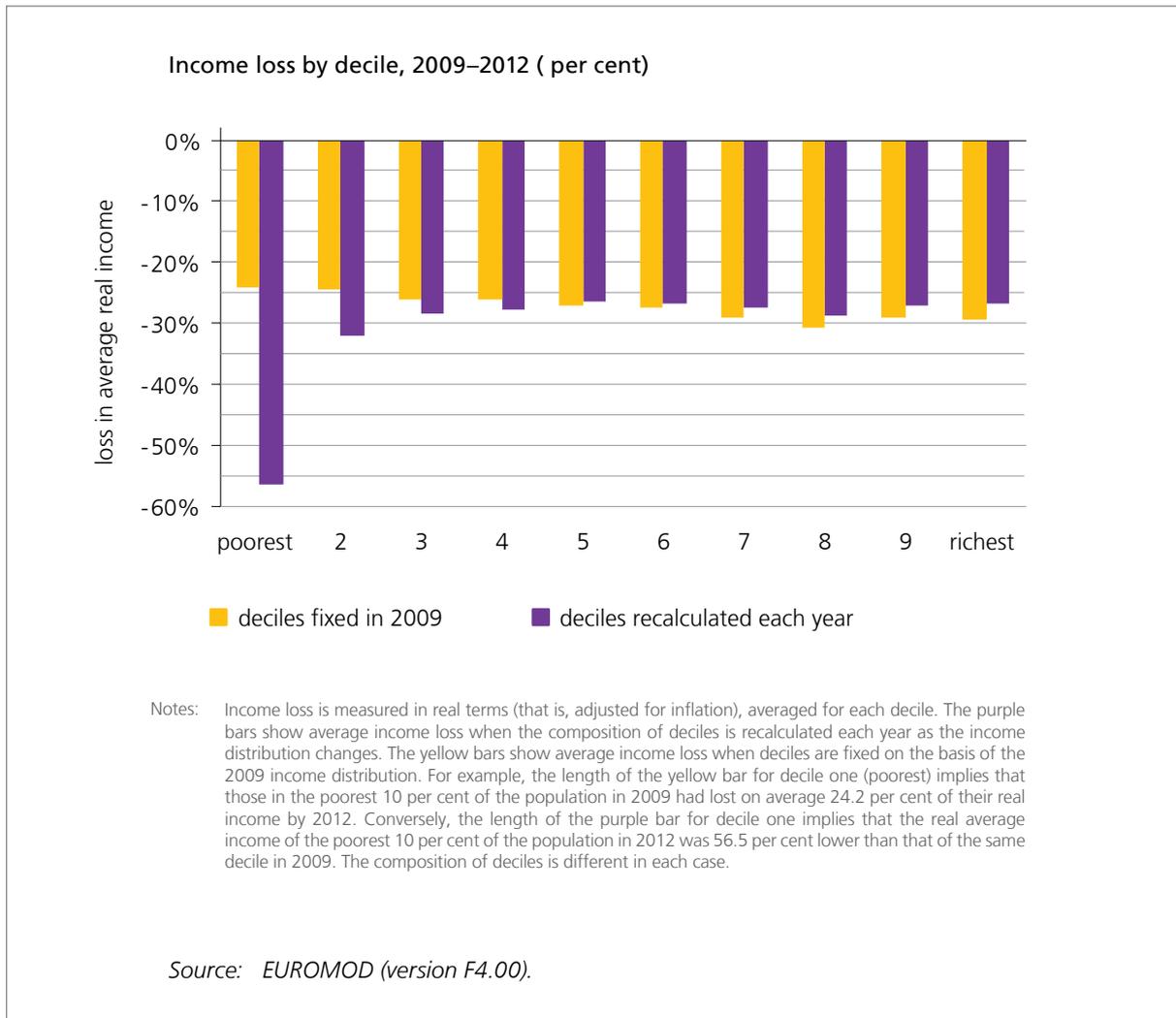
Have the Rich Become Richer (and the Poor Poorer)?

This is another important question, with clear political implications. Rather disappointingly for those hoping for a straightforward answer, it all depends on how the income distribution is analysed. More specifically, one of the effects of a crisis is that different social categories and income groups are affected differently. Over time, a considerable amount of re-ranking of the income distribution takes place, as a result of which the composition of income deciles changes.

In view of that, when deciles are fixed in 2009 – that is, not allowing for re-ranking – we find that in 2009–2012 those in the poorest 10 per cent of the population in 2009 had, on average, lost a smaller proportion of their income than those in the richest 10 per cent in 2009 (24.2 per cent versus 29.4 per cent in real terms). On the other hand, when deciles are recalculated each year (that is, allowing for re-ranking), we find that the income of those in the poorest 10 per cent of the population in 2012 had fallen by 56.5 per cent relative to the income of those in the poorest 10 per cent in 2009, in other words, by twice as much as the average loss of 28.4 per cent in real terms.

Clearly, this reflects changes in the composition of the population in poverty. Those in poverty before the crisis – for example, pensioners in rural areas – were not entirely protected, but lost less than the average Greek (at least in monetary terms). On the other hand, those first entering poverty during the crisis (e.g. unemployed workers with children) did so because they lost a massive proportion of their income.

4. See discussion of the austerity/recession nexus on pages 5-6



The New Social Question

The above results suggest that the rise in poverty is affecting families with children (badly hit by rising unemployment) more than other household types. In particular, the elderly seem to have improved their relative position in terms of income (though not, as will be shown shortly, in other respects). With respect to gender, in Greece, as elsewhere, the crisis seems to have levelled the income gap between men and women. Otherwise, the crisis may have reversed the traditional pattern of lower poverty rates among younger households in urban areas than older households in rural areas: the former are now struggling more, under a combination of fixed housing costs and falling incomes.

Poverty among unemployed workers should be a considerable cause for concern. Because of the sharp rise in unemployment among primary earners, not only has the poverty rate of unemployed workers increased dramatically (from what was already a very high level before the crisis), but so has their relative weight in the population. Considering the gaps in the social safety net (to be discussed extensively below), and the fact that long-term unemployment is expected to remain high in the foreseeable future, the plight of those in jobless households ought to be seen as Greece’s new social question.

4. Social Impact III: Other Areas of Concern

Extreme Hardship

There is evidence that a considerable number of individuals and families are now facing extreme hardship. For example, social workers based with Caritas Athens have identified migrants, disabled persons and their families, families (especially single-parent ones) with small children, and pensioners as those most affected by the crisis (Caritas Europa 2013). With respect to pensioners, the main issues seemed to be the new property taxes (assessed on asset value rather than income) and the general disruption in health provision (a requirement to pay in advance for medicines and medical treatment, which is reimbursed by [the state], but reimbursement can take months). This is very much in line with our analysis and is further discussed below.

Similar concerns are raised by the Independent Expert of the United Nations Office of the High Commissioner for Human Rights, following his recent mission to Greece (OHCHR 2013). In particular, the end of the mission statement rightly highlights the plight of irregular migrants.⁵

Children from low-income families with little or no income, usually but by no means exclusively of immigrant background, seem also to be at risk. For instance, the City of Athens has received anguished reports from school headmasters that some of their pupils could pay no attention to classes because they had had nothing to eat. In spite of severe budget constraints, and even though its remit is to provide meals to children at municipal nursery schools alone, the Athens Municipal Nursery has responded to calls for assistance, delivering meals on a daily basis to 1,124 children at 80 primary schools in the school year 2012–2013 (up from 250 children the previous year). This amounted to over eight per cent of all children attending the schools concerned (about two per cent of the total number of children at

primary schools in the Athens area). Similar, though less ambitious, schemes are run by local governments elsewhere in the country.

A recent Policy Analysis Research Unit study (Matsaganis, Leventi and Kanavitsa 2012) has attempted to identify the extent of extreme poverty. The question we set out to answer was: how many Greeks are in poverty in the sense of being unable to purchase the cheapest basket of goods consistent with dignified living? We have estimated the cost of such a basket of goods, which inevitably involves a considerable amount of discretion. The resulting *extreme poverty threshold* varied by household type, by geographical area and by tenure status: for example, for a single person, living in Athens, in an owner-occupied home without a loan or mortgage, the extreme poverty threshold in 2012 was €224 per month. We found that the proportion of Greeks facing extreme poverty was 8.5 per cent and was as high as 13.8 per cent among children. Repeating the exercise using more recent data led to an upward revision of our earlier estimates, raising the general extreme poverty rate to 9.8 per cent and the child extreme poverty rate to 16.3 per cent.

Being in extreme poverty means that your income has fallen below the cost of basic necessities, not necessarily that you go without some – for example, food – or all of the goods involved. Families in such situations may receive help from relatives or friends, or sell assets, or draw on past savings, or simply go into debt. Nevertheless, when hardship persists, alternative means of support eventually dry up; at that point, the spectre of destitution looms large. If this happens, especially when it involves children, the long-term effects are no less than catastrophic.

Access to Housing

Similar to other southern European countries, owner occupation in Greece is extensive. As the recent ECB Household Finance and Consumption Survey demonstrated, towards the end of the previous decade 72 per cent of households owned their main residence, that is, exactly the same as in Portugal, but higher than most of the countries in the survey, the main exceptions being Slovakia (90 per cent), Spain (83 per cent) and Slovenia (82 per cent). Furthermore, housing wealth in Greece appeared to be more widely spread than elsewhere in Europe.

5. »The economic crisis has also contributed to rising tensions in the informal sector. A significant amount of the estimated 470,000 irregular migrants in Greece work in this sector, many in the agricultural sector, and are, in particular, at risk of being exposed to exploitative labour conditions. These individuals lack protection as they hardly have access to legal redress mechanisms due to fear of being detected by the authorities, detained and ultimately deported. The shooting of 33 migrant workers at a strawberry farm in Manolada as a result of a labour dispute underscores the gravity of the problem« (OHCHR 2013).

Housing market developments have put home owners as well as tenants under considerable stress. Residential property prices had risen rapidly before the crisis (by +80.5 per cent in Greece versus +52.7 per cent in the Eurozone between 2000 and 2007) and have come down just as rapidly since then (by -27.2 per cent in Greece versus -3.7 per cent in the euro zone between 2007 and 2012)⁶. Just as homes are losing their value in the market, the cost of mortgage repayments for many families remains fixed, while family incomes are decreasing. However, repossessions of mortgaged properties by lenders (a key social concern in other countries affected by the crisis, such as Spain) have been kept to a minimum in Greece so far.

Private tenants also face difficulties, although rents have been falling, too (and had risen less than house prices before the crisis). Moreover, the social rented sector is virtually non-existent in Greece. As explained later, housing benefits – a key automatic stabiliser in many countries – have failed completely to cushion the impact of the crisis, given that the only substantial policy instrument available before the crisis (OEK rent subsidy) was an early casualty of the fiscal squeeze, suspended in 2010.

In view of all this, an increasing number of families struggle to meet their housing costs. As a matter of fact, the latest EU-SILC data suggest that in 2011 the proportion of Greek households in arrears on mortgage or rent payments had reached 11.0 per cent, twice as much as in 2008 (5.5 per cent), and almost three times the EU27 average (4.0 per cent). A similar pattern prevailed with respect to low-income families with children: in 2011, the proportion of those with arrears was as high as 29.7 per cent (up from 14.3 per cent in 2008) in Greece, compared to 12.5 per cent in the EU27.

Furthermore, the European Federation of National Organisations Working with the Homeless (FEANTSA 2011) reported that in the early phase of the crisis homelessness levels were growing in Greece, as indicated by the fact that homeless services at municipal level faced a 20 per cent increase in demand. A statement by the Office of the High Commissioner for Human Rights of the United Nations, following its envoy's recent mission to Greece (OHCHR 2013), reported that the

country's homeless population was estimated to be at least 20,000, a 25 per cent increase since 2009.

Access to Health

As a result of funding shortages and other policy responses (reviewed later) access to affordable health care has been compromised in recent years. The evidence is mostly anecdotal as yet, given that there is a considerable time lapse before current developments are captured in official statistics.

In the meantime, the data that are already available (reporting on the early phase of the crisis) paint a worrying picture. For instance, the rate of self-reported unmet need for medical care in Greece because it was »too expensive«, as reported in EU-SILC, had risen from 4.1 per cent in 2009 to 6.3 per cent in 2011. That compared unfavourably with the EU as a whole (2.4 per cent in 2011, up from 1.9 per cent in 2009). In most other member states, including Spain (0.4 per cent) and Portugal (1.3 per cent in 2011), the proportion was lower.

Similarly, among respondents in the lowest income quintile (that is, the poorest 20 per cent of the population), the proportion of those reporting unmet need increased over the same period, from 8.1 per cent to 10.2 per cent in Greece. These figures are now among the highest in the EU. For instance, the corresponding figure was much lower in Spain (0.7 per cent) and Portugal (2.2 per cent in 2011), although the issue seemed to be more pressing in Italy (11.3 per cent).

While it is likely that prolonged recession may cause health outcomes to deteriorate, it is probably too soon to establish such effects in the case of the Greek crisis. The available evidence (reviewed in Karanikolos et al. 2013) is still sporadic and largely inconclusive.

Happiness and Life Satisfaction

Evidence from the European Social Survey points to a sharp decline in levels of happiness and life satisfaction in 2010, especially if compared to 2004 (the *annus mirabilis* when Greece successfully organised the Olympic Games in Athens, won the European Football Championship and even came third in the Eurovision Song Contest). More specifically, between 2004 and 2010 the median score of answers to the question »how happy are you?«

6. Figures refer to the last quarter of each year. Data are from the ECB Statistical Data Warehouse.

fell by 12.3 per cent, while the median to the question «how satisfied with life as a whole are you?» fell by 13.3 per cent. Not surprisingly, the median score of responses to the question «how satisfied with the present state of the economy in your country are you?» declined over the same period by a massive 74.7 per cent.

More recent evidence, from the United Nations Happiness Report 2013 (Halliwell et al. 2013), confirms the decline in well-being in Greece and puts in context. On the one hand, well-being losses are far greater in Greece than in the other South European countries affected by the crisis:

»Between 2005-07 and 2010-12 in Western Europe seven countries had significant decreases, the largest of which were in four countries badly hit by the Eurozone financial crisis - Portugal, Italy, Spain and Greece. [...] Among the countries who have suffered well-being losses from 2005-07 to 2010-12, Greece ranks second, Spain sixth, Italy eighth and Portugal twentieth.« (p. 14-15)

On the other hand, well-being losses in Greece are greater than might have been expected on the basis of income losses alone, which suggests that alternative explanations must be sought:

»Greece stands out from the other countries in having the largest changes in life evaluations and affect measures, beyond what can be explained by average responses to the economic crisis. Research has shown that economic and other crises are more easily weathered and indeed provide the scope for cooperative actions that improve subjective well-being, if trust levels and other aspects of the social and institutional fabric are sufficiently high and well-maintained when the crisis hits. [...] Although generalized social trust is maintained roughly at pre-crisis levels, trust in police and in the legal system fall much more in Greece. Trust in police stayed stable at pre-crisis levels, or even grew slightly, in Spain and Portugal, while falling by 25% in Greece. Trust in the legal system fell significantly in all three countries, but by almost three times as much in Greece as in the other countries. Because trust measures have been shown to be strong supports for subjective well-being, this erosion of some key elements of institutional trust thus helps to explain the exceptionally large well-being losses in Greece.« (p. 17)

In other words, the pervasive sense of misery and hopelessness characteristic of everyday life currently in Greece goes beyond economic considerations (decisive though these may be), deriving from exquisitely political ones such as trust in institutions.

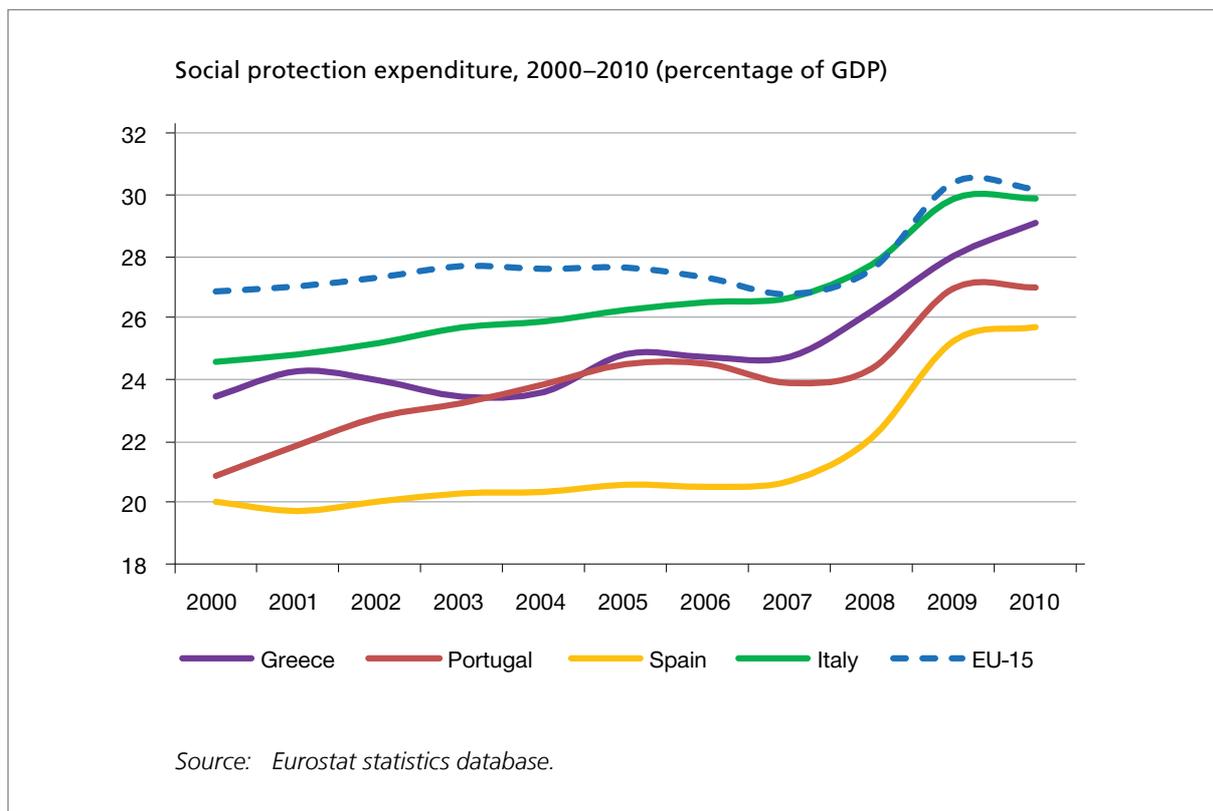
5. Policy Responses I: The Welfare State

In general, a recession – even a *great* one – should not overly trouble a well-designed social protection system. Mitigating the social effects of economic crises is what public institutions spectacularly failed to do in the 1930s, but what (among other things) modern welfare states were created for. As Castles (2010) put it: »Long lines of the unemployed caused by economic crises are the core business of the welfare state [...]. These are precisely the kinds of emergencies that welfare state programmes and institutions are designed to deal with, so that when a financial crisis turns up we have routine mechanisms [...] for coping with its consequences.« The question is whether the Greek social protection system proved to be up to the task of dealing with the social implications of the economic crisis.

5.1 The Welfare State before the Crisis

On the eve of the crisis, the Greek social protection system fitted perfectly the celebrated characterisation of the Southern European model of welfare as a combination of serious gaps in the social safety net and »unparalleled peaks of generosity reserved for the protected core of the labour market« (Ferrera 1996).

Expenditure on social protection in Greece had always been lower than the European average (23.5 per cent versus 26.8 per cent of GDP in the EU15 in 2000). However, shortly before the onset of the crisis it had covered most of the distance (26.2 per cent versus 27.6 per cent of GDP in 2008), an exploit made even more remarkable by the fact that over that period the denominator – that is, GDP – also grew at an average annual rate of four per cent. By 2010, the latest year for which Eurostat estimates are available, total expenditure on social protection had increased greatly as a proportion of GDP in both Greece and the EU as a whole (to 29.1 per cent and 30.2 per cent, respectively), and converged further.



Pensions

Retirement pensions formed the backbone of Greece’s social protection system, providing households with as much as 24.1 per cent of their disposable income, on average (ElStat 2010). Other social transfers (for instance, family, sickness, housing, unemployment and social assistance benefits) were marginalised, accounting between them for a mere 3.2 per cent of average household disposable income. Correspondingly, peaks of generosity were mainly – but not exclusively – located in the pension rights of public sector employees (in the civil service and the utilities sector) and professionals (judges and lawyers, doctors and pharmacists, engineers and architects). Workers in private firms outside banking and own-account workers did not get such a good deal. On the whole, the parameters defining entitlements differed enormously: to give just one example, the current statutory retirement age for men ranges from 45 to 65 years for a full pension. Variation was also wide in terms of contribution rates, minimum length of contributory period, reference earnings and replacement rates. The general picture was fairly complex, but systematic cleavages in entitlements could be identified between

groups of pensioners, actual or future. In general, pension rules favour the self-employed over wage earners, public over private sector employees, middle-aged contributors over younger ones, standard over non-standard workers and men over (most) women (Matsaganis 2007).

Pensions have emerged as the most highly contested policy area in Greek politics over the past few decades. In an ageing world, pension expenditure as a proportion of national income was expected to rise everywhere. In view of that, since the 1990s most European countries have taken measures to counter the fiscal effects of unfavourable demographics. By and large, the reforms have defused the pensions *time bomb*. For instance, spending on pensions in the EU has been estimated to rise gently to 12.5 per cent in 2060. In contrast, pension expenditure in the case of Greece has been projected to rise to a staggering 24.1 per cent of GDP in 2060 (CEC 2009).

Supplementary Pensions

Uneven access to benefits was the main feature of supplementary pensions, too. The relevant social insurance schemes concerned about 62 per cent of all

insured workers. While coverage was practically universal in the civil service and public utilities, and extensive among private sector employees (95 per cent), it was much more limited in the case of the liberal professions (48 per cent), extremely low for self-employed workers (two per cent) and almost non-existent for farmers. Since most schemes were set up in the 1970s, and had therefore not yet reached maturity, only 38 per cent of pensioners received a supplementary pension on top of their main pension. While two out of three retired employees were recipients of a supplementary pension, this was the case for one in five former members of a liberal profession and only one in 70 retired self-employed workers (no farmers were involved). Benefits were almost randomly set by each social insurance scheme separately, at between 20 per cent and 45 per cent of end-of-career earnings. From an actuarial point of view – that is, taking into account future claims of those currently insured – all supplementary pension funds were in deficit (Matsaganis 2013).

Other Social Benefits

Elsewhere in the system, gaps in the social safety net were considerable. Contributory unemployment insurance paid a virtually flat benefit, of low replacement rate (at average earnings), short duration (12 months maximum) and, inevitably, incomplete coverage. Non-contributory unemployment assistance benefit, targeted on long-term unemployed workers aged over 45, failed to play the major role envisaged when it was introduced in 2001, mainly as a result of stringent eligibility conditions and low take-up rates.

Furthermore, child benefits were substantial only for large families, as were family allowances for core workers. In contrast, the majority of families – those with one or two children – received little or no support, even when they lived in poverty. Public assistance with housing costs was limited. The social rented sector was under-developed, while a means-tested rent subsidy was available on a contributory basis, that is, beyond the reach of most poor families. Short-term benefits in case of sickness or maternity ranged from fairly generous (for labour market insiders) to non-existent (for non-standard workers). Disability benefits were extremely fragmented even by Greek standards, with no fewer than 10 different categories with 22 sub-categories, often hiding absurd examples of differential treatment (for example, in 2011, a blind person received €362 per month if in employment or

education, but €697 if a member of the legal profession). Last but not least, Greece remained the only EU country where a guaranteed minimum income scheme, acting as a social safety net of last resort and providing comprehensive social assistance, was not available, not even on a local or regional basis, as in Italy, Spain and Hungary (Matsaganis 2011). On the whole, the heavy reliance of Greek welfare on contributory social insurance disenfranchises non-standard workers and their families. The risks inherent in that have been fully revealed by the crisis, as hundreds of thousands of workers have lost their jobs and hence access to social benefits for themselves and their dependants.

Poverty Reduction

As a result of gaps in the social safety net, the effectiveness of social benefits in reducing poverty has remained much lower than elsewhere in Europe. As Eurostat data demonstrate, the difference in poverty rates before and after social transfers (excluding pensions) fluctuated around 10 percentage points in the EU15 as a whole, compared to only about three percentage points in Greece. That compared unfavourably with Portugal (poverty rate reduced by around eight percentage points due to social transfers, excluding pensions), and even more with Ireland (16 percentage points in 2010). The performance of the welfare state in reducing poverty improved once pensions were taken into account, but not as much as in the EU15 as a whole, and certainly less than might have been expected given Greece's high spending on pensions.

Health Services

Before the crisis, health care was definitely not under-resourced. Between 2000 and 2009, total health spending went from 8.0 per cent to 10.2 per cent, growing in per capita terms by an average annual rate of 5.7 per cent. In 2010, Greece had the highest number of doctors per capita in Europe (6.1 per 1,000 population), nearly twice the EU average (3.4), as well as the highest number of MRI and CT scanners (and examinations). Pharmaceutical expenditure had risen even more steeply and was now the highest in Europe (per capita, in purchasing power terms). The price for much of this abundance was paid for privately: in 2008, the share of public expenditure on health remained one of the lowest in Europe, while the share of out-of-pocket payments was one of the highest (OECD 2013). In fact, although there was no shortage of

qualified doctors or expensive biomedical technology, the reputation of hospitals remained poor, many Greeks held doctors in low esteem, services were costly to users, while the burden of private health spending fell more heavily on lower income groups (Matsaganis 2012).

Benefit Fraud

Poor administration and loose standards were evident in many policy areas. In March 2012, the government estimated the cost of benefit fraud at over €4 billion, which – assuming the estimate to be accurate – would be equivalent to two per cent of GDP or 13 per cent of all social expenditure. Several factors converged to bring this about. The pervasiveness of a clientelist political culture based on the exchange of favours for votes was one such factor, as demonstrated by the fact that invalidity pensions in Crete (traditional battleground of rival political factions) were twice as common as elsewhere in the country. The complicity, often morphing into full-blown corruption, of medical doctors and local administrators sitting on committees processing disability claims, was another. Low levels of *civicness* and a widespread attitude of mutual suspicion between citizens and the state did the rest.

Assessment: The Welfare State on the Eve of the Crisis

As this brief outline suggests, the Greek welfare state was singularly unfit for the crisis. In fact, when the crisis did arrive, the policy response initially merely involved a string of special support schemes, targeting existing benefit recipients to whom a few hundred euros were paid as a lump sum. Then came the May 2010 bailout package, and social policy (like all public policy) came under strict international supervision.

5.2 The Welfare State under the Crisis

The crisis and the policy measures to counter it are profoundly affecting the welfare state. Change is occurring in at least two ways. On one hand, *fiscal consolidation* – that is, the attempt to reduce budget deficits through austerity policies – may deprive the welfare state of precious resources; unless, of course, special care is taken to protect social benefits and services. On the other hand, the crisis may act as a catalyst for change: a »critical juncture« (Pierson 2004) that makes reforms more urgent than ever and sets in motion far-reaching transformations.

Changes in Unemployment Benefits

During the crisis, social insurance organisations were caught between a rise in benefit claims and a fall in contribution income. In this context, the Public Employment Service (OAEΔ), responsible for unemployment benefits, failed to respond to the prolonged recession by temporarily relaxing the eligibility conditions for unemployment benefits, and/or by extending their duration, as happened in Germany, Italy and several other countries.

As regards contributory unemployment insurance (ordinary unemployment benefit), eligibility conditions were tightened up as a result of the ceiling, introduced in 2011, on the total number of days a worker can claim unemployment benefit over a period of four years: that number was set to be 450 days from 1 January 2013 and 400 days from 1 January 2014. Furthermore, as a result of sweeping changes concerning the minimum wage, the benefit level paid under unemployment insurance was cut in February 2012, from €454 to €360 per month.

On the other hand, unemployment insurance was extended to self-employed workers. The categories involved are mainly own-account and freelance workers in various professions. Claimants are required to have ceased their activity not earlier than 1 January 2012, to have regularly paid social contributions for at least 12 months out of a total insurance period of at least three years before then and to have settled any social security contributions owed. Income conditions must also be met (annual personal income below €10,000 and annual family income below €10,000, averaged over the two years prior to claiming). The benefit level is €360 per month, paid for a period of three to nine months, depending on contributory record. Applications for the new benefit started in April 2013. By July 2013, the number of successful applicants was 4,281.

As regards non-contributory unemployment assistance (long-term unemployment benefit), the benefit rate remained €200 per month (unchanged in nominal terms since 2003), while the maximum duration remained 12 months. On the other hand, eligibility conditions were extended. In January 2012 the annual income threshold below which the benefit may be granted was raised from €5,000 to €12,000. Under the terms of the 2013–2014 Spending Review, the annual income threshold will be reduced to €10,000 from January 2014, but the benefit will be available to all low-income long-term unemployed workers aged between 20 and

66 (compared to those aged between 45 and 65 as is the case now). Nevertheless, an annual cash limit of €35 million will restrict the number of beneficiaries to a maximum of about 14,500 recipients, far short of the number of unemployed workers in low-income families.

Against a background of rising unemployment, benefit coverage remained low. In the case of unemployment insurance, while the number of those unemployed for less than 12 months (to whom this benefit is targeted) rose from 320,000 in the first quarter of 2010 to 454,000 in the first quarter of 2013, the number of benefit recipients actually fell (from 274,000 to 233,000). As a result of which the coverage rate fell from 86 per cent to 51 per cent.

In the case of unemployment assistance, the number of benefit recipients increased from below 1,000 until 2009 to 3,000 in 2011 and, as a result of changes in eligibility conditions, to just over 20,000 in 2012. However, given that the number of the long-term unemployed (to whom this benefit is reserved) went up from 282,000 in 2010 to 713,000 in 2012, the coverage rate increased only from 0.7 per cent in 2010-2011 to 2.8 per cent in 2012. Under the cash limit discussed above, from 2014 the coverage rate is expected to fall further.⁷ While not all those concerned are poor, it is difficult to see how anyone can argue that paying €200 per month for no longer than 12 months to such a low proportion of the long-term unemployed amounts to adequate income support.

Overall in the first quarter of 2013 the proportion of unemployed workers drawing any unemployment benefit was below 19 per cent.

Abolition of Housing Benefit

A means-tested rent subsidy was provided on a contributory basis by the Workers' Housing Organisation (OEK) until 2010, when it was suspended. OEK faced the same difficulties (dwindling receipts, soaring expenditures) as all social insurance organisations. What apparently made rent subsidy vulnerable was the fact that most recipients

were non-Greek (even though in most cases fully meeting contributory and other conditions).⁸ Rent subsidy in its current form was abolished in 2012, when OEK ceased to exist. Plans for a broader-based means-tested housing assistance scheme have been announced, to be introduced »when fiscal constraints allow.«

Cuts in Pensions

As a result of several policy measures, pensions (especially higher ones) have been reduced significantly in nominal terms. The 2010 abolition of the thirteenth and fourteenth monthly instalments cut pensions across the board. In an attempt to soften the blow on the poor elderly, a flat-rate vacation allowance of €800 per annum was paid to pensioners aged over 60 whose pension did not exceed €2,500 per month. However, the vacation allowance was eventually abolished altogether (in 2013). In contrast, the 2010 *Pensioners Solidarity Contribution* amounted to a progressive tax on pensions: it exempted those below €1,400 per month, while those over €3,500 per month were subject to a contribution rate of 10 per cent. Contribution rates for those on higher pensions were drastically increased in 2011 (for example, to 24 per cent for pensioners aged below 60 with pensions over €3,500 per month), but those below €1,400 per month remained exempt. A similar instrument applying to supplementary pensions was introduced in 2011.

Ad hoc cuts in pensions have taken place several times in the past three years. In 2011, pensions over €1,200 per month were cut by 20 per cent (40 per cent for pensioners below the age of 55). In 2012, all pensions over €1,300 per month were cut by 12 per cent. Under the terms of the 2013–2014 Spending Review, pensions were cut again, albeit again in a fairly progressive manner. Pensioners below €1,000 per month were not affected, but everybody else lost between five per cent and 30 per cent of their pension income (the 30 per cent cut applied to those above €3,000 per month).

The cumulative impact of these changes depended on a variety of factors, such as age, social insurance affiliation, benefit level. Government officials have calculated that

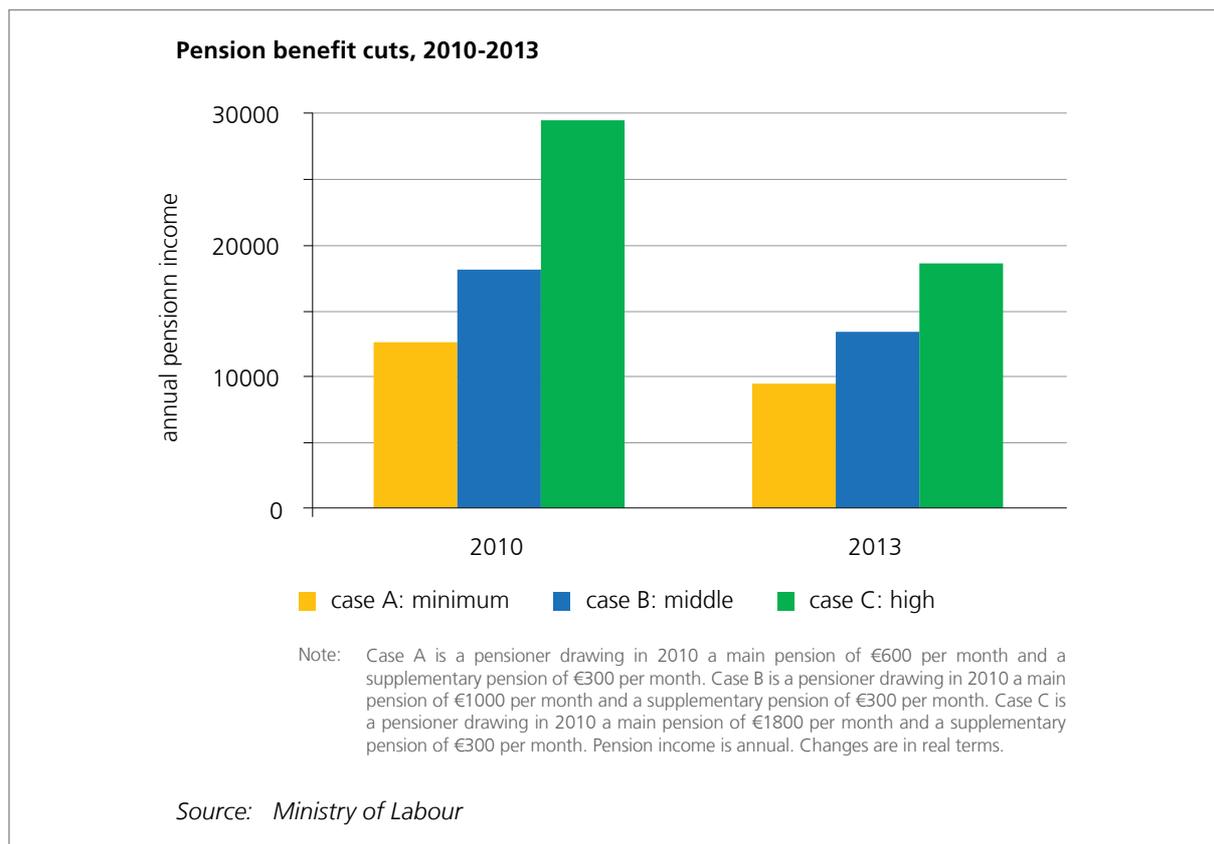
7. Note that the take-up rate is also low. The number of unemployment assistance recipients in 2012 (20,196) corresponded to 10.6 per cent of the 190,390 persons theoretically eligible for the benefit, estimated using EUROMOD. As from 2014 the benefit will be extended to persons below 45 years of age, the number of those theoretically eligible for benefit will increase. Short of a miraculous decline in long-term unemployment, this will render the ceiling of 14,500 recipients terribly inadequate.

8. This was not the only case of 'selectivity by ethnic group': a clause explicitly designed to exclude recent immigrants ('a minimum 10 years of permanent and continuous residence in Greece') was added in February 2011 to the eligibility conditions for benefits to large families.

low-income pensioners drawing, in 2010, a main pension of €600 and a supplementary pension of €300 (over 14 months) ⁹ would end up in 2013 with a total pension income of €825 (over 12 months), a cut of 24.5 per cent in real terms. In the case of higher-income pensioners (on a main pension of €1,800 plus a supplementary pension of €300 over 14 months in 2010) ¹⁰ the cut

would be greater (36.8 per cent in real terms), as their total pension income in 2013 would fall to €1,610 per month over 12 months.

In spite of the above, pension spending as a proportion of GDP has continued to rise, from 14.3 per cent in 2009 to an estimated 15.8 per cent in 2013.



Pension Reforms

The July 2010 reform was the first significant attempt to restructure pensions since the early 1990s. The broad outline of the law had been laid out in the Memorandum agreed by the Greek government and the international Troika of donors (the EC, the ECB and the IMF) in May 2010. The reform, widely criticised as neoliberal, did indeed imply lower pension benefits and a higher age

of retirement for all, especially for some of the privileged groups accustomed to getting much more in benefits than they had ever paid in contributions.

Nonetheless, in terms of structure, the reformed system, to be introduced from 2015, might almost be described as Scandinavian (Matsaganis and Leventi 2011).

Specifically, the reform introduced a quasi-universal basic pension and a contribution-related proportional pension. The latter will be calculated as lifetime earnings multiplied

9. In 2010, this was approximately the level of a contributory minimum pension plus a minimum supplementary pension. However, note that the pension income of over two thirds of all pensioners in the same year was below that level (because they were eligible either for a low main pension but not a supplementary one, or for a widow pension, or for a farmer basic pension, or for a social pension).

10. Note that only 6.5% of pensioners in 2010 had a higher pension income than that.

by annual accrual rates multiplied by the number of insurance years. To enhance incentives, accrual rates increase with career length, from 0.8 per cent per year for workers with fewer than 15 insurance years, to 1.5 per cent per year for those with 40 or more insurance years. The risk is that low-paid workers, with loose attachment to the labour market and uncertain career prospects, might see little point in paying contributions and hence face poverty in old age. The basic pension was set at a modest €360 per month (in 2010 prices). Access conditions fell short of full universality: those failing to meet the contributory conditions for a proportional pension will have to pass an income test as well as a residence test.

To allay fears that the new structure may not amount to much in practice, a new minimum pension was also introduced as a further safety net. Specifically, for those retiring with an insurance record of at least 15 years, the sum of basic plus proportional pension cannot be less than the equivalent of 15 minimum daily wages (in 2015). Nevertheless, the 2012 cut in the minimum wage has reduced the value of that threshold from €496 per month in 2010 (when the reform was introduced) to €393 per month at present (in other words, little over the value of the basic pension).

Inequalities in treatment were limited but not fully abolished. Against the advice of the Troika of donors, the reform accommodated the demands of the liberal professions (medical doctors, law practitioners and engineers), press workers and Bank of Greece employees to preserve their own separate schemes, effectively opting out of the reformed system. Moreover, it also protected the acquired rights of public utility workers and banking employees hired before 1983, and those of uniformed workers (the police, military and so on), irrespective of date of entry. Finally, the reform did not at all affect farmers, whose contributory pension has been phased in (since 1998) on more favourable terms.

Otherwise, the 2010 pension reform raised the age of retirement for those eligible to retire from 2011 onwards. More recently, under the terms of the 2013–2014 Spending Review, the statutory retirement age for future cohorts of pensioners was raised further by another two years (except for mothers of young children), while the minimum age for access to means-tested Pensioners' Social Solidarity Benefit (ΕΚΑΣ) was also raised, from 60 to 65 years.

Supplementary pensions had escaped policymakers' attention for a long time and were left unaffected by the 2010 pension reform. However, by 2012 supplementary pensions were more unsustainable and inequitable than main pensions had been before the 2010 reform.

Social insurance organisations paying a supplementary pension were originally set up to be self-funded: employee and employer contributions would pay for pension benefits, requiring no state subsidy. However, with a typical contribution rate of three per cent plus three per cent of current earnings, and a benefit rate of 20 per cent to 45 per cent of end-of-career earnings, it was only a matter of time before the relevant schemes got into serious trouble.

A reform of supplementary pension schemes »designed in consultation with the European Commission, ECB and IMF staff« made it to the statute books in 2012. Its objective was to »stabilise pension expenditure, guarantee the budgetary neutrality of these schemes, and ensure medium- and long-term sustainability of the system« (IMF 2012).

The reform merged all existing schemes into a single supplementary pension scheme (ΕΤΕΑ), refashioned as a »notional defined contribution« system. Individual benefits will be calculated on the basis of a notional rate of return (linked to the rate of growth of the wage bill of insured workers), and a sustainability factor (adjusting benefits in light of demographic trends to eliminate future deficits), both to be periodically revised by the National Actuarial Authority. The new system will apply to all future recipients of supplementary pensions, with older workers enjoying a smoother transition: for those who entered the labour market before the end of 2000, the new method for calculating entitlements will be introduced on a pro rata basis, for contributions paid from 2015. In view of that, the 2012 reform of supplementary pensions also had a strong Scandinavian flavour, given that notional defined contributions are the key feature of the Swedish pension system after its »path-breaking« reform in the mid-1990s (Palmer 2002).

On the whole, the 2010 reform of main pensions and the 2012 reform of supplementary pensions are expected to contain the growth in pension expenditure. While earlier projections of pension spending (CEC 2009) suggested that it would reach 24.0 per cent of GDP in 2050 and 24.1 per

cent in 2060, a more recent report (CEC 2012) estimated that, following the two reforms, it would rise less steeply to 15.4 per cent of GDP in 2050 and 14.6 per cent in 2060.

Health Reforms

The most significant development in health policy was the 2011 attempt to reduce the fragmentation of social health insurance through the amalgamation of the four largest sickness funds, covering over 90 per cent of the population, into a National Organisation of Health Service Provision (ΕΟΠΥΥ). The new organisation is responsible for providing primary care, including diagnostic tests and pharmaceuticals prescribed outside hospitals. Its funding, as in the constituent sickness funds, comes mainly from employee and employer contributions, supported by a state subsidy set at 0.6 per cent of GDP annually. A further cash injection of €1 billion per year is to be added in the transitory period, to account for the costs of providing primary care to farmers, hitherto only eligible for visits to out-patient hospital departments and rural health centres. Nevertheless, as it has turned out, cash flow is seriously disrupted by the inability (or unwillingness) of sickness funds to pass on contribution income to ΕΟΠΥΥ, and by the state subsidy being lower than laid down by law.

The ΕΟΠΥΥ reform provoked some controversy as regards the remuneration of medical doctors. Eventually, doctors were allowed to practice privately, and to work part-time for the organisation, providing patients with a maximum of 200 consultations per month free of charge, in return for a fee of €10 per visit. Because of this unusual arrangement, access to public provision is compromised as soon as the agreed number of free visits per doctor was exceeded.

Pharmaceutical policy was another target for reform – quite understandably, as the relevant expenditure increased from 1.5 per cent of GDP in 2000 to 2.8 per cent in 2009. Reforms in pricing and reimbursement of prescription medicines were promptly introduced, while the commitment not to allow public expenditure on pharmaceuticals to exceed the European average of one per cent of GDP was enshrined in the 2010 Memorandum.

As a result of these changes, reinforced by the reduction in many patients' disposable income, total expenditure on pharmaceuticals fell to 2.6 per cent of GDP in 2011.

On the whole, between 2009 and 2011 public spending on health was reduced by 24.3 per cent in real terms, while total spending (which includes private expenditure) declined by 21.0 per cent (OECD 2013).

Has the decline in health spending translated into efficiency savings? Or has it resulted in gaps in coverage and barriers to access? As can be seen from above, given the extent of waste and inefficiency before the crisis, the scope for efficiency improvements was great. Nevertheless, as discussed earlier, there is evidence that access to health care has worsened in recent years, as funding cuts and service reorganisation have disrupted provision for many patients.

In particular, co-payments and user charges for prescription medicines (the difference between actual and reference prices reimbursed by sickness funds, plus an additional fee of €1 per prescription from 2014), for consultations with ΕΟΠΥΥ doctors (full cost of visit when the maximum number of consultations per month has been exhausted), for visits to health centres and hospital out-patient services (raised from €3 to €5 per visit in 2011), or for admissions to public hospitals as in-patients (€25 per admission from 2014), have shifted more of the cost of health care to patients themselves.

Available data from the early phase of the crisis already show the share of out-of-pocket payments in total health expenditure had gone up, from 28.0 per cent in 2009 to 30.5 per cent in 2011 (OECD 2013), while World Health Organization data raise that figure to 38.4 per cent in 2010. Given that these figures do not capture recent developments, such as those reviewed here, it seems fair to conclude that access to affordable health care – in spite of the rhetoric, never fully achieved in Greece – has been seriously compromised as a result of funding shortages and other policy responses.

Loss of Health Insurance

There is evidence that many thousands of workers and their dependants are losing coverage (at least temporarily), either because they are unemployed, or in undeclared work, or because they are unable to pay their health insurance contributions.

Between 2008 and 2012, the number of active contributors eligible for health insurance in the two largest social

insurance organisations – IKA (insuring employees in private firms) and OAEE (insuring own-account workers except professionals) – declined by around one-third. The total number of those no longer eligible for health insurance (just over 900,000 workers) is greater than the increase in the number of the unemployed (824,000 workers). This reflects the fact that many self-employed workers are in arrears with their social contributions and therefore ineligible for health insurance. Note that the above figures do not include dependants, who may or may not be eligible for health insurance in their own right. Recent policy responses include the extension of eligibility for social health insurance to unemployed workers. Nevertheless, the estimated number of beneficiaries (15,000) falls well short of that of persons in need. A similar scheme applied to self-employed workers aged 30 and above, provided they meet a more demanding contributory condition. Moreover, uninsured persons with annual family income below €5,000 were eligible for free access to state hospitals, health centres and prescribed medicines. It is unclear how many persons were covered under those schemes.

Finally, a more ambitious scheme was announced in August 2013. Unemployed workers with annual personal income below €12,000 (if single) and annual family income below €25,000 (if married), who have lost their insurance coverage, can apply for a health voucher giving them access to a number of medical visits and diagnostic tests. The scheme aims to cover 230,000 persons and will be co-funded by the European Commission.

Dealing with Benefit Fraud

In response to concerns about extensive benefit fraud, several periodic censuses of pensioners and other benefit recipients have been carried out since 2011, while procedures for awarding benefits have been tightened up. This has led to certain well-publicised cases of disability benefits and invalidity pensions paid to bogus recipients, and of old-age pensions paid to the relatives of deceased pensioners. Nevertheless, this made less difference to number of recipients than might have been hoped. Disability benefit recipients, who numbered 205,000 in 2010 (from 122,000 in 2000), fell to below 195,000 in 2011 and 2012, that is, by around 10,000 or

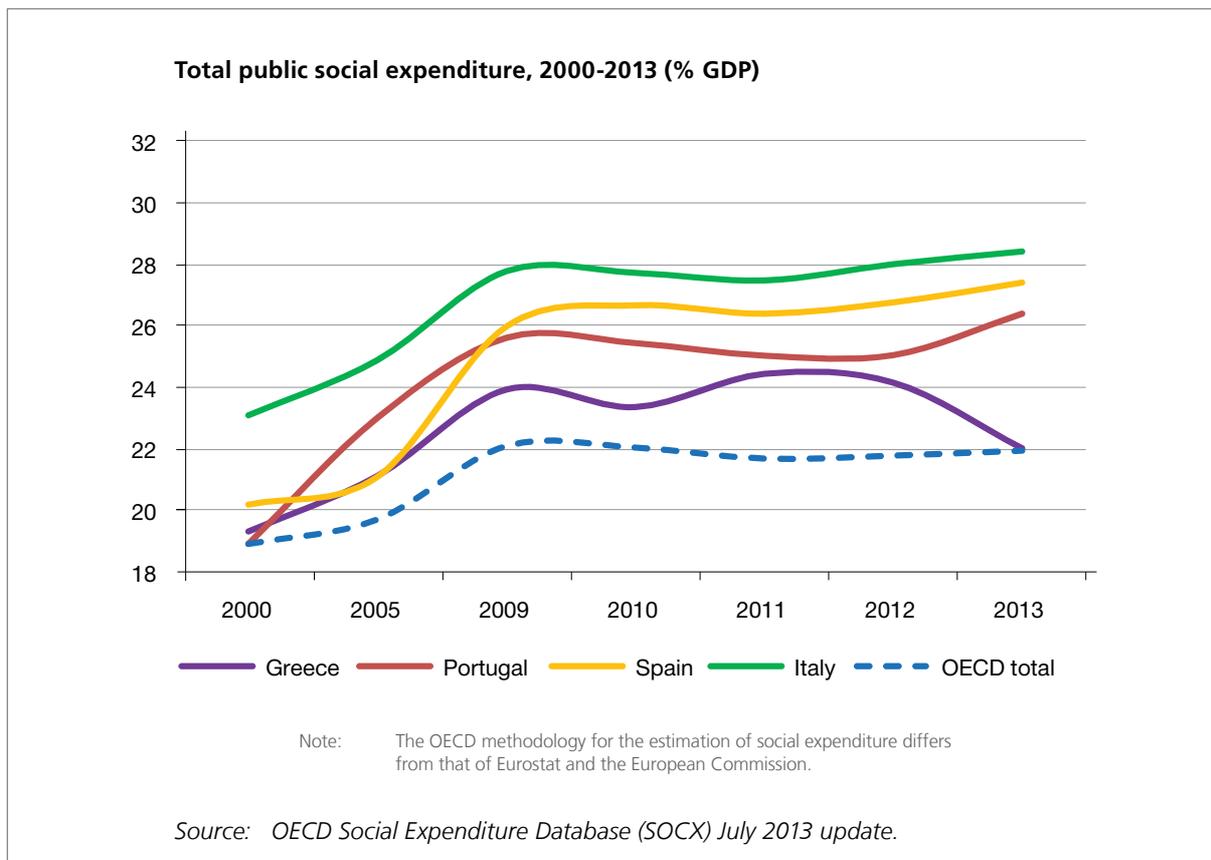
five per cent relative to 2010. Similarly, the total number of pensions withdrawn because of suspected fraud – that is, when recipients failed to turn up at the census despite repeated invitations – reached 36,000 in April 2012, or about 1.4 per cent of all pensioners. A census of survivor pension recipients was ongoing at the time of writing, with another 10,000 persons failing to turn up so far.

Strengthening the Social Safety Net?

As shown above, the social safety net suffers from poor administration, differential treatment and significant coverage gaps. In view of that, international organisations such as the OECD and the IMF have urged a radical overhaul of existing benefits. Aiming to improve anti-poverty performance at the same time as achieving fiscal savings, the creation of a leaner but more effective social safety net has been recommended, essentially made up of a small number of broad-based, well-targeted social benefits.

With the blessing of the Troika of donors, the 2013–2014 Spending Review allowed some scope for policies to strengthen the social safety net, even as it explicitly targeted social transfers.¹¹ More specifically, four policies improving social protection were to be introduced, with strict cash limits attached: unemployment protection extended to the self-employed, and broader eligibility conditions for unemployment assistance (both discussed above), plus a new means-tested child benefit, and a minimum income experiment to take place in 2014 in two local areas. These measures, though welcome, look decidedly unimpressive. The balance of *retrenchment* versus *expansionary* policy changes remains overwhelmingly tilted towards the former. For each €100 saved as a result of cuts in pensions and other social benefits under the 2013–2014 Spending Review, less than €5 is being *reinvested* in the four policies for improving social provision mentioned above.

11. Under the 2013–2014 Spending Review, €6.1 billion (3.23% of GDP) worth of savings were to be achieved through massive cuts in pensions and other social benefits, and another €0.7 billion (0.38% of GDP) through increases in social insurance contributions. This did not include further funding cuts in social services, which were also planned (IMF 2013).



As a result of the above, as recent OECD estimates show, while in the early years of the crisis social expenditure in Greece rose a little as a proportion of GDP (from 23.9 per cent in 2009 to 24.4 per cent in 2011), it then began to fall steeply (to 22.0 per cent in 2013).

This suggests that the provision of social protection was cut back just as the need for social protection became greater than ever before. As a matter of fact, reductions in social spending were greater than reductions in GDP (-27.2 per cent vs. -20.9 per cent in real terms in 2009-2013).¹²

12. In the other South European countries hit by the crisis (including Spain and Portugal) social expenditure has continued to grow as a proportion of GDP, even though the recession is not as severe as in Greece. The case of Ireland is also different: there social expenditure first rose as the recession deepened, then fell as the economy improved. See OECD Social Expenditure Database (SOCX) July 2013 update. Note that the OECD methodology for the estimation of social expenditure differs from that of Eurostat and the European Commission.

Assessment: The Political Economy of Welfare Reform

How can the experience of welfare reform in Greece since the onset of the debt crisis in 2009 be summarised? With no exceptions, reforms were forced on reluctant governments, on an ill-prepared public administration, on hostile interest groups and on a (at best) suspicious public from above, by the Troika. The fact that domestic actors reacted furiously or passively to reforms limited the latter's appeal and legitimacy. Moreover, having wasted the long years of rapid growth, reforms had to be implemented at the same time as funding cuts, reducing policymakers' room for manoeuvre and their capacity to absorb the frictions inevitably created as welfare programmes moved away from the status quo ante towards a new equilibrium. On balance, more progress was made where cash benefits (especially pensions) were concerned, while changes were less successful in policy areas (notably health) involving service provision.

Furthermore, even though the *retrenchment* of some social programmes can certainly be viewed as necessary to

eliminate inequalities in treatment and hence to *recalibrate* the welfare state towards new social risks and in favour of less protected categories, a certain asymmetry can easily be identified. Cuts have been deep and systematic, but reforms that restore equity as well as efficiency have been pursued less consistently, while measures to strengthen the social safety net have been rare.

On the whole, for all the rhetoric of political actors at home and international organisations abroad concerning the priority that must be afforded to softening the social effects of the economic crisis, the record so far can only be described as disappointing in the extreme. As things stand now, nothing short of a concerted effort to tighten the social safety net and to compensate the weakest groups for their losses will go anywhere near addressing Greece's new social question.

6. Policy Responses II: The Labour Market

A key feature of the Greek labour market is its high degree of segmentation. On one hand, jobs in the public sector provide family wages, generous social benefits, lax work practices and absolute employment protection. However, as a result of partial privatisation and liberalisation of the respective sectors, the degree of hyper-protection is being reduced (especially for younger and/or newly-hired workers).

On the other hand, for the overwhelming majority of Greek workers, typically employed in small firms, jobs pay on average less, and come with less generous benefits and reduced employment protection. What is more, in certain sectors of the economy (such as the construction industry, tourism and other services) informal employment is the norm, allowing many employers to flout regulatory constraints in the form of dismissal protection, minimum wage and social insurance.

Over the past three years, the Greek labour market has become more flexible for firms but considerably less secure for workers. Industrial relations have deteriorated and collective bargaining has virtually been abandoned. Set against a background of mass unemployment and low unionisation outside the public sector (to be analysed shortly), the crisis has shifted the balance of power at workplaces further

against workers. The key changes as regards industrial relations and the regulation of the labour market can be summarised as follows.

Employment Protection Legislation

A battery of legislative changes has significantly reduced firing costs. In 2010 the threshold at which dismissals are considered collective was raised (e.g. for firms with 20-150 employees: from four to six dismissals per month). Moreover, the length of notice required prior to dismissal was shortened considerably for white-collar workers, and severance pay was reduced for all workers. On the other hand, the length of trial period for the newly-hired workers was increased (from two to 12 months). In 2011 the maximum duration of fixed-term contracts before they are automatically converted into indefinite-duration contracts was extended to three years; otherwise, their renewal without restriction was allowed when certain circumstances prevail. Furthermore, the scope for temporary work was extended, as was its duration (from 18 to 36 months, or indefinitely if contracts are separated by a 23-day interval). Finally, an earlier provision under which employers were required to pay part of unemployment benefit in case of dismissals arising from mergers or acquisitions was abolished in 2012.

Collective Bargaining

The scope of the national general collective agreement was restricted in 2012. Since then, its terms no longer apply to employers who are not members of signatory organisations. At the same time, the national minimum wage (apart from being cut drastically) was made statutory, and hence no longer a matter for the social partners to determine in the context of the national general collective agreement. Moreover, the maximum length of collective agreements was limited to three years: if no new collective agreement is signed within a three-month period following expiration, only the basic wage plus certain basic allowances will be extended (rather than the full contract, as was previously the case). On the other hand, since 2012 recourse to arbitration can take place only with the consent of both employers and unions.

Furthermore, decentralised collective bargaining was made easier in 2011, as firms were allowed to opt out from agreements with craft unions and to sign their own collective agreements with a firm-based *association of*

persons. The latter can be created if at least 60 per cent of all employees agree, irrespective of firm size (earlier legislation only allowed this for firms with fewer than 40 employees). The decision to limit the autonomy of social partners and extend the scope of *associations of persons* has been met with concern by the International Labour Organization, made public in a high-level mission to Greece in September 2011 (ILO 2011):

»Legislative interventions in the freedom of association and collective bargaining regime ... raise a number of questions in particular with regard to the need to ensure the independence of the social partners, the autonomy of the bargaining parties, the proportionality of the measures imposed in relation to their objective, the protection of the most vulnerable groups and finally, the possibility of review of the measures after a specific period of time [...] The High Level Mission must express its deep concern at the further developments in this area which took place after its visit, and in particular the provisions of Act No. 4024 of 27 October 2011, empowering associations of persons to conclude collective agreements at enterprise level. The High Level Mission understands that association of persons are not trade unions, nor are they regulated by any of the guarantees necessary for their independence. The High Level Mission is deeply concerned that the conclusion of »collective agreements« in such conditions would have a detrimental impact on collective bargaining and the capacity of the trade union movement to respond to the concerns of its members at all levels, on existing employers' organizations, and for that matter on any firm basis on which social dialogue may take place in the country in the future.« (ILO 2011: 58–59)

Working Time

Resort to short-time (intermittent) working was made easier for employers in 2010, while at about the same time the maximum duration of the period involved was extended from six to nine months. Also, employers wishing to split an employee's annual leave into two or more parts no longer need the approval of the Labour Inspectorate. Furthermore, the overtime premium was reduced (for example, from 75 per cent to 60 per cent of normal pay for overtime in excess of 120 hours a year). Other legislative changes allowed the working time to be averaged out on an annual basis, to match fluctuations in demand. In the case of the retail sector,

the 40-hour working week (which was retained) can now be spread over more than five days (which was not allowed previously). Finally, pay for part-time work has been made strictly pro rata, as the premium for a shorter working day was abolished.

Wage Costs

As explained earlier, in 2012 the national minimum wage was cut by 22 per cent in nominal terms, while the introduction of a sub-minimum wage resulted in a 32 per cent cut in the case of workers below 21 years of age. Moreover, all allowances resulting in a higher minimum wage were abolished, with the exception of seniority allowance. Finally, a simplified remuneration system for public sector employees was introduced in 2011, strengthening the link of pay to performance and correspondingly weakening the link of pay to seniority.

Non-wage Costs

Social insurance contributions to the unemployment fund of the Public Employment Service (OAEΔ) were increased in July 2011 by 0.5 percentage points, while a flat-rate contribution (€10 per month) paid by the self-employed was introduced for the same purpose. On the other hand, in November 2012 the abolition of certain tripartite agencies such as the Workers' Housing Organisation (OEK) resulted in the reduction of social insurance contributions by 1.1 percentage point. Finally, the cap on social insurance contributions for workers who entered the labour market before 1992 was raised significantly (from €2,432 to €5,544) and is now in line with the cap for workers who entered the labour market after 1993.

Active Labour Market Policies

Active labour market policies, mainly in the form of a variety of vocational training and other programmes co-funded by the European Social Fund (ESF), have become prominent in recent decades. However, concerns about the effectiveness of programmes remain. Carefully designed studies are required to assess the effectiveness of specific labour market programmes in achieving job creation or retention, net of displacement effects (when programme participants simply displace non-participants, rather than creating and maintaining additional jobs). For the time being, such studies are not available. Past attempts to ensure that participants are

followed up after the programme has been completed have encountered strong resistance on the part of programme operators, and were abandoned to ensure that the absorption rate (the proportion of available ESF funds spent) did not deteriorate.

Undeclared Work

Undeclared work is obviously of concern because it deprives the Treasury of tax receipts and social insurance organisations of contributions due. It also deprives the workers concerned of social rights, as it erodes their eligibility for contributory social benefits, such as pensions and health care. As discussed earlier, there is evidence that access to health care has become difficult for workers (and their dependants) who have lost their job, or have failed to keep up with paying social contributions.

By its very nature, the extent of the phenomenon is a matter of considerable uncertainty. Recent studies provide conflicting evidence. The proportion of employees found not to be regularly insured in firms investigated by the Labour Inspectorate has steadily increased in recent years, from 25 per cent in 2010 to 30 per cent in 2011 and over 36 per cent in 2012. However, it has been argued that these figures overestimate the real extent of informality, because of selection bias and a shrinking sample (Kanellopoulos 2012). In fact, Labour Force Survey quarterly data suggest that the share of uninsured workers in all employees in private sector firms, having risen gradually from around seven per cent in 2004 to a peak of 9.5 per cent in the last quarter of 2009, declined thereafter, falling below eight per cent in 2012. The effect of the crisis on undeclared work is difficult to determine. On one hand, falling demand provides employers (and sometimes employees, too) with incentives to save on social contributions. On the other hand, the recession has hit harder some sectors where undeclared work was widely thought to be more extensive (for example, construction, domestic work and so on).

Policy responses include a new law (introduced in April 2013), aiming to combat undeclared work by reinforcing the capacity of the Labour Inspectorate, by encouraging closer cooperation with the police (Economic and Electronic Crime Division) and by introducing heavier fines for employers who use unemployment benefit as a wage subsidy (€3,000, raised to €5,000 if the worker had previously been laid off by the same employer).

Unions

The typical union member – and especially union leader – in Greece is a tenured public sector worker, member of a special social insurance scheme, predominantly male, middle-aged and exclusively Greek. In contrast, the typical worker is younger, employed (often flexibly) by private firms, insured with the general social insurance scheme, in an increasingly feminised and multi-ethnic work force. Compared to their European counterparts, Greek unions appear to be more unevenly spread between different segments of the labour market and to have suffered a steeper fall in union density in recent decades. Outside the enclaves of the civil service, banking and the public utilities (in other words, in the private firms employing the overwhelming majority of all wage earners), union density is very low (15.6 per cent in 2004). These were the main findings of earlier research on union membership at the grassroots and at leadership level (Matsaganis 2007).

More recent data confirm this picture. In 2011 the union density rate – that is, the number of union members in employment as a proportion of wage and salary earners – was 25.4 per cent in Greece, lower than in Italy (35.2 per cent) but higher than in Spain and Portugal (15.6 per cent and 14.1 per cent respectively; data for 2010). Nevertheless, great imbalances persist: 56.0 per cent of all union members in Greece were civil servants or other public sector workers. As a result, the union density rate was 64.7 per cent in the public sector, compared to 14.3 per cent in private firms.¹³

In this context, many non-standard workers are exposed to what can only be called blatant exploitation on the part of employers. Anecdotal evidence shows that unpaid overtime work has become the norm, even in major banks and other reputable firms. More vulnerable workers (such as immigrant women) are required to sign a statement on being hired that they receive pay at the statutory minimum plus bonuses and other benefits as set out by labour legislation, whereas in fact none of this is true. At an extreme, those refusing to accept such terms, or attempting to organise their fellow workers in

13. See ICTWSS Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (Version 4 – April 2013), compiled by Jelle Visser at the Amsterdam Institute for Advanced Labour Studies (AIAS).

any sort of union activity, are known to have suffered dismissal, intimidation or worse.¹⁴

Unions have tended to take a maximalist stance on a variety of issues, bitterly resisting any suggestion of reform on the part of governments, including fairly egalitarian projects (such as the failed attempt of the Simitis government to reform pensions in 2001). Since 2010, they have been among the most vociferous opponents of fiscal consolidation, often resorting to inflammatory rhetoric. However, union intransigence has proved counterproductive, as their refusal to engage with the issues raised by the government or the Troika has rendered them predictable and rather ineffective as political actors. At the same time, their attachment to a shrinking segment of the labour market (the public sector), and their distance from the concerns of ordinary workers (except at the level of rhetoric), threatens to render them irrelevant as social actors.

Given the recent shift in power further against them at workplaces, Greek workers need unions more than at any other time since 1974. However, in order to respond to the needs of workers, and stem their own decline, Greek unions need to reinvent themselves.

Assessment: The Political Economy of Labour Market Reform

The extreme segmentation of the Greek labour market leaves plenty of scope for progressive reform to increase efficiency as well as equity. Such reform would increase flexibility and eliminate excess privileges for core workers, and at the same time improve employment security and

14. One case in particular has become emblematic: »Konstantina Kuneva, a Bulgarian migrant worker and trade union leader, aged 45, was severely injured in the Greek capital, Athens, on 22 December 2008 after being subjected to a sulphuric acid attack by unknown men, as she returned home from work. She lost her sight in one eye, has limited vision in the other, and her larynx, oesophagus and stomach were seriously damaged. A history teacher by profession, Konstantina Kuneva moved to Greece in 2001 to earn money for medical treatment for her son. While working as a cleaner, she participated in trade union activities, eventually becoming Secretary of the Attica Union of Cleaners and Domestic Workers. The attack followed a period of rising tension between Konstantina Kuneva and her employer, during which she had received anonymous threats by telephone.« The Kuneva case became the focus of the 'Individuals at Risk' campaign launched by Amnesty International. The text above is an excerpt from the 'writing letter marathon' material dedicated to the case. (Available on <http://www.amnesty.org/en/library/asset/EUR25/010/2009/es/dea9a7a9-0683-4fae-ad74-af4a13c4e523/eur250102009en.pdf>) Note that Konstantina Kuneva's employer was a firm providing contracted-out cleaning services to the state urban railways ΗΣΑΠ. Almost five years on, her case remains unsolved.

social protection for non-standard workers. As it turned out, such proposals for progressive reform along these lines were never seriously pursued, or at least not with the required force and conviction.

As the review above suggests, the labour reforms that have been introduced on the insistence of the Troika stress flexibility alone. As is clear, this approach differs radically from the *flexicurity* paradigm, as invented by progressive governments in the Netherlands and Denmark, and promoted by the European Union.

Apart from obvious equity concerns, this could also have adverse implications for efficiency. The modernization of Greece's antiquated model of production, on which a future recovery depends, will not be achieved through greater flexibility alone. On the contrary, low wages and a deregulated labour market are likely to extend for a while the life of uncompetitive and otherwise unviable firms.

Furthermore, as recent research shows (Baker et al. 2005), the case for flexibility appears to be greatly overstated. The only labour market institution that has been demonstrated to have a significant impact on labour market outcomes – that is, jobs and earnings – is centralised collective bargaining, and its effect is beneficial. As shown above, recent legislation has limited the scope for collective bargaining, and has undermined the position of unions.

In light of the above, recent reforms weakening labour market institutions appear to be driven more by ideology than by pragmatism. However, in order to improve outcomes in terms of employment and wages, the labour market ought to be re-regulated rather than further deregulated. Making work more secure for workers, while retaining some aspects of flexibility, is feasible and necessary. Given the recent stress on flexibility, priority should now be given to improving security. This will require policies to reduce segmentation, to combat undeclared work and bogus self-employment, to extend basic social and labour rights to informal workers and others in insecure jobs and to encourage employer associations and labour unions to enter into constructive dialogue in order to rebuild industrial relations.

7. Policy Responses III: Public Administration

Historic Traits

A comprehensive review of public administration in Greece (OECD 2011), widely seen as among the most successful of its kind in recent years, listed the main issues as follows: absence of an overall strategic vision to provide purpose and direction; pervasive corruption linked to the political and public administration culture, and its opaque, entangled systems; very little coordination and no joined-up government, compromising those reforms that need collective action (most of them); major and debilitating weakness with respect to implementation; a culture that favours regulatory production over results; crucial shortcomings in data collection and management, standing in the way of effective and evidence-based reforms; and a complex legal framework that discourages initiative, puts the focus on processes rather than policy, and blocks reform progress.

These views resonate with earlier analyses of the legalistic formalism and low efficiency of Greek public administration, resulting from long-term patterns of *dirigisme* (that is, heavy involvement of the state in the economy), centralising tendencies and patronage in recruitment. As a recent paper argued, previous attempts to reform public administration by governments largely failed to produce the intended improvements, as they stumbled against a general reluctance to part with old ways, were absorbed by the prevailing legalistic administrative culture and tended to remain symbolic (Spanou and Sotiropoulos 2011).

Declining Standards

A long history of political interference undermined internal hierarchies of command and control and eroded earlier aspirations to professionalism, integrity and merit. Politicians used the civil service and other public sector agencies as an employer of last resort, and the repository of political favours in exchange of votes and influence. As the sense of direction (let alone mission) was gradually lost, motivation faded, professional norms declined and a culture of minimal effort began to take hold. The general public, outraged by the indifference and lack of courtesy with which they were often treated, felt impotent. The whole system seemed to function by

inertia, but also thanks to the efforts of a minority of conscientious functionaries, whose honesty and hard work regularly went unappreciated by superiors, and viewed with incredulity and suspicion by colleagues.

In this context, public sector workers began to be seen as a favoured, separate caste. The informal *social contract* underpinning their formal employment contract was there for all to see. Its often implicit terms included minimal demands from superiors, modest wages (though better than those paid by private firms), superior social benefits, steady prospects of promotion based on years of service rather than on performance, and the all-important guarantee of a job for life. In certain cases, tenure extended to full impunity, as even those removed from their posts following disciplinary action (a rather rare occurrence in a general culture of low ethical standards feeding complicity and omertà) continued to receive salaries and benefits. As a result, the distance from conditions in the rest of the labour market (characterised by low pay and benefits and pervasive insecurity), became so wide that the announcement of a few job openings in the public sector attracted thousands of applicants, even at times of relatively low unemployment.

Responses to the Crisis

Unbelievable though it may sound, the exact number of workers in public sector jobs was unknown before the crisis. An earlier analysis of Labour Force Survey data by the research institute of the labour union federations (INE 2008) had found that employment in the broader public sector (including the civil service, as well as state-owned enterprises) involved slightly over 1 million workers or 35 per cent of total employment, a figure also reported by the ILO (Sotiropoulos 2012). In July 2010, a census of all those on the payroll of the Greek state was launched. Since then regularly updated figures, by state agency and type of contract, are posted on the census website (apografi.yap.gov.gr). As explained earlier, these figures suggest that public employment has fell from 768,000 in July 2010 to 686,000 in June 2013. The census is not yet complete: the above figures do not include employment in certain semi-public organisations and municipal enterprises.

Since the onset of the crisis, and as the Troika urged action, the issue was given high priority. National governments – as had often been the case before the crisis – endorsed the need to reform public administration, at least rhetorically.

The difficulties involved were obvious: the same political system that had intentionally or unwittingly eroded standards in the civil service was now being called upon to reorganise public administration along the lines of the New Public Management paradigm. Government (and opposition) proved unable and unwilling to come up with a plan to reward the conscientious, dismiss the corrupt and gradually reduce the number of the redundant. As a result, indiscriminate across-the-board pay cuts became the standard response to fiscal pressures. At the same time, public employees, resentful at what they saw as a radical breach of the implicit *social contract*, reacted by reducing effort (white strikes or work-to-rule), and were eventually transformed from a pillar of political stability to a key constituency opposing fiscal consolidation and reform.

As external pressure to reform public administration intensified, governments dragged their feet. According to figures leaked to the press by sources in the Ministry of Finance, in 2010 the number of public sector workers remained more or less the same, even though 53,400 civil servants retired to escape the effects of that year's pension reform. In 2011, just as 42,000 general government employees left (that is, mainly retired), another 12,600 were newly hired (most of them in local government). All this was in breach of the 5:1 rule demanded by the Troika, stipulated in the Memorandum and agreed by Parliament.

Recent Conflicts

Following the June 2012 general election and the formation of a three-party coalition government (Katsioulis and Katsioulis 2013), public administration reform was put at the top of the political agenda. What is elsewhere known as *the Home Office* or the Ministry of the Interior was renamed the *Ministry for Administrative Reform*. A widely-respected professor of constitutional law, close to the Democratic Left party (the minor coalition partner), was appointed minister. With assistance from the Task Force for Greece (the Athens-based European Commission agency newly set up to work with the Greek government), a mobility scheme was devised. The scheme aimed to move public employees from overstuffed organisations to those experiencing personnel shortages, thereby obviating the need for large-scale redundancies.

Nevertheless, the mere process of reviewing staff numbers at unit level inflamed political passions: civil

service unions denounced all those involved (including colleagues following orders) as »collaborators« and called for disobedience. Eventually some progress was made, but it was slow. At the Troika and the Ministry of Finance patience was running out.

Matters came to a head in June 2013, when the Troika announced that the immediate dismissal of 12,500 workers must be seen as a *prior action* for the disbursement of the next instalment of financial assistance, planned for July 2013. The Minister protested that the Troika was sacrificing public administration reform, which took time, on the altar of short-term fiscal savings.

The puzzle of how to reduce swiftly the number of those on the state's payroll before the 30 June deadline was 'solved' by the Prime Minister himself, in his own way, that is with a show of political bravado: the public television corporation was abolished on 11 June 2013, when its signal was taken off air, to be replaced by a leaner and more efficient successor company. The move was met with protests at home and astonishment abroad, as manifest (among other things in) the concern expressed by the European Broadcasting Union.¹⁵ The controversy eventually led to the Democratic Left party pulling out of the coalition government on 21 June 2013.

Assessment: The Political Economy of Administrative Reform

As this recent episode suggests, a tension exists between the conflicting goals of achieving fiscal savings in the short run and modernising public administration over the longer run. To date, progressive reformers have proved incapable of overcoming the hostility of unions and opposition parties, as well as the impatience of the Troika and the government. The easy options of either doing nothing or taking spectacular action have taken precedence over the much more difficult option of coming up with lasting solutions after patiently dealing with the underlying problems. And yet, to ensure that Greece can function as a modern state better than it can

15. »Roger Mosey, the BBC's editorial director, who is on the EBU board told the Guardian: » We're watching events in Greece with great concern. When countries are in difficulty, there's an even bigger need for public service broadcasting and for independent, impartial news coverage. I hope that's restored in Greece as soon as possible.« « The Guardian, Wednesday 12 June 2013. (Available on <http://www.theguardian.com/media/2013/jun/12/ert-shutdown-european-broadcasting-union-makeshift-studio-greece>)

now and better than it has done in the past, a sustained effort to modernise public administration, not simply reduce its size, is just what is required.

8. Conclusions

On the eve of the current crisis, Greece's fiscal and trade deficits had become so huge that even with the benefit of hindsight it is difficult to see how the country's solvency, let alone continuing membership of the euro zone, could have been secured without corrective action of some sort. In May 2010, the Greek government could do little more than choose between two bitter alternatives: it could default, and exit the euro zone (and, quite conceivably, the European Union as well) then and there; or it could accept international aid in return for an austerity programme. Counterfactual history is a notoriously arbitrary game to play, but even so, it seems most likely that the consequences of Greece's default would have been catastrophic for all Greeks (except for those with savings accounts in Switzerland).

In light of the above, this report differs from, among others, Busch et al. (2012) in that it takes the view that the progressive option in 2010 was not to denounce austerity as a neoliberal scam, nor as yet another German ploy for world domination. The progressive option was and remains to try to win the hearts and minds of the Greek public with an austerity programme that promised to restore fiscal balances by distributing the costs of adjustment equitably among social groups, laying the ground for a sustainable recovery and tackling the clientelism and corruption that were at the root of the fiscal crisis in the first place.

Despite appearances, that option had impeccable progressive credentials: it drew inspiration from a famous response to another crisis, in the late 1970s, when the Italian Communist leader Enrico Berlinguer openly rejected rampant consumerism and welcomed austerity as an »occasion to transform Italy«. ¹⁶ But as we all know, such a programme for renewal via equitable austerity in Greece in the 2010s remained hypothetical: although

actually articulated by individuals and small groups ¹⁷, it was never translated into a convincing political platform, and hence never made it onto the main political agenda.

The rest is history. The austerity programme that was eventually adopted was not put together by domestic actors, but was dictated by international agencies widely viewed as unaccountable; and it reflected the preferences and convictions of the prevailing orthodoxy, not those of a progressive coalition for national renewal. As it turned out, the *Greek programme* was seen as externally imposed: reluctantly accepted at most, but never owned by political actors at home. The loss of national sovereignty implicit in that was widely experienced as no less than humiliating, and this has fed a nationalist-populist backlash which in turn has poisoned domestic politics.

As the preceding pages illustrate, the social cost of the Greek crisis has been unnecessarily high. National income has declined by almost a quarter. The gap in living standards relative to the rest of Western Europe is back to what it was half a century ago. Unemployment affects over a quarter of the workforce. Average real earnings for those in employment are below their level in the late 1990s. The proportion of the population below the 2009 poverty line reached 38 per cent in 2012, and was even higher among families of unemployed workers with children, whose plight has become the new social question. The average real income of those in the poorest 10 per cent of population in 2012 was 56.5 per cent lower than that of the poorest 10 per cent of population in 2009. Inequality remained stable at first, but began to take off as the economy sank deeper into recession. The austerity policies pursued did not compensate, and eventually reinforced, the adverse effects of the recession on income distribution.

This was not inevitable. The policy content and distributional impact of austerity policies need not necessarily be regressive. As a recent survey by Kaplanoglou et al. (2013) of fiscal consolidation programmes in 29 OECD countries in 1971–2009 has demonstrated, fiscal adjustments can be fair – in

16. As the historian Paul Ginsborg (1984) has written: »Berlinguer called on the working people of Italy to make sacrifices, and he promised them that these would not be in vain: »A more austere society will be a more just society, with greater equality, with more real freedom, more democracy and more humanity.«

17. Note, however, that at the founding congress of the Democratic Left party, in April 2011, a minority motion calling for 'equitable austerity' and a 'social pact' as the cornerstones of a progressive exit strategy was put to a vote and was only narrowly defeated.

fact, they had better be: »ameliorating the effects of adjustment, by supporting the weaker parts of society, is crucial for the success of fiscal consolidations and [...] may provide the double dividend of enhancing the probability of success of the adjustment and of promoting social cohesion.«

On the whole, policy responses to the social implications of the Greek crisis have been misguided or inadequate. Welfare reform did produce some welcome improvements, but most cuts were indiscriminate, causing hardship and disrupting health and other social provision. For all the rhetoric of political actors at home and international organisations abroad on the need to strengthen the social safety net, the record so far can only be described as extremely disappointing. In the first three months of 2013, for every five unemployed workers only one received unemployment benefit.

Labour market reform was guided by the belief that lowering workers' compensation and weakening labour market institutions was the key to restoring competitiveness. The evidence so far shows that this is not the case: the trade balance has improved, but primarily through a fall in imports rather than through a growth in exports, as had been assumed. In the meantime, pay and conditions have deteriorated for hundreds of thousands of workers.

Reform of public administration was badly needed, but was typically conflated to a simple reduction in numbers of public employees. The sustained effort that is necessary to modernise the Greek state seems to have few supporters. Unions and the Left are hostile, while the government and the Troika have shown that they prefer short-term savings (or the political gains of »decisive action«) to the kind of patient work needed to turn things around for good.

As a result of all this, the search for solutions has been unnecessarily restricted. Pay and benefits for most have been cut drastically, but key groups (judges, priests, the liberal professions of medicine, law and engineering, and also farmers and workers in public utilities) have enjoyed lighter treatment and the occasional exemption. The tax pressure on those who pay taxes has been raised to arguably intolerable levels; but tax evasion seems as rife as ever. Funding cuts have gone beyond efficiency savings and now threaten the ordinary functioning

of hospitals and schools; but commercial shipping, Greece's most successful industrial sector, continues to be virtually exempt from all taxes.¹⁸

And now what? A shift in emphasis from short-term savings to longer-term reform would strengthen public institutions. Policies aiming to achieve a higher wage/productivity balance than is currently the case will lay the ground for sustainable development. Closer attention to the fairer distribution of the costs (and benefits) of adjustment would improve trust in institutions and make the political climate more serene. All of this would help, but will not be achieved without a more patient and more constructive approach on the part of Greece's European partners.

As for political conditions at home, the past few years have been highly beneficial for demagogues of all hues, but have thrown into disarray social and liberal reformers of a centre-left persuasion. A progressive exit from the current crisis will not be easy and is not going to happen any time soon. In the meantime, progressive political and social actors would do well to adopt a new agenda: abandon the defence of entrenched positions, respond to the needs of ordinary workers for decent jobs on adequate pay, and address the demands of ordinary citizens for affordable public services, efficient administration and cleaner politics.

A new agenda along these lines will not satisfy the thirst of the angry and the indignant for radical solutions. But it will make a huge difference to the everyday lives of many people suffering hardship. As another social democrat once said: »Imperfect improvements upon unsatisfactory circumstances are the best that we can hope for, and probably all we should seek«.¹⁹

18. On tax evasion, see Matsaganis, Leventi & Flevotomou (2012). On tax exemptions, see the following excerpt from a Spiegel article titled »»Horrible citizens: the life of Greece's one percent« (published 15 November 2012): »The Greek government can no longer pay its bills and owes private-sector companies some €9 billion. But even now, three years into the crisis, it continues to exempt commercial shipping companies, which make up its most successful industrial sector, from all taxes«. Available on <http://www.spiegel.de/international/europe/the-crisis-has-yet-to-hit-the-wealthiest-greeks-a-866693.html>

19. Tony Judt »What is living and what is dead in social democracy?« The New York Review of Books (17 December 2009). (Available on <http://www.nybooks.com/articles/archives/2009/dec/17/what-is-living-and-what-is-dead-in-social-democrac/>)



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