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Social Policy in Times of Fiscal Consolidation

2nd Annual Conference of ELIAMEP Crisis Observatory

The Social Consequences of the Crisis in Europe and Greece:

Politics and Policies for Solidarity and Growth

Athens, 16 December 2014

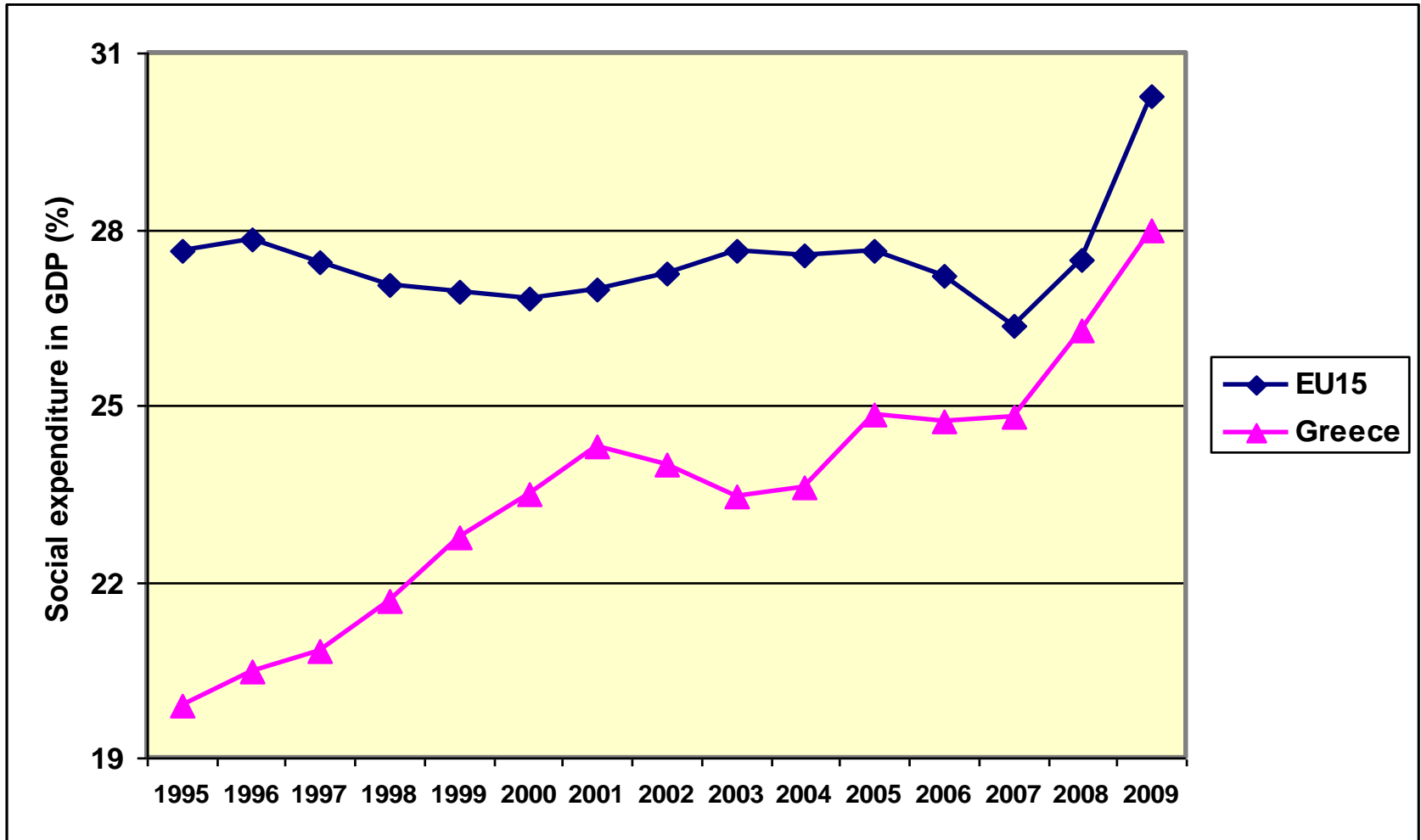
Outline

- ✓ Social policy in the years before the crisis
- ✓ Greece in crisis
- ✓ Reforms 2010-2014
- ✓ Social consequences of the crisis
- ✓ The road ahead

Social policy in the years before the crisis

- Greek welfare state typically “Mediterranean”
- Role of pressure groups and need assessment
- Important role of the family
- In comparison to other EU countries, the welfare state plays a relatively limited role
- In the twenty years before the crisis, almost continuous increase in the share of welfare spending in GDP
 - OECD: in the years before the crisis almost one-to-one increase in budget deficit and social expenditure

Social policy in the years before the crisis



Social policy in the years before the crisis

- New policies introduced but the lion's share went to pensions
 - esp. minimum pensions, solidarity pensions and early retirement schemes
- Pensions far more important in the Greek welfare state than in other EU countries
- Non-pension spending limited and rather ineffective in reducing poverty
- Very limited targeting / means testing
- No “benefit of last resort” (MIG)
- Important role of tax expenditures

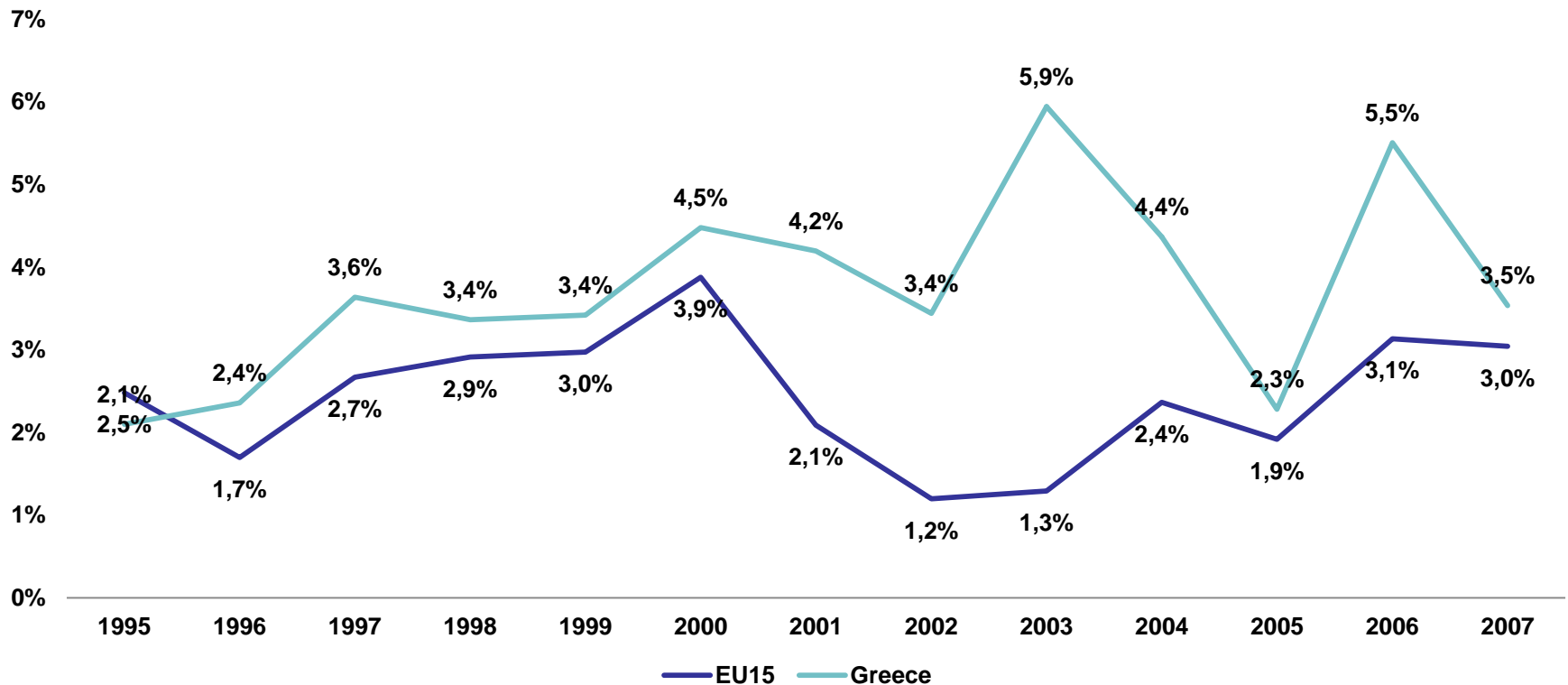
Social policy in the years before the crisis

- Product market: dominant role of SMEs
 - Tax evasion & lax labour standards
- Labour market: very high share of self-employed & “segmented” market for employees
- Typical case of “insider-outsider” labour market
- Even in high growth years, youth unemployment rate the highest in the EU
- Unemployment compensation meager
- But family acted as “shock absorber”

Greece in crisis

- ✓ From the mid-1990's to the late 2000's, the Greek economy was growing at a faster rate than the EU average (3.9% vs 2.4%)
- ✓ Growth model based on consumption and borrowing

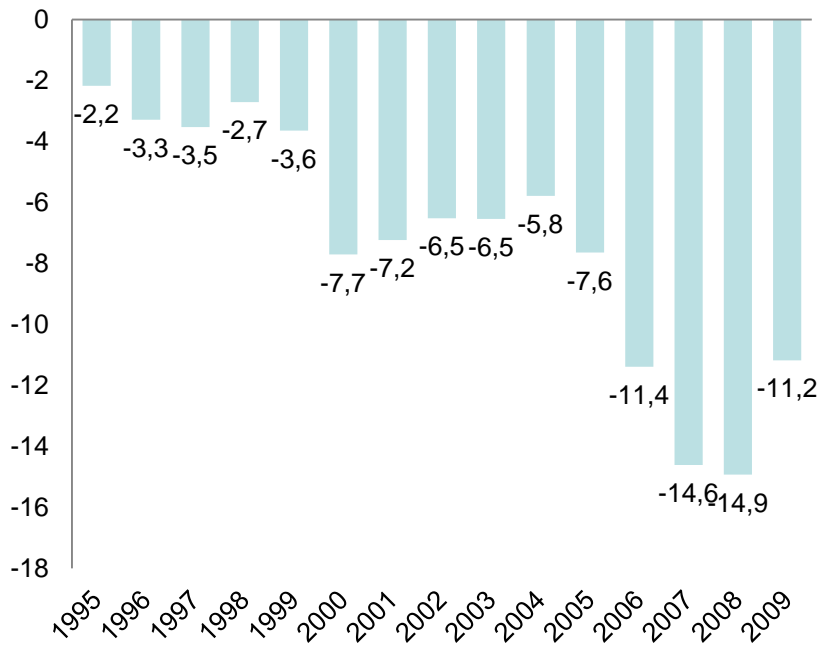
GDP growth rate



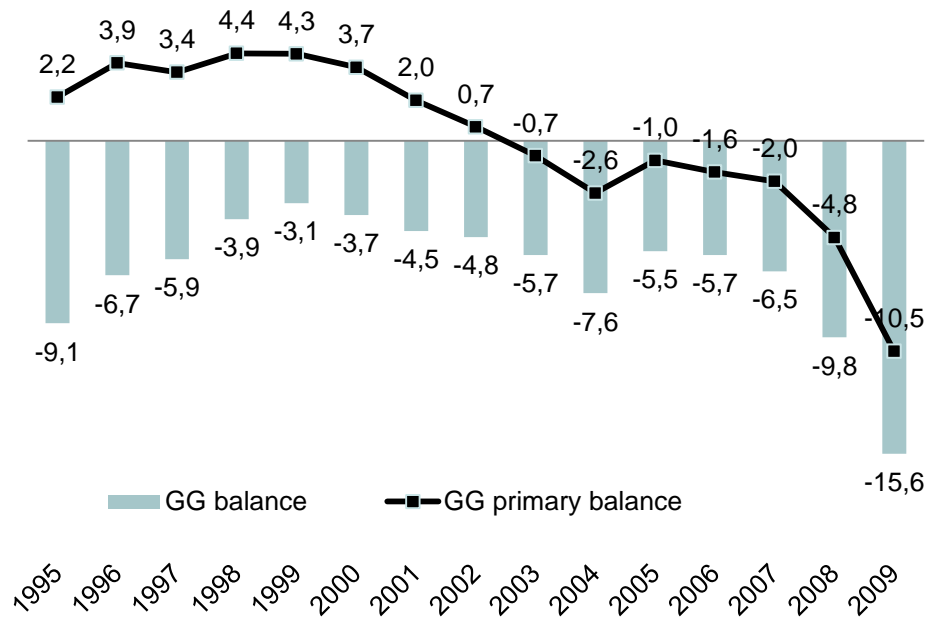
Greece in crisis

- Typical case of “twin deficits”
- External deficit trended upwards in the period 1995-2008
- General Government Deficit, although contained before Euro accession, increased afterwards

**Current Account
(% GDP)**



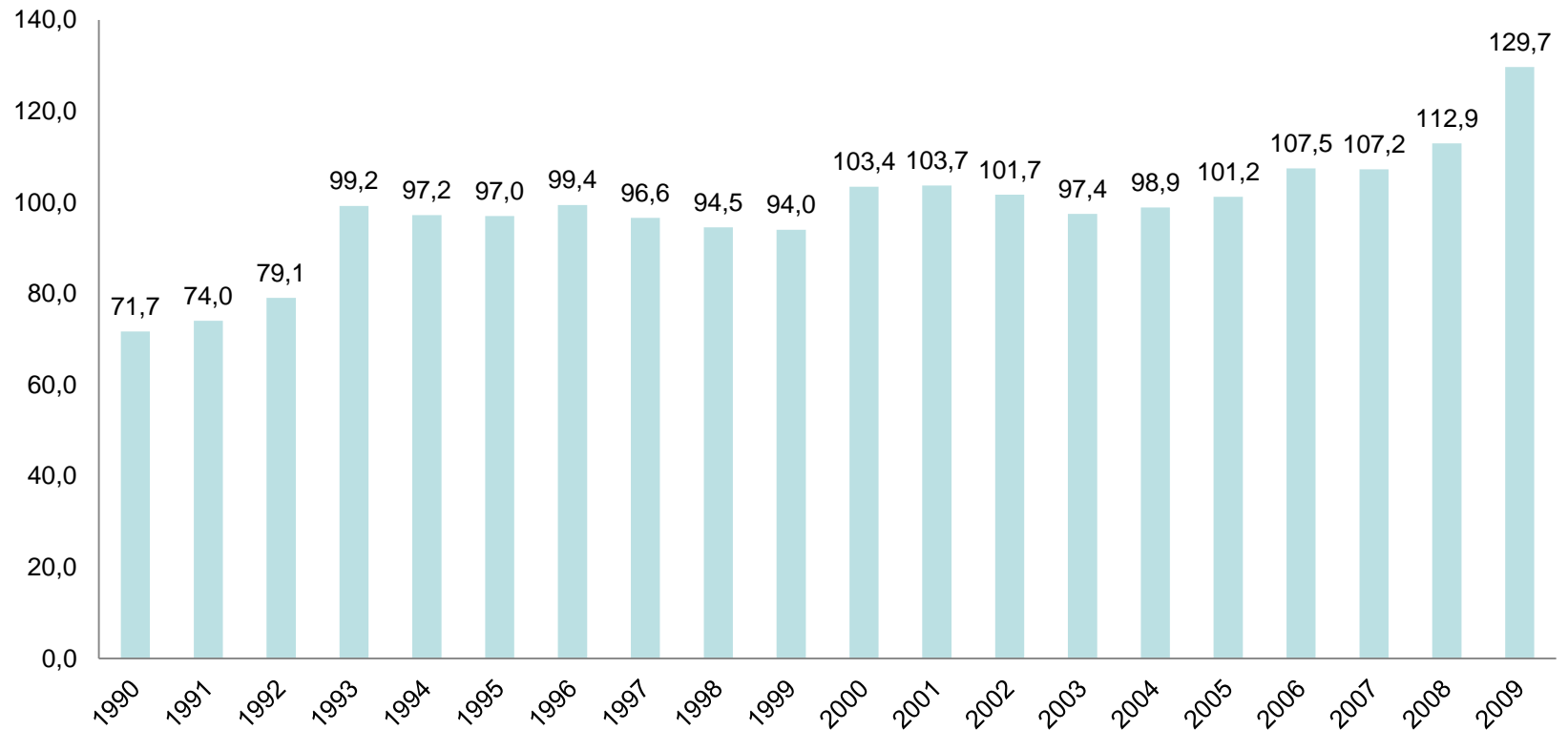
**General Government Balance
(% GDP)**



Greece in crisis

In 1990-2009, public debt rose by 60 p.p. of GDP

Public Debt (% GDP)

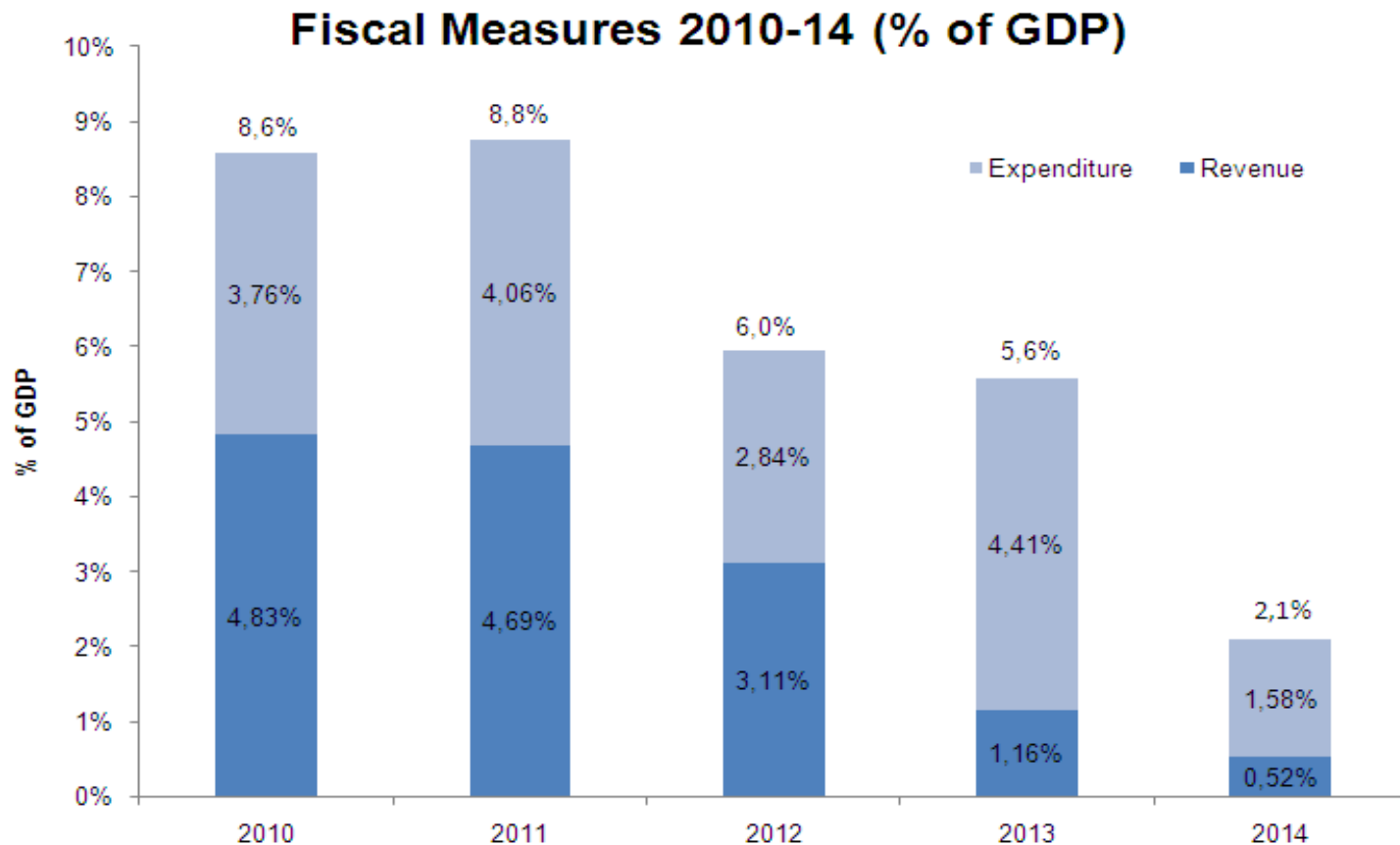


Greece in crisis

- In 2010 Greece could not tap the international markets anymore
- Forced to seek borrowing from Euro area countries and the IMF
 - 245 bn Euro (largest bail-out in history)
- Private Sector Involvement (PSI - “Haircut”)
 - 107 billion EUR via bond swapping (largest “haircut” in history)
- Since then, a spectacular turnaround in fiscal and external balances (and structural reforms)
 - From 10.6% primary fiscal deficit to 0.8% primary surplus (2009-2013)
 - From 14.9% current account deficit to 0.7% surplus (2008-2013)
 - Leader by far in OECD’s “Going for growth”

Reforms 2010-2014

- Fiscal consolidation: Expenditure cuts + tax increases
 - both very large; close to 30% of GDP



Reforms 2010-2014

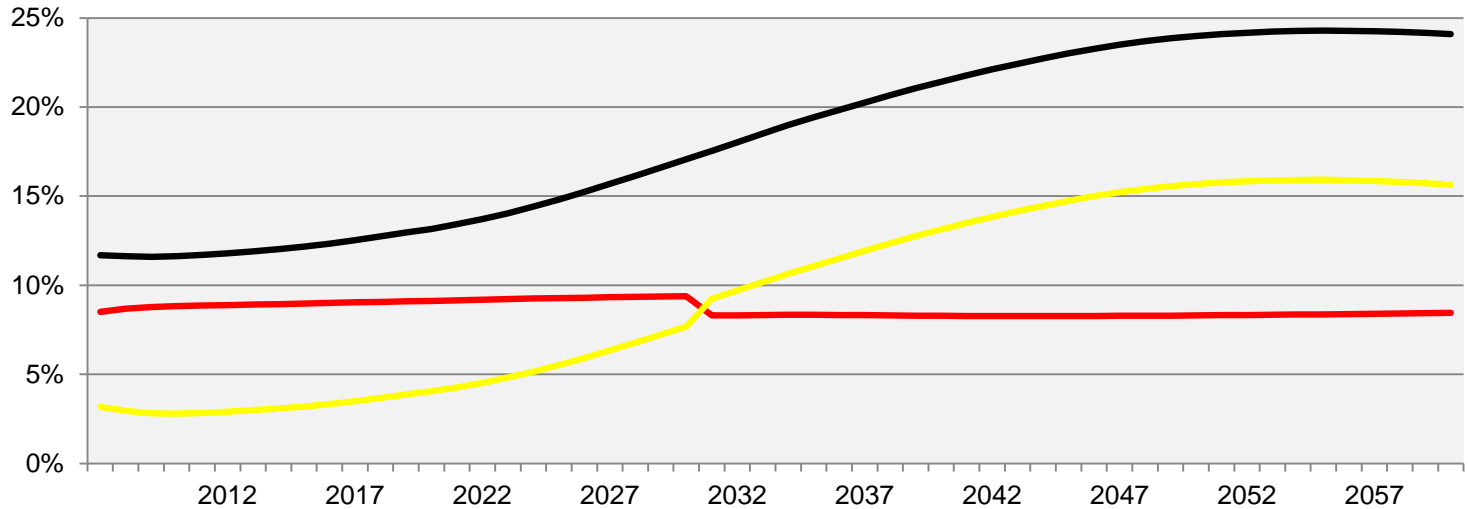
In the fields of taxation, labour market and social policy

- Increases in direct taxes
- Abolition of most tax expenditures
- Increases in indirect taxes
- Sharp rise in property taxation
- Significant changes in the taxation of the self-employed

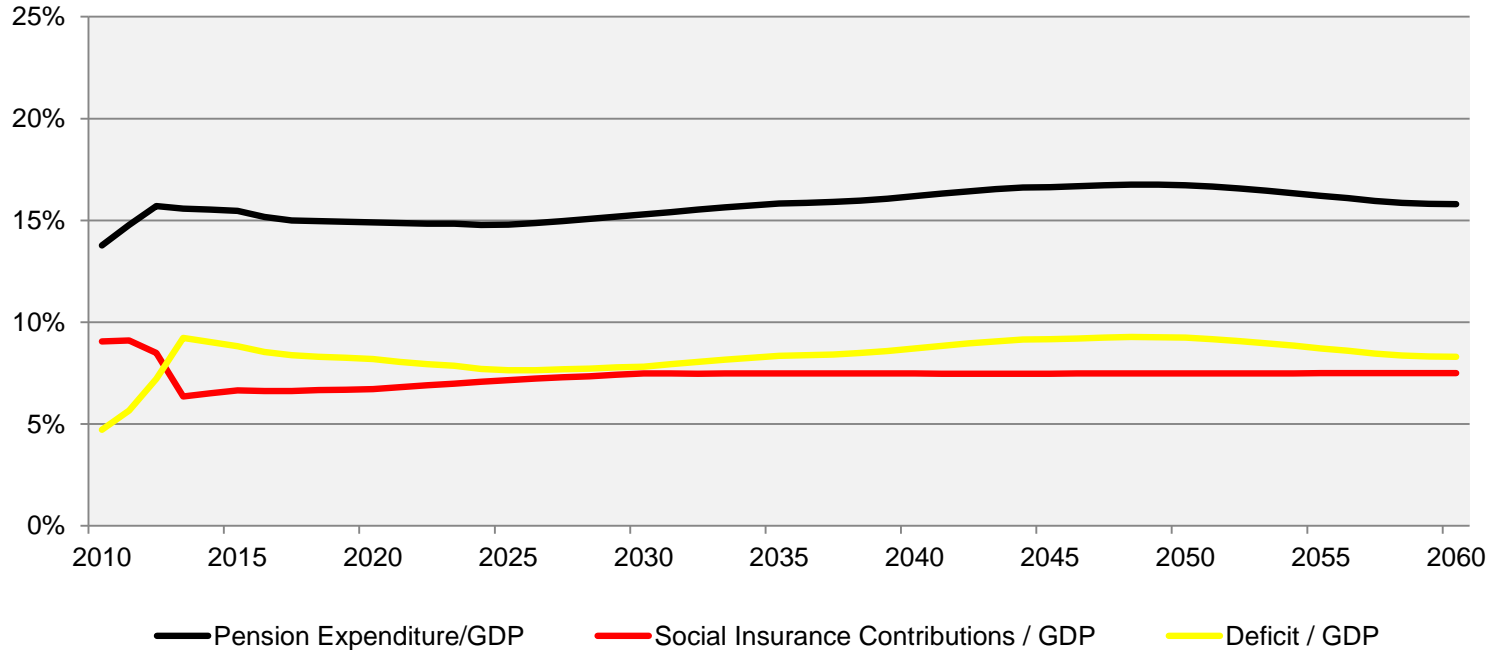
- Cuts in pensions
- Very substantial pension reform (+additional actions afterwards)
 - Tremendously important long-term consequences
- Cuts in benefits, mainly through changes in eligibility criteria

Reforms 2010-2014

Before the reform



After the reform
(no account for 65/67)



Reforms 2010-2014

- Labour market liberalisation
- Cuts in public sector salaries (22% on average)
- Substantial decline in public sector employment (almost 27%)
- Cut in minimum wage (22%, or 32% for young workers)

- Substantial cuts in public health care and, to a lesser extent, public education

- Most, but not all, cuts progressive
- However, the overall effect negative (if not devastating)

Social consequences of the crisis

- GDP shrank by almost 25%
- Unemployment rose to 28%;
 - esp. youth (around 60%) and long-term (two thirds of unemployed)
- Disposable income decreased by almost a third
- Gini index of inequality rose by 13%
- Relative poverty rate rose from 20% to 23%
- “Anchored” poverty rate rose from 20% to 45%
- Very significant change in the composition of the poor
 - Elderly + farmers vs unemployed
- Worsening of various other socioeconomic indicators

Social consequences of the crisis

Why?

- Policies (mainly) progressive; but sharp recession
 - Increased needs; reduced resources
- Increase in unemployment; very limited unemployment protection
- No benefit of last resort
- Erosion in the role (and abilities) of the family
- For some: “free fall”

The road ahead

- Limited fiscal space + increased needs due to ageing
 - but, hopefully, less pressure from unemployment due to gradual recovery
- “Sticks and carrots” for increased labour force participation
- More effective use of resources / increased targeting
- Already moving in this direction
 - Income-related child benefit
 - Long-term unemployment assistance
 - Minimum Income Guarantee
- Link with insertion policies to avoid poverty traps
- Use of other policies to encourage labour force participation
 - Home help for the elderly
 - Kindergartens, etc