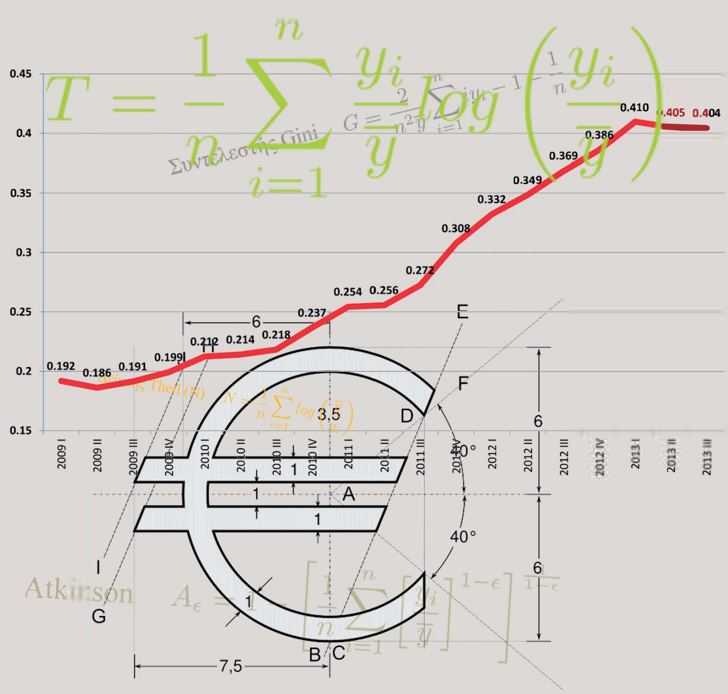
ΒΟΥΛΗ ΤΩΝ ΕΛΛΗΝΩΝ

Fiscal Adjusment:

How Fair is the Distribution of the Burdens?

PARLIAMENTARY BUDGET OFFICE



Athens 2014

HELLENIC PARLIAMENT

Fiscal Adjustment: How Fair is the Distribution of the Burdens?

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The Parliamentary Budget Office was established in the Hellenic Parliament according to the law 3871 of the year 2010, regarding the fiscal management and responsibility. The Office is responsible for the monitoring of the State's Budget implementation, the assistance to the workings of the two committees of the Parliament (Special Committee on the Financial Statement and the General Balance Sheet of the State and on the Control of the Implementation of the State Budget and the standing Committee on Economic Affairs) and the drawing up and submission to the above committees, of quarterly and annual reports regarding the observance of the fiscal targets, which are set in the Mid- Term Programs of Fiscal Strategy.

The Office is framed by the Scientific Committee, which consists of the following members:

- Professor Panagiotis Liargovas, Coordinator
- Professor Panos Kazakos, Member
- Assistant Professor Spiros Lapatsioras, Member
- Pofessor Napoleon Maravegias, Member
- Associate Professor, Michael Riginos, Member

The Committee delivers opinions on issues requested in writing by the Speaker of the Parliament, or, the Office Coordinator, or, the Parliamentary Committees mentioned above and approves the quarterly and annual reports.

WELCOME ADDRESS BY ATHANASIOS PAPAIOANNOU, GENERAL SECRETARY OF THE HELLENIC PARLIAMENT

This is the first time ever that the Parliamentary Budget Office (PBO) organizes a workshop for the fiscal adjustment and the burden sharing. The PBO operates under the act 3871/2010 and with provision in the standing orders. During the first year of its operation, the office has made significant work. It has an advisory role and provides scientific support to the Speaker of the Parliament and the chairmen of the two parliamentary committees (Special Committee on the Financial Statement and the State's General Balance Sheet and Control of the State's Budget Implementation, as well as the Permanent Committee of Economic Affairs). It is the first time in the Parliament's history that a special scientific committee is being established and provides scientific support to the Parliament (beyond the existing scientific unit of the Parliament). Furthermore, the PBO enjoys full autonomy and reports directly to the Speaker.

With the preparation of quarterly and annual reports, the PBO allows everyone in the Parliament to acquire a more complete picture as regards budgetary targets and achievements. This picture might not always be pleasant but the accuracy and knowledge of the real situation is a prerequisite for any effective policy action. Through the reports, members of the Parliament as well as the public opinion and the mass media have better and more complete information as regards the macroeconomic situation. For example, in the third quarterly report of 2013, in addition to data as regards the budget execution, there was an extended analysis and policy proposals as regards the fight against unemployment and recession in Greece and the Eurozone as well as a debt sustainability analysis.

The PBO is neither a partisan nor a bipartisan organization, traits that make it a useful and accountable tool for the legislative and the executive power. The Scientific Committee of the Office comprises of academics with high expertise skills and great credentials in the areas of macroeconomics, public economics and monetary economics.

The main theme of the PBO workshop is the distribution of burdens and how fair is this in the context of fiscal adjustment. This is an issue that concerns all of us and especially the citizens that suffer mostly from the deep economic crisis and from the unequal distribution of the burdens, to the extent that it exits. At the same time it is an issue that concerns academics and researchers in the field. It is also a crucial subject for policy makers. As we know, without a fair distribution of burdens in the event of a crisis, there will be no social cohesion and without social cohesion it will not be possible to exit the crisis. Greece's previous experience has shown that in times of crises, inequalities worsen. At the end of the crises, the poor become poorer and the rich, even though they might have not become richer, they -at least- have maintained their income status. Therefore, the challenge is not only how to overcome the crisis, but at the same time, how to achieve a fair distribution of the burdens. If we succeed in both these targets, then we can look to the future with greater confidence.

PREFACE BY PROFESSOR PANAGIOTIS LIARGOVAS, COORDINATOR OF THE PARLIAMENTARY BUDGET OFFICE

The chapters contained in this volume are based on the papers presented during the workshop “Fiscal consolidation: how fair is the distribution of its burden?” organised by the Parliamentary Budget Office in 19 November 2013. The workshop, which was bilingual (in both Greek and English) took place in the Senate Room of the Hellenic Parliament. Participants included ambassadors from 28 E.U. and O.E.C.D. countries, MPs and members of the Greek government.

The interest in the analysis of the distribution of the burdens under a fiscal adjustment program, was triggered by two sources. First from the comments of the members of the Hellenic Parliament, during the presentation of the first 2013 quarterly report of the Office in the Special Committee on the Financial Statement and the General Balance Sheet of the State and on the Control of the Implementation of the State Budget (see www.pbo.gr), in May 15, 2013. Secondly, several International Organizations (IMF, EU and OECD) have included such remarks in their reports and hence, this issue was open as far as its outcome was concerned.

The main question around fiscal adjustment policies is who bears the burden of the adjustment or how the crisis together with the austerity measures affects income distribution. Ideally, recession and the undertaken measures must leave income distribution unaffected or make it more equitable. Equity has various dimensions, including maintaining an adequate social safety net and the provision of public services that allow a level playing field, regardless of conditions at birth. Fighting tax evasion is also a critical component to equity.

Empirical research supports that the chances of success of a fiscal adjustment program would be increased by improving the targeting of social transfers and their effectiveness in terms of poverty alleviation, by increasing public expenditure on training and active labor market programs and social transfers like social housing directed to the poor, even by decreasing the VAT rate on necessities. Therefore, the active support of the weaker sections of the society, in times when a fiscal adjustment program is underway can help not only to sustainability of social cohesion but also the success of the adjustment program i.e. sustainable reduction of deficits and debts.

The experience of Finland is helpful here: after a major financial and banking crisis in the early 90s, Finland adopted an ambitious fiscal adjustment program, which was extremely successful. Despite expenditures cuts in many sectors, social benefits (such as child allowances, expenditure on active labor market programs, etc.) have been growing by 14% annually.

This volume consists of six chapters. In the first chapter, **Stavros Zografakis** draws a contemporary picture of social changes. The deterioration in social indicators in Greece as a result of the crisis, which is now in its sixth year, has been confirmed with a considerable lag. The dramatic increase in unemployment and the pressure on workers to accept wage cuts in exchange for keeping their jobs have been driving more and more households to despair. The aim of the study is to measure the despair of Greek households, using an index constructed on the basis of raw data from ELSTAT’s Labour Force Survey. The index provides a timely measure, at a quarterly frequency, of the despair of households. It examines how the burden of a fiscal adjustment achieved through wage cuts or job losses can be considered to be distributed “fairly” across households.

Georgia Kaplanoglou and **Vasilis Rapanos** exploit five waves of Household Expenditure Survey data in order to study the distributional impact of indirect taxes in Greece over the last twenty five years (1988-2011). The radical simplification of the tax system, primarily induced by EU membership, was achieved at a small cost in terms of equity. According to the authors, the recent successive fiscal consolidation packages, adopted in response to the fiscal crisis, involved major indirect tax hikes which significantly increased the indirect tax burden for Greek households. The 2011 indirect tax system appears as the most regressive in the period studied. The impact of the reforms was particularly adverse for vulnerable population groups like families with children (especially the poorer ones). For austerity not to further challenge social cohesion, policy measures have to be planned in a more informed manner.

In the third chapter, **Anigone Lyberaki** seeks to answer questions such as: "Are women the inevitable fated victims of the fiscal adjustment currently underway in Greece? Or could they possibly form part of a solution to the fiscal impasse of the coming decade? Are they part of the problem, or part of the solution?". Based on her analysis, women are not victims – at least not inevitably. On the contrary, guaranteeing continuation of their activation is the best hope for a fiscal situation viable in the long term; so long as we look a little further than the immediate future.

In the next chapter, **Manos Matsaganis** analyses the role of the country's system of social protection. He begins by briefly reviewing the most salient aspects of the crisis and the austerity. He then examines the role of the welfare state as a social 'shock absorber', and argues that its capacity to mitigate the social impact of the crisis was already seriously compromised before the onset of the crisis. Following that, the author analyses the effects of the crisis on the welfare state in terms of cuts and reforms, including recent efforts to expand social provision and strengthen the social safety net. His paper concludes by discussing prospects for the welfare state in an era of permanent austerity.

In the fifth chapter, **Theodoros Mitrakos**, presents the recent trends and the characteristics of inequality, poverty and living conditions in Greece, emphasizing the distributional effects of the austerity measures adopted during the current economic crisis. To this end, household income from the Greek Household Budget and the EU Statistics of Income and Living Conditions surveys are used. The available data indicate that income inequality and relative poverty has increased during the current crisis, while the composition of the poor population changed considerably. However, the sharp decline in disposable income and the dramatic increase in unemployment have led to a significant deterioration in economic prosperity and absolute poverty, i.e. when the poverty line in real terms remains stable in the pro-crisis levels. According to the author, the system of social solidarity in Greece is flawed and characterized by considerable leaks. A solution could be to establish a universal and at the same time selective measure (on the basis of income), aimed at eliminating extreme poverty and ensuring for all a minimum income and living standard, not necessarily on a compensatory basis.

Finally, **Platon Tinios**, deals with the issue of inter-generational justice. He then poses the question whether time has come for the end of the delivery of overdue bills. According to him, what had been postponed from 1990 appears to have been ventured since 2010 under severe fiscal duress and under the supervision of the Troika. The pension law L3863/10 was the first piece of legislation after the bailout. That was followed by other laws on pensions while the cycle of changes is not yet complete. However it may have been, changes since 2020 add up to a large and sudden adjustment in generational balance. A number of questions can be posed: Is the adjustment complete, or has there, possibly, been overshooting? How much remains in order to regain balance? Is the insurance system sustainable up to 2060?

ACKNOWLEDGEMENTS

We thank both the Speaker of the Hellenic Parliament, Mr. Evangelos Meimarakis and the General Secretary of the Hellenic Parliament, Mr. Athanasios Papaioannou for their active support in conducting this workshop. We would also like to thank the General Director of International Relations Ms. Panagiota Miliou and the Director of Communication Ms. Margarita Flouda for their substantial contribution in organizing this workshop. We owe special thanks to the discussants of the workshop and to those who honored us with their presence. Finally, the successful completion of this workshop would not have been possible without the substantial contribution of the Parliamentary Budget Office's Personnel.

1. THE APARTMENT BUILDING AND THE INDEX OF DESPAIR

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After five full years of deep economic recession (2009–2013) in Greece and well into its sixth year, a turnaround is not yet clearly in sight. Mirroring the dramatic deterioration in economic indicators during that period, social indicators paint a bleak picture too, although this picture emerges with a lag of about two years. We are currently in early 2014 and we know that all social indicators deteriorated sharply until 2012, which saw poverty and inequality soar. This is the last available year for the most common sources of this type of information, i.e. two distinct annual surveys conducted by the Greek Statistical Authority (ELSTAT): the Survey of Income and Living Conditions (SILC) and the Household Budget Survey (HBS), the most recent waves of which reflect household income and consumption for the years 2011–2012.

This paper, using a different methodological approach and drawing data from the Labour Force Survey (LFS), which is the most up-to-date source of relevant statistics, seeks to address this timeliness gap and provide a more recent insight into the evolution of social trends. Most importantly, it attempts to gauge, in almost real time, the effectiveness of the various policy measures hastily taken by the government in its effort to alleviate the woes of the recession. To this end, we construct an index that can serve as a tool for a timely measurement and evaluation of alternative policy options. This index can be seen as a leading indicator of the social conjuncture, i.e. an index that signals developments in the various social indicators, similarly as leading economic indicators signal developments in coincident economic indicators.

The link between labour market developments, on the one hand, and the social indicators of inequality and poverty, on the other, has been well documented, as many studies suggest that attachment to the labour market is key to preventing situations of poverty, deprivation and social exclusion. The mechanics of this link relate to such aspects as employment, unemployment and level of labour compensation, i.e. wages. From the perspective of unemployment, the continuing dramatic increase in the number of unemployed in Greece over the last six years has far-reaching and even more alarming implications for several parameters other than the unemployment rate itself. For example, unemployment has now hit the core of the social fabric, as the share of unemployed persons who report themselves as "heads of household" has risen sharply during the current crisis. This development should certainly be given particular attention, in view of its relevance for the objectives of stability and social cohesion.

The index we have constructed is designed to measure the degree of despair in households of employees and unemployed persons[1]. It examines how the burden of a fiscal adjustment that is achieved through wage cuts or job losses can be considered to be distributed "fairly" across households.

A few words about the construction of the index: The reference group comprises households of employees (wage earners) and unemployed households. That is, it excludes households that do not include at least one employee or households receiving pension income. The reason for excluding households in which at least one member is self-employed or a pensioner is because the LFS does not capture income from these sources. Therefore, we only consider households with income derived solely from wages, unemployment benefits, or both.

As already mentioned, the index is based on primary data from ELSTAT's quarterly LFS, conducted on an annual sample of 120,000 households, enabling to obtain information four times a year. The reference period runs from the first quarter of 2009 to the latest available quarter, i.e. the third

[1] For a more extensive presentation of the index construction methodology, see Zografakis Stavros and Theodore Mitrakos (2012), "The low-income risk of households of employees and unemployed during the current crisis", in *Social Policy and Social Cohesion in Greece in conditions of economic crisis*, Bank of Greece, pp. 175, June (in Greek).

quarter of 2013 which when this article was written, implying a lag of just one quarter.

The index ranges between extreme values of zero and one. A value of zero is attached to households reporting that none of their members is unemployed and the monthly wage of each employed member is more than €1,000. A value of one is assigned to households reporting that all their active members are unemployed and none of them receives any unemployment benefit. The latter households are identified as being in a state of absolute despair.

The score of each household depends on the individual scores of all its active members. Specifically, each active member scores the maximum value of one if he/she is unemployed and does not receive any unemployment benefit. Otherwise, the score is gradually lower if this member at least receives an unemployment benefit or is employed, and drops further in inverse proportion to the level of his/her labour income. Finally, a member scores the minimum value of zero if his/her monthly wage exceeds the €1,000 threshold.

Accordingly, each active member of the household is assigned one of the following values:

- 1 if unemployed and not receiving any unemployment benefit
- 0.8 if unemployed and receiving an unemployment benefit
- 0.6 if employed and receiving a monthly wage of less than €499
- 0.4 if employed and receiving a monthly wage of between €500 and €699
- 0.2 if employed and receiving a monthly wage of between €700 and €999
- 0 if employed and receiving a monthly wage of €1,000 or higher

The total score of each household is the average of the individual scores of its active members. Children and economically inactive members in the household (students at all levels of education, soldiers, individuals incapable of work, housewives, etc.) are not taken into account in the calculation of the index.

Looking at the evolution of the index[2] as shown in Chart 1, we can make two important observations.

1. Between the second quarter of 2009 and the first quarter of 2013, the index of despair was on a constant rise: from 0.186 in Q2 2009, it peaked at 0.410 in Q1 2013, having increased by 120%. The path of the index implies that we have covered 41% of the distance to the point of absolute despair, i.e. the point at which all wage earners would be jobless and without any unemployment benefits.
2. Three distinct periods can be identified in the evolution of the index. In the first period, between Q2 2009 and Q3 2010, the index increased by an average of 2% quarter-on-quarter. It seems that in its initial phase the economic crisis did not weigh so heavily on the index of despair. In the second period, until Q1 2013, developments were dramatic, with the index rising quarter-on-quarter by 7% on average. It is worth noting that during a quarter alone, between Q3 2011 and Q4 2011 it increased by as much as during the entire first period. Finally, in the third period, the index showed for the first time signs of stabilisation, remaining almost unchanged at the still high level of 0.405-0.404for two consecutive quarters.

By construction, the index can improve if any of the following conditions are fulfilled (all other factors remaining constant):

i some of the unemployed persons find jobs;

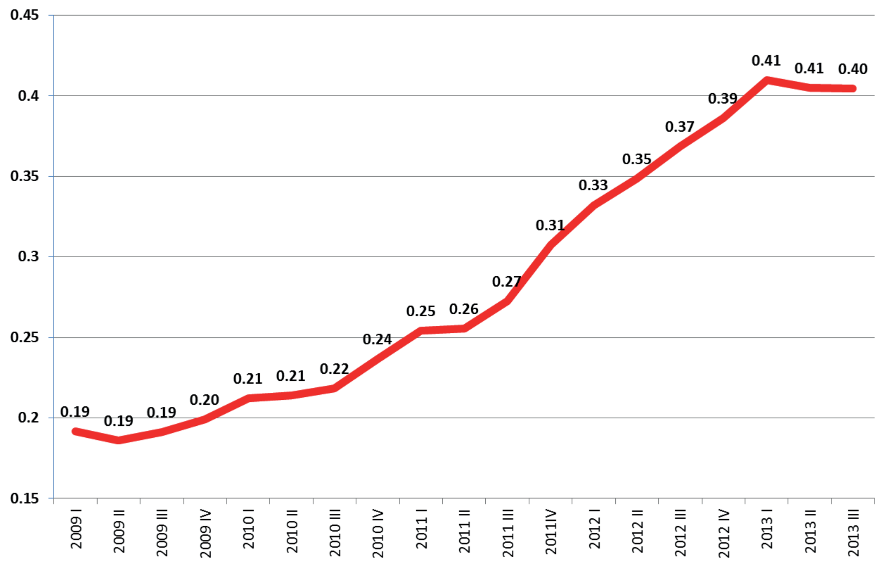
ii some of the unemployed persons who had ceased to receive unemployment benefits are reinstated as eligible for such benefits under the reformed framework;

iii the wage of low-paid workers (earning less than €1,000 per month) is raised.

Based on the above, we could argue that the strong tourism season of spring-summer 2013,

[2] The above index is calculated for different groups of households according to the characteristics of the household (e.g. depending on the level of education, age, region of residence, degree of specialization, profession, sector of activity, years of service, nationality, type of employment, etc.).

Chart 1: Evolution of the index of despair over time (average value for all households of employees)



Source: Calculations based on data from the Labour Force Survey, ELSTAT.

when a number of unemployed persons found jobs, even on a temporary basis, and subsequently the parallel implementation of a programme creating community service jobs for the unemployed (prioritizing households with more than one unemployed member) have led to a slight improvement in the index of despair (first condition)[3] . On the other hand, the introduction of benefits for the long-term unemployed during this period helps to fulfil the second condition.

As the "average" tends to mask extreme values thereby shedding a flattering light on the situation, let us use the metaphor of an apartment building to illustrate what is really going on. The households under review are assumed to live in an apartment building with several floors; the floor on which a given household lives depends on its respective degree of despair. We are particularly interested in identifying those households that are the most in despair, as these are the most urgently in need of social protection. The building has five floors. On the ground floor, there are households with an index of despair of over 0.8. As we climb to higher floors, the index decreases, until finally in the penthouse we find households in no despair at all, since all of their members are employed and receive monthly wages of more than €1,000. The building also has a basement. There we can find people who sleep on sidewalks, households of illegal immigrants, socially excluded people and, generally, parts of the population that are not recorded by surveys or official statistics.

As the crisis unfolds, we can see movements in the building, which can be grouped into two types:

- The first type of movement is horizontal. This is the case when a household moves into or out of the building. The number of tenants in the building is currently 4.24 million, up from 4 million before the economic crisis, having increased by 240 thousand. This increase reflects cases of households moving into the building as their self-employed members lose their jobs and thus qualify as tenants. There are also flows out of the building, which occurs when a member finds a job as a self-employed or becomes a pensioner.

[3]The dampening effect that the strong tourism season of 2013 had on the index of despair is evidenced by the evolution of the index broken down by place of residence of households: the index fell markedly in Crete, the Ionian Islands and the South Aegean, all areas with high tourism activity.

- The second, and most important, type of movement is vertical, when households move from upper floors and the penthouse to lower floors down to the ground floor. When a household member loses his/her job, when his/her wage is reduced and gradually falls below €1,000, below €700 or below €500, when the duration of unemployment benefits ends and their payment is discontinued, then the degree of despair of the household rises, and the household takes the elevator to a lower floor. When is has lost everything, it ends up on the ground floor of the building. Living on a specific floor is therefore not a given.

In the third quarter of 2013, the building is home to 65% of the total unemployed persons in the country, or 855 thousand people, up from 282 thousand before the economic crisis. Specifically, 292 thousand households with a total of 706 thousand members, of which 432 thousand are unemployed, live on the ground floor. That is, more than half of the unemployed persons in the building live on the ground floor. Of these 292 thousand households, 181 thousand have one unemployed member each, 89 thousand have two unemployed members, 15 thousand have three, while the remaining 6 thousand households have four or more. These figures have increased more than five times in just four years.

As mentioned above, 65% of the unemployed persons in the country live in the building; the remaining 35% live outside the building, in households which, by definition, include at least one self-employed member or a pensioner and are therefore better off than the unemployed persons living on the ground floor of the building.

On both of the first two floors of the building, the number of tenants has increased. In contrast, upper floors are home to less and less households (gradual pauperisation) due to flows out of the building. For example, the number of tenants in the penthouse has shrunk by 600,000 individuals (or 200,000 households). These households moved to lower floors during the crisis or, if they were extremely unlucky, went right down to the ground floor.

Chart 2 shows changes in the structure of the population on the ground floor over time. The colours in the stacked bars denote the different groups as follows: red: unemployed persons not receiving unemployment benefits; green: unemployed persons receiving unemployment benefits; purple: children aged 0-14; blue: economically inactive members (housewives, students, soldiers, persons incapable of work, etc.); and black, at the bottom of each column: employees who support the members of the previous categories. These are barely discernible, almost non-existent. When a household's index of despair is higher than 0.8, this means that, at best, it includes one employee, who is paid less than €500 a month. At worst, which is the most likely case, all members of the household are unemployed and few of them receive unemployment benefits.

There are 706 thousand people living on the ground floor. These households include no pensioners or self-employed, but only few employees, some unemployed persons, children and economically inactive members. Their only source of income therefore consists in wages and unemployment benefits. Employees paid less than €500 (denoted by the black bar in the chart) should "theoretically" provide for all the other members.

The proportion of breadwinners to dependents is as follows: For each employee who lives on the ground floor of the building and earns a month pay of no more than €500, there are 100 dependent members; for each unemployment benefit there are 35 dependent members.

We realise that here on the ground floor households have no money. They cannot benefit e.g. from a heating allowance, as they cannot afford to buy heating oil in the first place. Rather, they would need a survival allowance or a food allowance. Here the cold can be suffered, hunger cannot. And there are about 120 thousand children under 14 living in these households.

Things are somewhat better upstairs (Chart 4). Employees are more in number, and so are unemployment benefits. Of course the unemployment benefit will cease at sometime in the future and the risk of falling back downstairs is high. The income gap from households on the ground floor is no more than €500. As mentioned above, the higher the

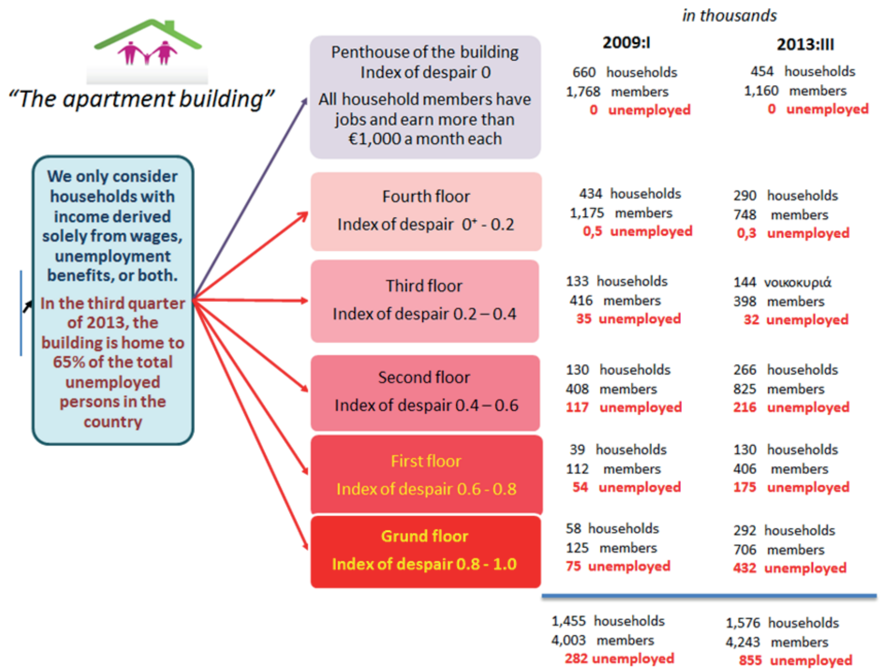
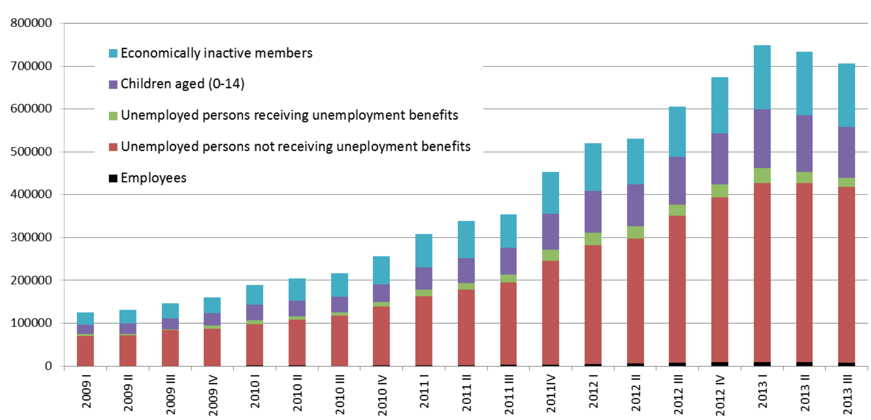
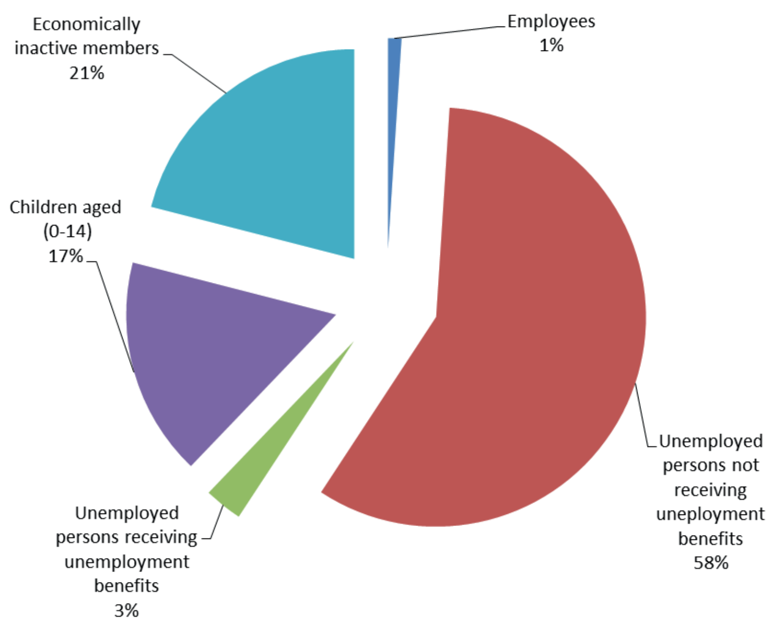


Chart 2: A visit to the ground floor of the building - households in absolute despair. Evolution of the number of household members on the ground floor



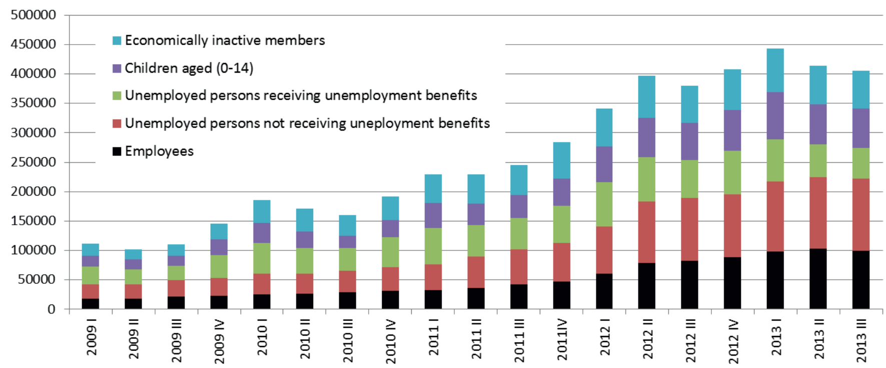
Source: Calculations based on data from the Labour Force Survey, ELSTAT.

Chart 3: Structure of household members living on the ground floor of the building in Q3 2013



Source: Calculations based on data from the Labour Force Survey, ELSTAT.

Chart 4: Evolution of the number of household members living on the first floor of the building



Source: Calculations based on data from the Labour Force Survey, ELSTAT.

floor, the better the situation. The unemployed persons who live on higher floors are better cushioned by family income.

In the penthouse (Chart 5), there are no unemployed, all household members have jobs and earn more than €1,000 a month each. The economic crisis has certainly reduced the number of tenants here too, with some households taking the elevator to lower floors when their members lose their jobs or face wage cuts.

The tenants of the penthouse have most certainly suffered reductions in their income, but these changes are not reflected in the index of despair. A decline in the monthly wage from e.g. €3,000 to €2,000 is outside the scope of our investigation.

Over the last two quarters (Q2 and Q3 2013), some stabilization can be seen in the index of despair, with a slight decline in the number of tenant son the overpopulated ground floor. Indeed, some households have managed to move upstairs, for the first time since the start of the economic crisis. In figures, this appears to be the case with about 42 thousand household members, including 21 thousand unemployed persons (of which 14 thousand receive unemployment benefits) and 18 thousand children.

What households live on the ground floor? Are they known to us? Are they immigrant households? Are these the households that in earlier national action plans on social inclusion had been identified as being at greater risk of poverty, such as: households with an elderly head, households living in mountainous and inaccessible rural areas, single parent households or households with many children, households with low skills, households with disabilities, etc.? According to LFS data:

- To 84% are Greek (only 9% are Albanians)
- 66% are male
- 47% are married
- 33% are aged 20-39, 55% are aged 40-59 and 12% are aged 60+
- 21% have completed tertiary education, 48% secondary education and 30% primary education
- 8% of tertiary education graduates have a doctorate or master's degree
- 17% had a job one year earlier and 69% are long-term unemployed
- 83% of those who had a job one year earlier were employees
- 83% report that they have not rejected any offer of work
- 40% live in Athens, 11% in Thessaloniki
- just 0.8% have a job and their monthly wage is up to €499

We should keep in mind that the LFS does not record homeless persons or households without a residence. On the other hand, illegal immigrants as a rule are afraid to open the door to strangers and will not respond to surveys conducted by the Hellenic Statistical Authority.

The next question would be: how do these households cope?

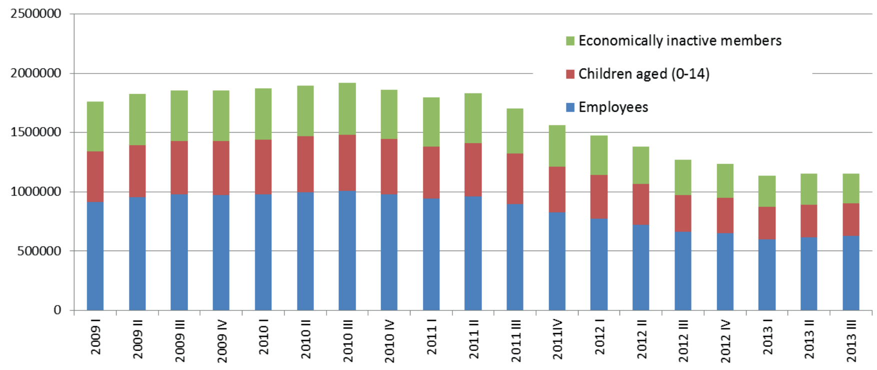
According to responses to the LFS:

- 51% depend primarily on people outside the household (neighbours, friends, acquaintances …).
- 16% receive some allowance, benefit or small pension (e.g. disability, death, old age …).
- To 8% are supported by other people in the household
- the remaining 25% report that they depend on a combination of sources (neighbours, an allowance, relatives, occasional work …)

The new poverty does not have the characteristics of the pre-crisis poverty. For example, the proportion of the elderly (65+) and the proportion of pensioners (of any age) who are at risk of poverty have declined significantly. Rather, the new poverty is closely linked to unemployment.

Given budgetary constraints, it is clear that government policy should step up its efforts to reduce the adverse impact of the current economic crisis. In this regard, as suggested by the findings of this paper, the main focus should be on the unemployed: in addition to (mostly short-term) income subsidies that help them to better weather the crisis, particular attention should be paid to facilitating their access to the labour market as well as to social services (health, education, childcare, etc.), thereby

Chart 5: Evolution of the number of household members living in the penthouse of the building



Source: Calculations based on data from the Labour Force Survey, ELSTAT.

also reducing the likelihood of long-term social exclusion for some of these people. At the same time, the cost of these policies would be money well spent, as this group represents a potential new enclave of economic precariousness and poverty. Furthermore, it is essential that access to the labour market should be combined with a shift towards higher-quality jobs and to more secure attachment to a well-structured labour market. This could be sought e.g. by establishing, and making accessible to as many unemployed persons as possible, programmes of on-the-job training, retraining and education in the skills required in the new conditions, as shaped by technological change and challenges.

In the current period, with limited or no budgetary resources, social protection will be more efficient and effective when it targets more the overall needs of a household rather than the needs of individual members.

As suggested by the results of our research, a part of the population took the elevator and were zipped down to the ground floor of the building, without any intermediate stop. These people are currently the most vulnerable. On the ground floor of the building, people have nothing to lose now. Unless of course they have loan arrears, unpaid electricity bills, unpaid taxes…

Another part of the population take the elevator and goes down gradually, with increasing despair. If nothing changes, it will not be long before they reach the ground floor of the building.

The drafters of the Memorandum were aware of the problem even before the austerity measures began to be implemented. It was for this reason that they set a MoU requirement for the implementation of a pilot income support programme (minimum guaranteed income) by 2014. After this pilot run, it is necessary to roll this programme out nationally.

This time we must channel the scarce available resources to the citizens who are facing the most severe difficulties. We all know that in the past only a small part of social resources reached their intended recipients. The most part was lost to mismanagement and ended up in the pockets of people who were not the true beneficiaries. We should not forget that tax evaders steal from the state twice. Once by hiding their incomes and not paying the corresponding taxes, and again, as on the basis of their understated income they take advantage of for social transfers. At present, it is absolutely necessary that resources should be directed at households in absolute despair. The community service jobs programme that gives priority to households with more than one unemployed member is moving in the right direction. But we must not forget that the recession and the problems remain. And the ground floor is suffocatingly packed with despair.

2. WHO PAYS INDIRECT TAXES IN GREECE? EVIDENCE FROM THE PERIOD OF THE CRISIS[1]

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1. INTRODUCTION

Throughout Greece's recent history, indirect taxes have been occupying center stage in financing the public budget. Contrary to what the theory and international experience would predict (Gordon and Li 2009), the share of indirect taxes in total tax revenues has remained very high (around 60 percent), despite the fact that Greece now belongs to the group of advanced economies. Since Greece's entry to the European Union in 1981, tax increases were used as the primary means to ensure compliance with the fiscal criteria set at the EU level. Very recently, new indirect tax hikes have extensively been used as part of successive bailout packages and associated austerity measures. At the same time, the structure of the indirect tax system has drastically changed. As a result of pressures to remove trade and factor mobility distortions in the unified market, Greece reformed its indirect tax system, replacing a complex system of indirect taxation, with highly differentiated tax rates, with an increasingly simplified and uniform system of taxation.

The present study aims at exploring the distributional effects of these tax reforms which have affected both the structure and level of indirect taxes. We do so by using microsimulation modeling and data from Household Expenditure Surveys covering the 1988-2011 period, namely the surveys conducted in 1988, 2002, 2005, 2008 and 2011. The choice of years is dictated both by expediency and data availability. 1988 is one year after VAT was introduced while many hangovers from the protectionist and overly complex indirect tax system of the past still remained. By 2002 the major indirect tax reforms simplifying the tax structure had been completed and Greece was part of the eurozone. In 2005 existing fiscal imbalances had triggered the corrective arm of the Stability and Growth Pact and increases in indirect taxes were employed by the Greek government in order to bring the excessive deficit procedure launched by the ECOFIN Council to an end. 2008 is the year before the outbreak of the severe fiscal crisis and therefore serves as a suitable basis against which the impact of the crisis can be evaluated. Finally, the latest available microdata refer to 2011 and by that time, sizable VAT and other indirect tax hikes had been employed as part of successive fiscal consolidation packages.

The present paper contributes to the existing literature in several ways. First it is the first study to adopt a longer term perspective in analyzing the distributional effects of indirect taxes in Greece. Given the weight of such taxes in total tax revenues, such an analysis has profound importance both for policy makers and the general public. Second, the paper explores whether the process of simplification of the indirect tax structure sacrificed the goal of equity, thus further informing the discussion on the use of indirect taxes as an effective distributive tool. Third, the paper is the first one to assess the distributional impact of all recent drastic increases in indirect taxes in Greece, therefore improving our understanding of the social impact of the recent severe austerity measures. Moreover, it does so by employing 2011 microdata on household expenditure. This poses a serious methodological advantage, since the economic recession between 2008 and 2011 reached a cumulative -15.1 percent, so that simulating any indirect tax reforms on the ba-

[1] This work was carried out at the Department of Economics, University of Athens, Greece, and supported by the Special Account Research Grant 11105. The authors keep the entire responsibility for remaining errors.

sis of pre-crisis expenditure patterns could seriously compromise the validity of results.

This paper is a summary in English of the paper written in the Greek part of this volume. The interested reader is referred to the Greek version of the paper for a more detailed analysis and also to Kaplanoglou (2014), on which part of this paper extensively draws. The structure of the paper is as follows. Section 2 provides a short description of the level and structure of indirect taxes in the 1988-2011 period. Section 3 describes the data used in the study, as well as methodological choices and caveats. Section 4 explores and compares the distribution of the indirect tax burden among Greek households in the five years under consideration and assesses the effects of indirect taxes on welfare inequality. Section 5 assesses in more detail the distributional implications of major indirect tax increases adopted as part of fiscal consolidation packages after the outbreak of the recent fiscal crisis, while section 6 concludes.

2. THE LEVEL AND STRUCTURE OF INDIRECT TAXATION: 1988–2011

Despite increasing levels of overall taxation over the last 25 years, consumption seems to remain the most important tax base in Greece, contrary to what the theory and international experience would predict (Gordon and Li 2009, Fox and Gurley 2005). Although revenues from indirect taxes account for approximately 2/3rds of government revenue throughout the period under examination, the indirect tax structure drastically changed. Prior to EU entry, the Greek indirect tax system had accumulated a large number of differentiated taxes, designed to meet budgetary targets and to protect domestic producers. As a result of EU membership, VAT was introduced and the indirect tax system was gradually simplified, as many taxes were abolished. By 2011, the VAT and special excise taxes accounted for more than 87 percent of total indirect tax revenues. VAT rates increased in 2005 as part of a major fiscal consolidation package launched by the Greek government at the time. Excise rates in general increased over time, with the exception of a major cut in the heating oil excise tax in 2003. Fiscal consolidation measures adopted after 2009 as a response to the severe fiscal crisis involved major indirect tax hikes in all VAT rates and all excises, most of which more than doubled.

3. METHODOLOGY AND DATA

The evaluation of the distributional effects of indirect taxes is based on Household Expenditure Survey (HES) microdata, collected by the Hellenic Statistical Authority (EL.STAT.). The survey covers a sample of around 6,500 households until 2005, while since 2008 it is conducted on an annual basis with a sample of around 3,500 households. Response rates (between 70 percent and 85 percent) are in general higher than those in other European Union countries (Eurostat 2008). Since 2005, household design weights are applied by EL.STAT in order to account for imperfections in the sample and non-response bias, following the Eurostat methodology (Eurostat 2013). Expenditure is recorded at a highly disaggregated level (covering several hundreds of commodity groups). Indirect tax payments are calculated by applying nominal tax rates (of e.g. VAT or excises) on household expenditure on the respective commodities, implicitly indirect taxes are fully shifted to consumer prices.

Assessing the distributional impact of taxes requires a ranking of households in terms of welfare, which is not directly observable. We have chosen consumption over income as a better approximation of welfare both due to the practical limitation that income is severely under-reported in the Greek HES and on the basis of theoretical arguments. Such arguments suggest that consumption is a better measure of 'life-cycle' or 'permanent' income than current income, which may be subject to short-term fluctuations (Friedman 1957, Browne and Levell 2010). A further complication is that the HES records current expenditure rather than current consumption. The two notions may differ substantially for consumer durables, such as home repairs, cars and refrigerators. Such goods are purchased infrequently and provide their services to a household for a time period much longer than the one covered in the HES. Therefore, a household might appear, for example, in the top decile of the expenditure distribution because it happened to purchase a car during the week it was surveyed. We therefore measure welfare by the household's expenditure on all nondurable items (McGregor and Borooah 1992, Newbery 1995, Newbery and Révész 2000). Household non-durable expenditure has been deflated and adjusted for differences in household size and composition using the modified OECD equivalence scale (Hagenaars, de Vos and Zaidi 1994). To sum up, households are ranked by equivalent expenditure on non-durables for the assessment of the distibutional effects of indirect taxes, while the calculation of inequality measures is derived by assigning equivalent household expenditure on non-durables to each equivalent member.

4. DISTRIBUTIONAL ASPECTS OF THE INDIRECT TAX SYSTEM: 1988–2011

Throughout the period up to the fiscal crisis, the total burden of indirect taxes has remained surprisingly stable at around 11.5 percent of total household expenditure, despite extensive reforms in the structure and rates of indirect taxes. However, the distribution of the indirect tax burden across households at different welfare levels has changed. Figure 1 shows how the share of household expenditure paid in indirect taxes evolved across deciles of households during this period. The simplification of the indirect tax system (roughly approximated by the 1988-2002 period) seems to have benefitted wealthier groups, since the tax share rose in the lower half of the welfare distribution and fell among richer deciles. The opposite pattern is detected between 2002 and 2005, though much less pronounced. Between 2005 and 2008 the indirect tax burden appears to have levelled off across the household welfare distribution, suggesting that the increase in petrol excises and the decrease in stamp duties on rents in this period had broadly offsetting effects. Looking at the twenty year period before the fiscal crisis (1988-2008), Figure 1 suggests that households belonging to the lower half of the distribution ended up paying a slightly higher share of their total expenditure on indirect taxes, while such payments have fallen in increasing proportions among richer households.

The fiscal crisis and associated austerity measures signify a drastic increase in the indirect tax burden which stands at around 14.5 percent of household expenditure in 2011. Between 2008 and 2011, the rates of practically all indirect taxes were raised, while the share of revenues from such taxes in GDP significantly increased during the same period. Middle-income households now appear to bear a relatively higher burden from indirect taxes. Considering the whole period since 1988, the effect of the indirect tax hikes since 2008 dominates; indirect tax payments in 2011 represent a distinctively higher share of household expenditure compared to 1988 throughout the income distribution. However, the increase is not uniform. The poorest 20 percent of households have witnessed an increase in indirect taxes of around 3-4 percent of their household expenditure, while for the 20 percent wealthiest households such increase is under 2 percent (see Figure 1).

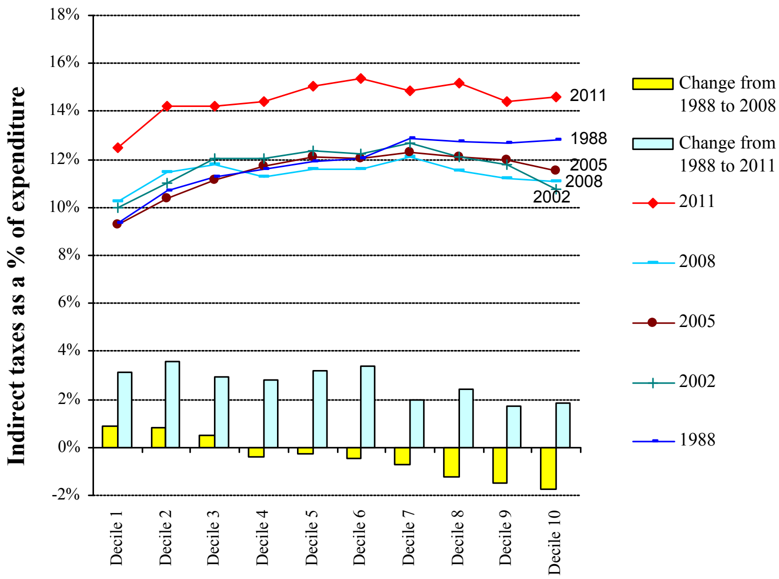
The pattern of indirect tax payments by commodity group in 2011 appears in Figure 2. This figure shows the cumulative distribution of tax payments at a commodity level, where taxes have been ranked in order of regressivity. It becomes apparent that there is a clear grouping of regressive taxes, namely those on food, tobacco, housing (which includes heating oil) and communication. In fact, indirect tax on food is the single most regressive tax, while taxes on clothing, recreation and restaurants are clearly progressive, suggesting that the consumption of the latter has acquired more luxury character. It is also worth noting that taxes on health are progressive, since VAT was introduced in private hospital treatment.

4.1 THE EFFECT OF INDIRECT TAXES ON INEQUALITY

One way to assess the effect of indirect taxes on inequality is to measure the change in inequality induced by the existing tax system vis-à-vis a tax system of uniform equal-yield taxes applying to all goods and services. We employ several inequality measures, i.e. the well-known Gini index, the Atkinson indices for values of inequality aversion of 0.5, 1 and 2, and the two Theil indices, T and N. This is done because different inequality indices reflect different value judgements about the relative importance of the welfare of people in different parts of the distribution.

Table 1 presents by how much inequality increases or decreases as a result of the indirect tax system in 1988, 2002, 2005, 2008 and 2011 com-

Figure 1: Evolution of the Indirect Tax Burden by Expenditure Group, 1988–2011



pared with a distributionally-neutral uniform equal-yield tax. The 1988 indirect tax system appears to have minor distributional benefits over the uniform tax, since inequality declines by 2 percent-4 percent. Thus, the simplification of the indirect tax system which took place since then seems to have had adverse redistributional effects. Nevertheless, the increase in inequality is very small and, in fact, if one plotted the relevant Lorenz curves, they would cross, so that neither distribution dominates the other. Some redistributive power was regained by the tax reforms introduced since 2002. The most influential reform in this aspect has been the strong decrease in the heating oil excises by 2003, which is one of the most regressive taxes. The levelling off of the indirect tax burden across the distribution of households in 2008, depicted in Figure 1, is also reflected by the fact that inequality hardly changes if the 2008 tax system is replaced by a uniform tax (see column 4 of Table 1). The tax increases introduced since then had a clearly adverse distributional effect, with all indices suggesting that inequality would increase if the 2011 indirect tax system replaced a uniform tax. In fact, Table 1 suggests that the 2011 system is the most regressive one since 1988.

5. THE DISTRIBUTIONAL IMPACT OF AUSTERITY: A CLOSER LOOK AT THE RECENT INDIRECT TAX HIKES

The sharp increase in the indirect tax burden of households as a result of the drastic rise of rates of almost all indirect taxes after 2008 deserves a closer look. Indirect tax rates increased for all commodity groups, yet the increase was not uniform. Certain groups, such as clothing, household goods (durables and non-durables) and recreation, were affected just by the rise in VAT rates. The highest increases are recorded for alcoholic beverages, tobacco and transport (including transport fuel), the excises on all of which almost doubled between 2008 and 2011. Restaurants were moved from the reduced to the standard VAT rate, while there was also a considerable rise in fees on cell phone bills. Hotels benefited from the government policy to boost tourism by transferring hotel services from the reduced to the base VAT rate.

The above increases in the tax component of the retail price of various commodity groups do not translate into analogous increases in the tax payments of households, as the latter adjusted their consumption patterns in reaction both to the changes

Figure 2: Cumulative Indirect Taxes by Deciles, 2011

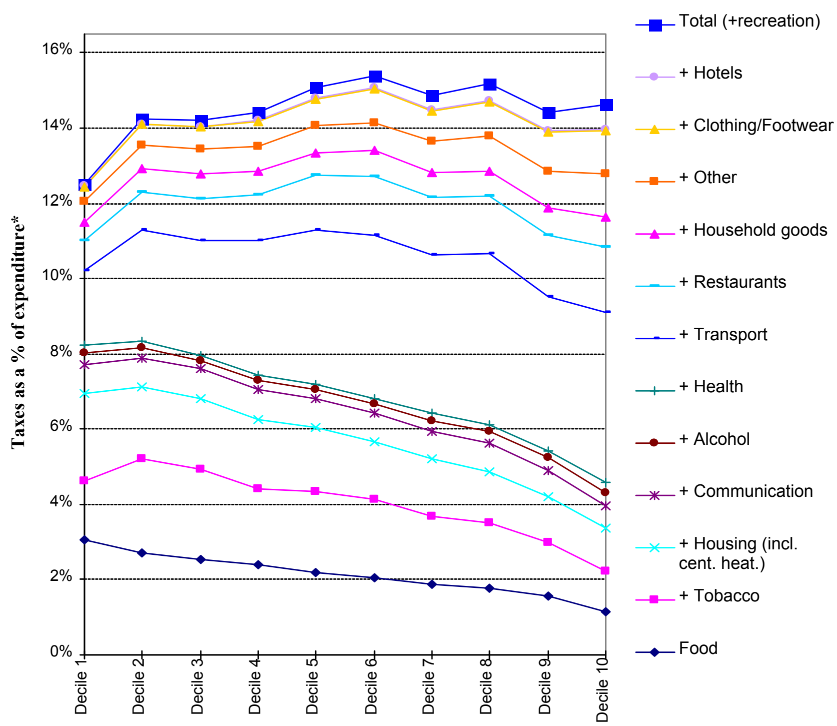


TABLE 1
Change in Inequality Induced by the Actual Tax System Vis-à-vis a Uniform Equal-yield Tax

	Absolute change in indirect tax rate	*Proportional change in indirect tax rate*	*Highest increase in indirect tax rate*	*Lowest increase in indirect tax rate*
All households	3.1%	27.2%	4th and 5th deciles of families with children	richest 10% of households with head unemployed
Families with children	3.7%	31.2%	4th and 5th deciles (43%)	7th decile (23%)
Households with head Pensioner	2.8%	27.6%	richest 10% (42%)	8th decile (21%)
Households with head Unemployed	2.3%	17.9%	poorest 10% (28%)	6th decile (14%)
Other households	3.4%	28.3%	4th decile (33%)	8th decile (27%)
Poor households[a]	3.3%	28%		
Non-poor households	3.0%	26%		

[a] The poverty line is set at 60% of median equivalized household expenditure (including imputed expenditure).

in relative prices of commodities and to the severe changes in their income. Hence, households with different demographic characteristics were not equally affected by the recent indirect tax hikes (see Table 2). Families with children witnessed the largest rise in their indirect tax burden in both absolute and proportional terms compared to other population groups, while households with head unemployed the lowest. Moreover, in all demographic groups (with the exception of pensioner households), it is deciles belonging to the lower half of the income distribution that experienced the sharpest rise in their indirect tax burden.

Figure 3 adds some intuition in explaining the above differences. The sizeable rise in transport taxes appears to have burdened most families with children, for whom such expenditure is rather more inelastic. Concentrating on the poorest 10 percent of this population group, they spend the bulk of their budget in necessities like food and housing (including heating oil). As indicated by Figure 3, they seriously reduced expenditure on household goods, tobacco, recreation, clothing, even medicines and practically reduced to zero holiday expenditure. Nevertheless, the increase in the VAT on food and housing taxes (primarily on heating oil and electricity) accounts for almost 75 percent of the total rise in their indirect tax burden. It is worth noting that the increase in taxes on food and housing as a percentage of total expenditure for this particular population group is almost double the population average.

Around 80 percent of the increase in indirect tax payments is accounted for by food and housing (including heating oil) also in the case of households with head unemployed. This is partly explained by the high concentration of such households in urban areas[2] and their limited access to own food production and to heating means other than heating oil. On the other hand, these households are the only ones to pay a lower share of their expenditure in tobacco taxes in 2011 compared to 2008, though with the data at hand it is hard to tell whether they indeed reduced smoking or they turned to the black market.

Almost three quarters of households with head pensioner reside in rural or semi-urban areas. This suggests they have extensive access to their own food and alcohol production and heating means other than heating oil. Half of them do not own a car and 90 percent live in owner-occupied dwellings. As a result, they were affected by indirect tax hikes (particularly in alcohol and fuel excises) less than most of the other demographic groups.

Table 2 also shows that the indirect tax hikes seem to have burdened more the poor households relative to the non-poor. It is also worth noting that relative poverty did not particularly rise between 2008 and 2011 and around 19-19.5 percent of the population falls below the poverty line[3]. Taking into account that relative poverty is anchored to a median value (60% of median equivalised expenditure), it comes at no surprise that poverty in relative terms does not rise in an environment of an unprecedented economic recession, which implies a continuous decline in household income and expenditure levels. However, if we fix the poverty line at the 2008 level (around 750 euros per month for a single member household), this percentage increases to over 24 percent. If we exclude imputed expenditure from the household welfare indicator the respective percentages increase to 19.5 percent and 28.5 percent (see Table 3).

Finally, it is worth looking in more detail the case of the excise tax on heating oil. This tax was tripled between 2008 and 2011 (from 21 euros/1000 litres to 60 euros/1000 litres). In the fall of 2012 the government in an effort to contain evasion, aligned heating oil and transport fuel excises at 330€ per hl, which implied a further 450 percent rise in the heating oil excise. The present paper has not simulated this increase, since the latest HES data available cover 2011. Figure 4 (bottom line) presents the rise in the indirect tax burden of households implied by the increase of this tax by 2011 and suggests that the middle-income households were mostly affected. However, this is partly misleading, since households, especially the poorer ones, might have reduced their expenditure on heating oil as a response to the increase in its price. The middle line of figure 4 presents the distribution of the increase in the heating oil excise in 2011 assuming that all

[2] According to the 2011 HES data, 75 percent of such households resides in urban areas, while the respective population average is 42 percent.

[3] We include imputed expenditure in household expenditure and this is crucial as around 80 percent of the population line in owner occupied houses.

TABLE 2

The Effect of Indirect Tax Reforms since the Crisis by Household Type (change in the share of household expenditure paid in indirect taxes, 2008-2011)

	Absolute change in indirect tax rate	*Proportional change in indirect tax rate*	*Highest increase in indirect tax rate*	*Lowest increase in indirect tax rate*
All households	3.1%	27.2%	4th and 5th deciles of families with children	richest 10% of households with head unemployed
Families with children	3.7%	31.2%	4th and 5th deciles (43%)	7th decile (23%)
Households with head Pensioner	2.8%	27.6%	richest 10% (42%)	8th decile (21%)
Households with head Unemployed	2.3%	17.9%	poorest 10% (28%)	6th decile (14%)
Other households	3.4%	28.3%	4th decile (33%)	8th decile (27%)
Poor households[a]	3.3%	28%		
Non-poor households	3.0%	26%		

[a] The poverty line is set at 60% of median equivalized household expenditure (including imputed expenditure).

Figure 3: Change in Indirect Tax Burden by Demographic Group, 2008–2011

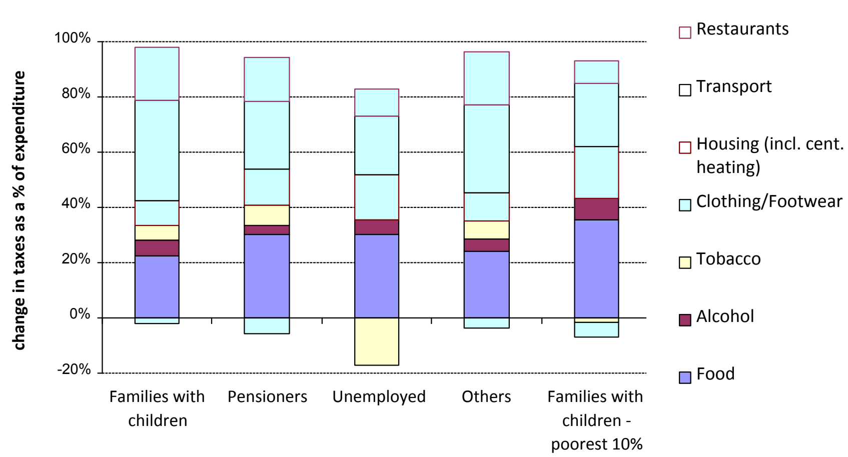


TABLE 3
Percent of population under the poverty threshold, 2008 and 2011

2008 - relative poverty (614 euros per month for a single-member household) – welfare indicator: total consumption expenditure	19,1%
2011 - relative poverty (522 euros per month for a single-member household) welfare indicator: total consumption expenditure	19,5%
2011 – poverty threshold of 2008 (614 euros per month for a single-member household)	28,6%
2011 - poverty threshold of 2008 (760 euros per month for a single-member household) welfare indicator : total consumption expenditure + imputed expenditure	24,2%

households kept heating oil consumption constant at 2008 levels. This corresponds to the hypothetical scenario that households were equally warm in the cold days of 2011 and of 2008. It now becomes evident that the poorer 20% of the population drastically cut down its expenditure on heating oil and this is the sole reason it appears quite unaffected by the rise in the excise tax.

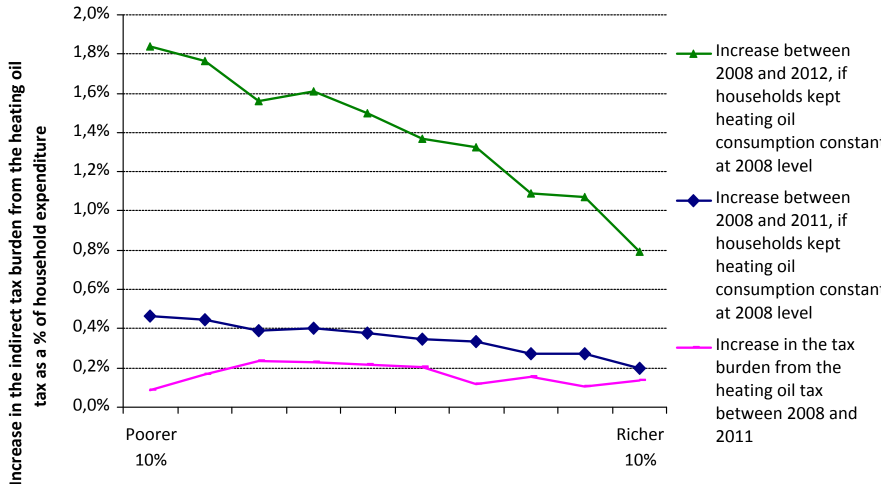
2012/3 Household Budget data were not available when this analysis was made. In a similar vein of analysis, however, we can explore what the increase in the tax burden of Greek households would have been from the rise in the heating oil excise tax in the fall of 2012, had they maintained their heating oil consumption. This scenario draws a rather bleak picture (see top line of Figure 4), as poor households would have to drastically increase their expenditure on heating oil. This apparently hasn't happened with detrimental effects on their standards of living. In any case, one would need more recent data in order to draw a more accurate picture of what really happened.

6. CONCLUSIONS

Taking a retrospective view of the Greek indirect tax system, one draws the conclusion that during the 20 years before the outbreak of the economic and fiscal crisis in 2009, the average burden of indirect taxation (measured as the share of household expenditure absorbed by indirect taxes) remained remarkably stable despite various tax reforms. However, changes in its distribution appear to have benefited wealthier groups. Households at the lower end and the middle of the welfare distribution paid a slightly higher proportion of their total expenditure in indirect taxes in 2008 compared to 1988, while richer households gained in relative terms during the same period. Overall, the impact of the indirect tax system became rather worse in terms of its effect on inequality, but only slightly so. It therefore appears that the simplification of the tax system, primarily induced by EU membership, was achieved at relatively little cost in terms of adverse distributional impact.

The recent fiscal crisis signifies a big change regarding both the level of indirect taxation and its distribution. Indirect tax hikes were extensively employed since 2010 as part of fiscal consolidation packages aimed at sharply reducing public budget imbalances. As a result, the share of household expenditure absorbed by indirect taxes increased by about a third between 2008 and 2011. Moreover, the 2011 system appears as the most regressive one during the last 25 years. Major changes in the composition of household expenditures also played a role in this outcome. Up to 2008, taxes on cars and their use appear to reverse what would otherwise be a regressive indirect tax structure. The collapse of the car market after the outbreak of the crisis seems to have deactivated this progressive arm of the tax system. Finally, the recent indirect tax hikes seem

Figure 4: Distribution of the burden from the increase in the heating oil excise tax between 2008 and 2012



to have impacted quite differently on different demographic groups, with families with children (especially those in the lower half of the welfare distribution) being the big losers.

The present study suffers from obvious limitations, since it is looking just at one part of the tax system within a climate of a severe economic recession, sizeable increases in income and property taxes, wage and pension reductions and galloping unemployment. Nevertheless, its findings have serious policy implications, especially at the current conjunction. Indirect taxes have been raised in the past, albeit in a smaller degree, but the negative distributional impact of the rises was partly offset by decreasing a single strongly regressive tax (on heating oil) in the 2002-2005 period. Such considerations apparently are not part of current policy. On the contrary, in the fall of 2012 the government in an effort to contain evasion, aligned heating oil and transport fuel excises at 330€ per hl, which implied a 450 percent rise in the heating oil excise. The present paper has not simulated this increase, since the latest HES data available cover 2011, yet our findings suggest that it must have had a detrimental distributional impact. Furthermore, it is highly probable that the heating oil subsidy granted on the basis of geographical criteria did not sufficiently reach vulnerable population groups like the unemployed, the bulk of whom reside in urban centers as demonstrated here. Families with children, as indicated above, is another example that deserves closer attention, since they have also been disproportionally burdened by recent reforms in the personal income tax system (Darsinos 2013).

In the last five years, Greece has achieved the largest cumulative fiscal consolidation in the recent history of developed countries, yet at the expense of the greatest peacetime economic recession in recent history. What is more, the need for fiscal adjustment will probably remain for many years. Indirect tax reforms adopted since 2010 have contributed in reducing public deficit, but have had an adverse distributional impact. Data for 2012 and 2013 will most probably draw an even bleaker picture. Containing fiscal imbalances in a sustainable manner, while and at the same preserving social cohesion and limiting adverse distributional effects is a crucial, yet highly uncertain bet. With indirect taxes currently yielding over 60 percent of total tax revenues, the present study aims at pointing out that this bet can't be won unless reforms are planned in an informed manner, which is rather absent in policy decision making so far.

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3. GENDER AND FISCAL SUSTAINABILITY: ARE WOMEN INEVITABLE VICTIMS OR AGENTS OF FISCAL RENAISSANCE?

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1. INVISIBLE CONSEQUENCES OF AND THE ROLE OF THE FAMILY

Are women the inevitable fated victims of the fiscal adjustment currently underway in Greece? Or could they possibly form part of a solution to the fiscal impasse of the coming decade? Are they part of the problem, or part of the solution?

These questions cannot be answered simply. It is not sufficient to examine visible and measurable consequences of how revenue and expenditure is shared. When trying to look at the redistributive effects of a a budget or of a series of budgets (or indeed of any policy package), there exist some impacts that can be accounted for with greater clarity and can hence appear more systematically in statistics.

There also exist, however, other, more intangible consequences and for that reason, more devious. Even if we have data as regards the balance between men and women, as regards the labour market, wages or unemployment, would still not be able to gauge the total impact on gender issues (Bettio et al. 2012; Budlender, Sharp & Allen, 1998; European Parliament, 2012).

The reason for that is that the ultimate effect of the Budget by gender is mediated by another agent very resistant to measurement: the family. Those are the cases where the final impact is not simply the addition of separate data; to see that we need to take a wider view (Budlender, 2002; Elson 1998, 2006; Griffith & Nallari, 2011; Quinn, 2009; Sarraf, 2003. This observation holds everywhere; however it can be held to be of especial application in Greece – where any gender-based analysis would be seriously incomplete, were it to neglect that all statistics are processed by the filter of the strand Greek family.

This chapter examines a series of indications in order to make a start at answering the question set, both before and during the crisis. It concludes that the danger of backtracking in matters of gender remains active – especially if complacency obscures the gender dimension of fiscal problems.

What the relegation of women to the sidelines can mean to fiscal viability is hardly discussed. A possible reversal of past gains with a mass exit of women from the labour market towards the family and unpaid care would imply a permanent loss of taxable capacity. Thus the tax burden would be shared amongst far fewer people – with all that that implies for incentives and for growth. Extending gender balance would also mean balance in burden sharing. It is no exaggeration that without women's work the viability of fiscal accounts threatens to remain simple wishful thinking.

2. GENDER BALANCE: A LUXURY ONLY FOR TIMES OF PLENTY?

Is gender balance a fair-weather luxury? Many in Greece, even without admitting it openly, actively mean and think so.

Nothing could be further from the truth. You don't have to be a feminist economist, to realise that fiscal stability, economic growth and gender balance are mutually reinforcing rather than antithetical. Gender balance is not a luxury to be handed down as a reward of growth to 'minorities' – real or imagined. Instead, it is a process based on mutual reinforcement (Berik, van der Meulen Rodgers & Seguino, 2009; Braunstein, 2007; Galor & Weil, 1996; Dollar & Gatti, 1999; Elson, 2009; Klasen, 1999; Klasen & Lamanna, 2009; Lagerlöf, 2003; World Bank, 2005). In other words, underlying factors causing growth.

The IMF recently concluded so. The Fund, which in the mind of many vies for the role of the hardest of technocrats, has discerned a mutually supportive link between gender equality and macroeconomic stability. Growth assists equality; but it is also true that without equality, economic growth and stability are hampered (IMF, 2013; IMF & World Bank, 2007; Lagarde, 2013; Stotsky, 2006). A crucial step in the analysis is the nurturing, on a sustainable long term basis of a solid and fiscally healthy revenue base.

In this context, when macroeconomic factors dictate retrenchment of expenditure, the question is which expenditure to but back and what impact would those cuts have on gender balance?

One of the most perncicious imbalances between men and women, is in the field of economic independence (CEC, 2010; Cha & Thébaud, 2009; Chichilnisky, 2008; Kabeer, 2005). The discussion on economic independence primary refers to a policy objective that encompasses more than simply access to paid work. It also covers non-paid work, such as caring, but also non-work income –such as income from property and social transfer entitlements (Bettio, Betti & Tinios, 2013). In our market-based society, it feeds non-only into economic liberty, but also distribution of power within the family. It determines, not only the distribution of income, but also the 'invisible' distribution of resources within the family unit.

As long as a range of policies create disincentives for work (tax policies, labour market, benefits etc), many women will not work (for pay). And while they are not working imbalances between the sexes as to life chances will remain. This imbalance is in Greece exacerbated by 'invisible duties' chiefly in care, which in other parts of Europe are the responsibility of the welfare state, but in Greece women are forced to do themselves (Bettio & Plantenga, 2004; Lyberaki, 2011a; Matsaganis, 2000).

3. WHAT DID 'OPERATION EQUALITY' ACHIEVE OVER 30 YEARS?

So, let's take a step backwards and, before looking at fiscal stabilisation for women today, examine what thirty years of consistent pursuit of gender balance has 'netted' us.

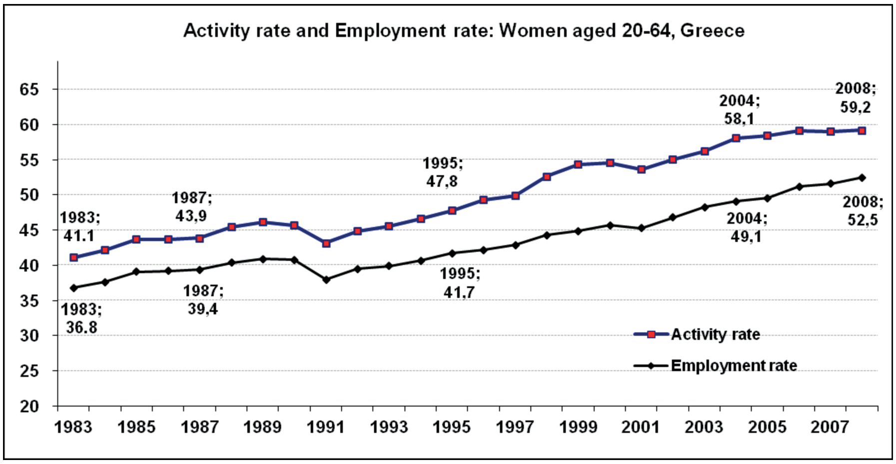
In the last 30 years, in Greece as elsewhere, there has been undoubted progress on gender equality, most obviously in the labour market: women's activity rates increased between 1983 (41%) and 2008 (59%) by 18 percentage points (Figure 1). If the average rate of change of the period 1997-2008 had persisted by 2020, then participation rates would have risen to about 74% - very near the Lisbon strategy targets. This was in line with rising employment rates (up by 60% between 1983 and 2008), as well as also by a remarkable shift away from unpaid work in family businesses to independent (paid) employment (unpaid family member's employment decreased by -56% over the same period) (Table 1).

So, while it is undeniable that the current crisis found women's employment on a steady rising path, this progress was not without its blemishes. (Burtless, 2001; Nicoletti, Scarpetta & Boyland, 2000) Chief amongst them was the far greater risk of unemployment women faced; also notable was always much higher (Λυμπεράκη & Τήνιος, 2010; Νικολίτσα, 2006).

Of note is also that most of the increase in women's employment was absorbed by the Government (Figure 2). One in four working women was occupied there in conditions of relative gender balance and high social protection. The other side of the same coin was the low level of protection accorded to the private sector – especially the numerous small firms outside any umbrella of labour law protection policies, laws and measures promoting Gender equality were very generous in the public sector, and essentially ignored and not implemented in the private sector. This attitude of selective application of protection has been termed 'Legalistic Formalism' (Lyberaki, 2010) of protection existing predominantly on paper. This certainly improved the position of lucky women in the public sector and contributed to a two-speed labour market. Gender protection social legislation was appropriated as a weapon to maintain the position of relatively protected groups. Legalistic formalism in combination with unchecked discrimination in the unregulated part of the market worked to the detriment of the most vulnerable in the insider/outsider divide.

The crisis gave rise to backtracking and reversal of progress regards women's employment (Bettio & Verashchagina, 2013; Lyberaki, 2012). In the private sector women's employment in 2013 has declined to the level of 1997 (Figure 3). In the public sector it is a little better - cancelling only 10 years progress. A key difference is that, whereas in the private sector this reduction was the result of redun-

Figure 1: Women's activity and employment rate, Greece, 1983–2008



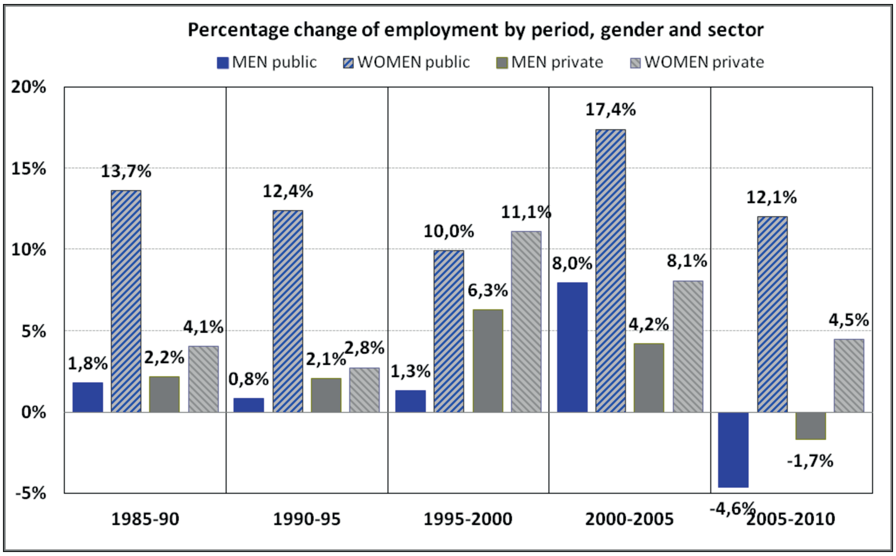
Source:LFS series.

Table 1: Women's employment and Unpaid Family Members, Greece 1983-2008 (in 000s)

Women 15-64	1983	1988	1993	1998	2003	2008	(%) Change 1983-2008
In employment	1099,0	1238,2	1266,1	1432,2	1595,7	1761,0	***60.2%***
Unpaid Family	384,8	389,4	310,5	293,8	213,2	166,9	***-56.6%***
Unpaid Family / In employment	35,0%	31,4%	24,5%	20,5%	13,4%	9,5%	***-25.5pp***

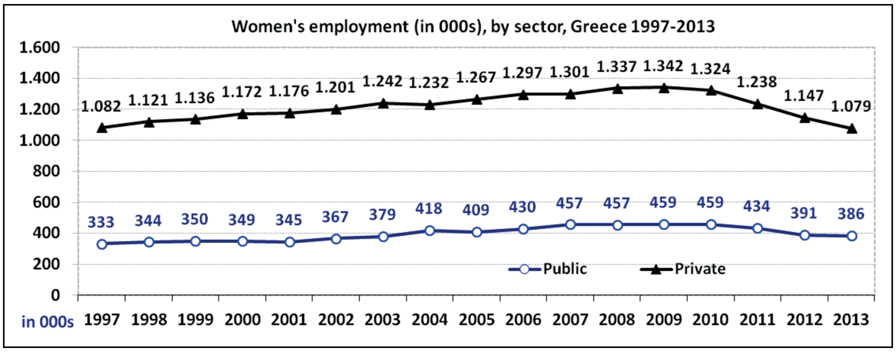
Source: LFS series

Figure 2: change in employment by gender sector 1985–2010



Source:LFS series.

Figure 3: employment (in thousands) by sector, Greece, 1997–2013



Source:LFS series.

dancies, in the public sector it was due has to early retirement.

Developments in the labour market naturally led to the embedding of a seires of gender gaps. Until the economic crisis, the Greek labour market operated on the implicit assumption of the male breadwinner model. Most regulations and institutional operation including Employment protection legislation were implicitly oriented to serve this compromise between the genders: Men were treated as 'normal' workers and women as ancillary helpers, in practice as second class workers. This gender dimension evidenced itself both in gender gaps in employment and unemployment; a very low participation rate, especially for mothers of small children; as well as over-representation of women in precarious and low paid jobs (Table 2).

Women over the past decades improved their employment outcomes; however not as much as elsewhere in Europe (Bettio & Verashchagina, 2009; Jaumotte, 2003; Pissarides, et al. 2005). On the other hand, men's employment rates in Greece remained quite close to the European average. The combination of these two trends explains the significantly higher gender employment gap in Greece in 2008 (28 percentage points), vis-à-vis the corresponding EU-27 average (15 percentage points). Similar trends are evident in the gender gap in unemployment, which despite the growth in output never shrank, despite fast rates of growth. During the first decade of the 21st century, Greece continued to be a champion in women's unemployment, with a large and stubborn gender gap in unemployment.

The other side of the rising employment story were developments in social expenditure. Despite a widespread claim that the welfare state was underfinanced, social protection expenditure in the 10 years before the crisis increased impressively, as elsewhere. Most of t this increase, however, was in pensions (Boeri, 2002; ΟΟΣΑ, 2013; Τήνιος, 2003, 2010). This implied that the complementary expenditure needed to support women to go work outside the home, such as child care or elderly long term care, lagged seriously behind (Antonopoulos et al. 2010), being essentially accorded second place in the allocation of funds to the demands of the pension system (Lyberaki & Tinios, 2012).

This is the underlying reason why Greek women tend to have broken careers rather than continuous or even interrupted (Lyberaki, Tinios, Papadoudis, 2012; Λυμπεράκη & Τήνιος, 2010); faced with other insistent and pressing demands, women had to abandon careers to take care of members of the family, young or old. These reasons could also partly lay behind the tendency to opt for early pensions.

Rather than creating conditions to help women work, policies in practice pushed women out of the labour market, largely in order to undertake the kind of caring functions that the State refused to do on its own part. The low quality of care services supplied by the state created a significant fiscal burden, without though generating any new revenue from women entering the labour market and hence surfacing out of the grey economy into full taxpayer status.

Table 2: Gender Gaps in Labour Market Outcomes: The 'breadwinner model' at a glance

Labour Market Outcomes	Greece: 1983		Greece: 2008		EU-27: 2008	
	Rate (%)	**Gender Gap**	***Rate (%)***	**Gender Gap**	***Rate (%)***	**Gender Gap**
Women's ***Unemployment rate***, 20-64	**10.5**	**5.0**	**11.3**	**6.3**	**7.2**	**1.0**
Women's ***Employment rate***, 20-64	**36.8**	**-47.1**	**52.5**	**-27.9**	**62.8**	**-15.1**
Women's ***Activity rate***, 20-64	**41.1**	**-47.7**	**59.2**	**-25.4**	**67.7**	**-15.4**
Women's (20 -49) ***Employment rate, with child*** aged <6 years			**54.1**	**-43.1**	**65.2**	**-26.5**
Women (25 -54) ***in single-person household*** **without** children			**77.6**	**-12.5**	**69.7**	**-13.9**
Women (25 -54) in ***single-parent household with*** children			**79.0**	**-10.6**	**81.5**	**0.1**

Source:LFS series.

Table 3: Gender Differences in Pensions and Social Security at a glance

Gender Differences in Social Protection at a glance, 2010	**Greece**	***rank (#) 27MS***	**EU-27**
Non-Coverage by the pension system: (%) of women aged 65+	**16.8**%	*23*	**1.0**%
Gender Gap (W-M) in Non-Coverage by the pension system (in pp): persons aged 65+	**13.3**pp	*23*	**5.8**pp
Intra-household Non-Coverage Gap (W -M in pp): elderly couples (aged 65+)	**26.2**pp	*22*	**12.7**pp
Women's mean pension as (%) of **GDP per capita**	**39**%	*17*	**45**%
Men's mean pension as (%) of **GDP per capita**	**61**%	*15*	**74**%
Women's pension as (%) of **national poverty line**	**112**%	*19*	**120**%
Men's pension as (%) of **national poverty line**	**173**%	*14*	**196**%
Poverty rate (%): Women aged 65+	**23.3**%	*22*	**18.2**%

Source: Author's calculations, based on EU-SILC 2010 data.

This position is greatly encouraged by politicians' implicit belief that fewer jobs for some people means creating more jobs for others – what has been called traditionally 'the Lump of Labour Fallacy' in Economics (see, for instance Τήνιος 2010, pp 439-443). Believers in this fallacy celebrate each exit from paid employment into early retirement as they think that this will lead to jobs for young unemployed. This, alas, is not true; on the contrary jobs disappear – as the economy is pushed ever downwards. Women are encouraged to retire early in order to claim a low pension (due to insufficient contribution record) and after a few years find their pension is too low to live on. At the same time the fiscal burden on the entire economy grows, leading to lesser probability of employment creation (Blanchard, 2004; Figart & Golden, 2002).

Early on the Greek formal social protection system was characterised as fragmentary and unresponsive (Λυμπεράκη & Τήνιος, 2012; Ματσαγγάνης, 1999). However, substituting the family for State provision did not come without a cost to women. Quite the contrary: the reliance on the informal welfare state to fill the gaps left by formal protection undermines women's independence. It leads to a burden carried by all women – in the form of gender roles and stereotypes, available options and economic self-sufficiency. It thus feeds in and maintains existing gender discrimination and gender gaps (Table 3).

4. ARE MEN THE SOLE VICTIMS OF UNEMPLOYMENT?

Very frequently during the crisis we talk of unemployment as impacting exclusively or primarily on what are called 'primary earners' i.e. men of working age. The dominant view remains that the current crisis is 'uniquely dangerous', in as much as it affects 'prime-age men'-that is the 'breadwinners'. This emphasis is wrong.

The unemployment rate rose in absolute terms equally for both men and women (by around 18 percentage points) after the first quarter of 2008 (Lyberaki, 2011b, 2012; McCracken et al. 2013; Λυμπεράκη & Τήνιος, 2012; Νικολίτσα, 2012). However, men started off with substantially lower unemployment rates compared to women at all age groups; the percentage increase of unemployment was thus larger for them than for women. For women who started with a high rate even in 2008 (12%), the same absolute increase appears proportionately smaller; the danger, in the sense of the probability of a female worker losing her job remains larger for women than for men.

Nevertheless one hears even amongst experts that unemployment strikes men more than women[1]. Unemployment whether in absolute terms (as number of unemployed people) or in relative terms (unemployed as a percent of the labour force) was still in 2013 higher for women – as it was before the crisis. When we look at the statistics with an open mind we see that in mid-2013 one out of three women (31%) was unemployed, still much greater than one out four men (24%) (Figure 4).

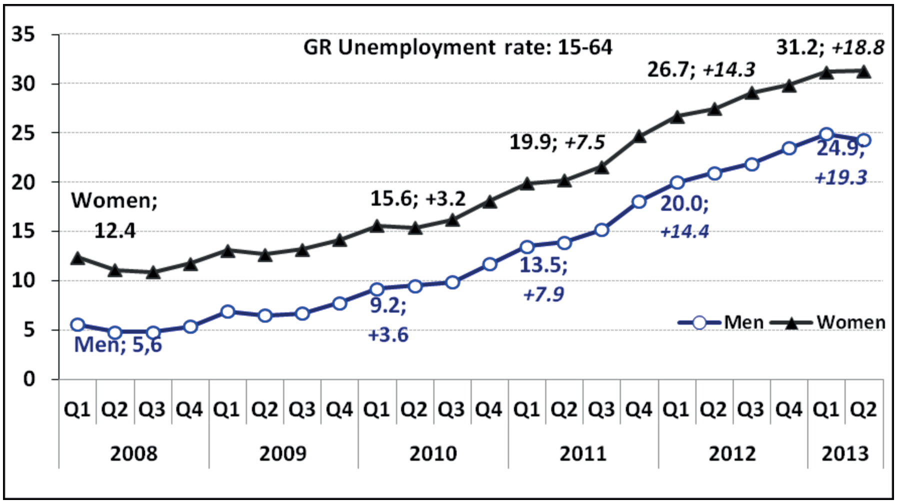
Among those hit most by the crisis were the young - both men and women, especially from the first quarter of 2010 onwards. There was a sharp increase in unemployment over the three-year period from 2010q1 to 2013q1, which exceeded 30 percentage points for young men and 27 percentage points for young women. According to the most recent data (2013q2) the unemployment rate of young women is over 65% (ie two-thirds of young women are unemployed) and for men almost 54% (half of young men are in unemployment). This mirrors the finding that the current crisis is particularly virulent to young people (Bettio & Verashchagina, 2013).

Their unemployment rates rose by 34 and 28 percentage points respectively from 2008q2 to 2013q2 (Table 4). The highest decrease in the employment rate is evident for foreign-born men (32pp between 2008q2 and 2013q2), twice the national average for men aged 15-64 (16pp decrease over the same period).

In aggregate the emerging picture on employment suggests that the impact of the economic downturn on men (for all population groups) was more pronounced than for women (Table 5). This finding, has be interpreted with caution, taking into

[1] Many are influenced by developments in central and northern Europe, where, at least in the early phase of the crisis until 2011 men were hit disproportionately – due to the impact on construction and heavy industry (McCracken et al 2013). In Greece however, this effect was small and never overturned women's handicap. Nevertheless, discussion in Greece proceeds as if Greece was characterized by European developments.

Figure 4: Unemployment trends by gender in Greece



Source:LFS series.

Table 4: Unemployment trends in Greece by gender during the crisis

Unemployment rate	Males			Females			Gender gap	
	2008Q2	2013Q2	abs. change	2008Q2	2013Q2	abs. change	2008Q2	2013Q2
15-24	15.1	54.2	39.1	27.7	65.1	37.4	12.6	10.9
25-49	4.4	24.0	19.6	11.0	31.8	20.8	6.6	7.8
50-64	2.8	18.1	15.3	5.0	19.2	14.2	2.2	1.1
National	4.9	23.0	18.1	11.0	30.6	19.6	6.1	7.6
Foreign-born	3.6	37.7	34.1	11.5	39.5	28.0	7.9	1.8
Total	**4.8**	**24.3**	**19.5**	**11.1**	**31.3**	**20.2**	**6.3**	**7.0**

Source:LFS series.

Table 5: Employment trends in Greece by gender during the crisis

Employment rate	Males			Females			Gender gap	
	2008Q2	2013Q2	abs. change	2008Q2	2013Q2	abs. change	2008Q2	2013Q2
15-24	28.8	14.3	-14.5	19.2	8.9	-10.3	-9.6	-5.4
25-49	91.5	72.0	-19.5	64.3	53.3	-11.0	-27.2	-18.7
50-64	69.1	55.4	-13.7	36.0	32.6	-3.4	-33.1	-22.8
National	74.4	59.0	-15.4	49.1	40.6	-8.5	-25.3	-18.4
Foreign-born	87.6	55.3	-32.3	48.1	37.2	-10.9	-39.5	-18.1
Total	75.4	58.7	-16.7	49.0	40.4	-8.6	-26.4	-18.3

Source: LFS series.

account that as female employment was on a strong rising trend before the recession while the trend in male employment was weaker. We should also not forget that the relative cost of job loss would be more severe for groups that start off with a disadvantage. At any rate, a given loss of employment is more costly for that group that is still trying to catch up, i.e. to women.

Seeking to find work is a natural reaction when a family's income is threatened during crisis. This crisis, however, generates opposing reactions by men and by women.

Crises can lead to two types of reaction. Looking but not finding a job someone can become discouraged and say: "There are no jobs, no hope. I'm stopping my job search". Another possibility is to say: "Times are hard, my income is pressed; I have to go out to look for a job to make up my income". In the first case we have what is called the "discouraged worker effect"; in the second we have the "added worker effect" (Lundberg, 1985; Maloney, 1987; Milkman, 1976; Schweitzer & Smith, 1974).

What we see in Greece is that men are discouraged and drop out of the labour force by stopping to look for work. In contrast, women behave more like added workers. That is women operate countercyclically, leaving their home in order to enter the job market during the crisis. Women, despite the rise in unemployment make great efforts to find a job, whether to compensate for a family member losing his/her job, or to counteract the loss of income. In this sense, thus, women work to make up for the gaps of the social protection system.

The above are confirmed by participation rates for women aged 25-49, increasing cumulatively between 2008q2 and 2013q2 by almost 6 percentage points. This effect is found to a lesser extent in all age groups, enough to reject the discouraged worker hypothesis. Migrant women are the most prominent example of the added worker effect, their participation rates rising by 7 pp while the male migrant population witnessed the exact opposite phenomenon (Figure 5).

A different angle to look at women's reaction, equivalent to the added versus the discouraged worker hypothesis, is to look at women's income role within the household. To do so, Table 6 presents findings on women's income role within the household based on microdata of EU-SILC survey from 2004 up to 2011. The analysis focuses on couples with at least one of the partners working, classifying households in three mutually exclusive categories: i) male breadwinner couples ('couples where 'he' earns"); ii) dual-earner couples (both earn) and iii) female breadwinner couples ('couples where 'she' earns").

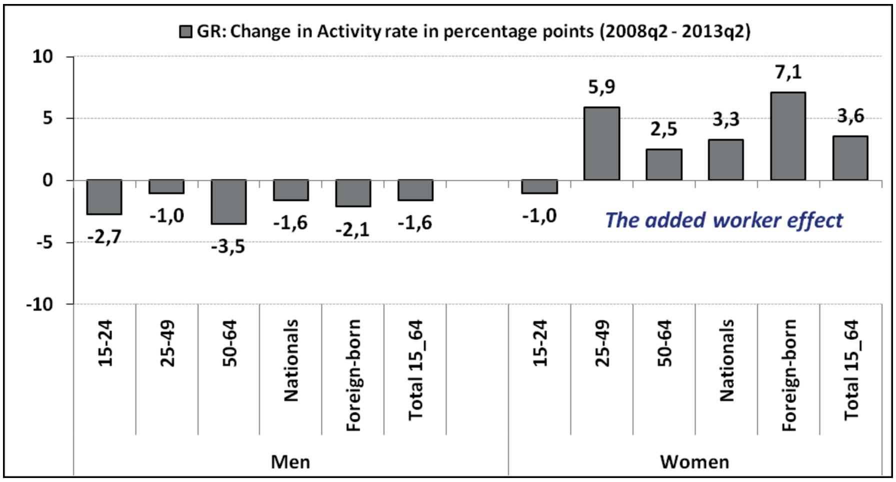
The picture emerging supports the shift towards female breadwinner couples over the recent years (from 2.5% in 2004 to over 7% in 2011). It is difficult to infer whether the additional female breadwinners represent added workers (new entries into employment of previously inactive women), or working women who managed to retain their job while their partner lost it. However, the first alternative (added worker effect) seems more possible.

The link of the current recession and poverty risk in Greece is covered in the present volume (e.g. Kaplanoglou, Matsagganis, Mitrakos and Zografakis), as well as in other recent studies (see for instance, Ζωγραφάκης & Μητράκος, 2012; Ματσαγγάνης, 2013; Ματσαγγάνης. & Λεβέντη, 2013; Ματσαγγάνης, Λεβέντη & Καναβιτσά, 2012; Μητράκος & Τσακλόγλου, 2012).

Investigating the gender dimension of poverty tends to be obscured by the hegemonic assumptions commonly used in measuring of poverty (Nelson, 1993, 1995) concerning either the choice of equivalent income in assessing the gender gap in poverty risk. Within a household income is presumed equal by construction. Similarly, the widespread practice of designating a 'head of household' and conducting the analysis in terms of heads. Who the head is usually arbitrary or decided on a priori grounds.

Single-parent households are free from this criticism. The vast majority of this type of household are headed by women. They are particularly vulnerable as far as the risk of poverty during crisis (Figure 6), a development connected to their inability to call on social support networks. Their poverty rate reached 66% in 2012, over 23 percentage points higher compared to the previous year. This is despite a large drop in the poverty line; as this is expressed as a percentage of median income, it fell in 2012 to its the level of 2005). Moreover it is noteable that the poverty risk of single-parent households is as twice as high as the correspond-

Figure 5: Change in activity rates, by age, r and nationality, 2008q2-2013q2



Source:LFS series.

Table 6: Couples by partner's income role in Greece 2004-2012, share of total

Aged 18-45 Years	*Male bread-winner couples*	*Dual bread-winner couples*	*Female bread-winner couples*	*Total*
2004	39.5	58.0	2.5	*100*
2008	34.7	63.5	1.8	*100*
2010	35.3	59.9	4.8	*100*
2011	37.3	55.6	7.1	*100*

Source: Author's calculations, based on EU-SILC data ing figure in EU-27. The absence of generosity of the Greek Welfare state towards this group is striking: the poverty risk of single-parent households is reduced only by 0.3 percentage point after social benefits; while in EU-27 social benefits reduce the risk of poverty for the same group by 20 percentage points. Stated otherwise, the operation of social protection system makes no difference in ameliorating the poverty risk of this group

5. ACTIVATING WOMEN AND FISCAL SUSTAINABILITY

The above analysis and the intensifying crisis could give rise to a fear that the progress on gender of past decades could be reversed (Karamessini, 2013:14).

What is the key thing at stake? Women by the nature of things and as a kind of 'automatic' response to the crisis are trying to assume a more active role in the defence and safekeeping of family budgets. This would tend to strengthen their economic independence. However, for the overall project to be a success, it needs to be accompanied by rearrangement of roles and duties in order to allow women to undertake greater responsibilities. The crucial question is: will economic and social conditions allow this enfranchisement to take place? Or would inbuilt conservative forces act to discourage this development?

Even for men the matter at stake is not to retain for as long as possible the pre-crisis status quo. The interests of the economy –of both men and women -lie in the opposite direction – the abandonment of the male breadwinner model.

Such a development will potentially benefit everyone: men, women, the older and younger generations, above all generations yet to come. Greater equality and independence favour a more balance and more durable social order, which would be in a position to utilise productive potential of the entire population.

So, what type of budget should we have? We need a budget to rise to the challenges and to adapt to the different situations of men and women. Not in the sense of establishing special programs for women. We need to be able to ascertain the impact of horizontal policies as regards gender and age groups within gender. This is because a horizontal measure might have different impact on a young woman and on an aged woman. To take useful decisions these things have to be known (Tinios & Lyberaki, 2012).

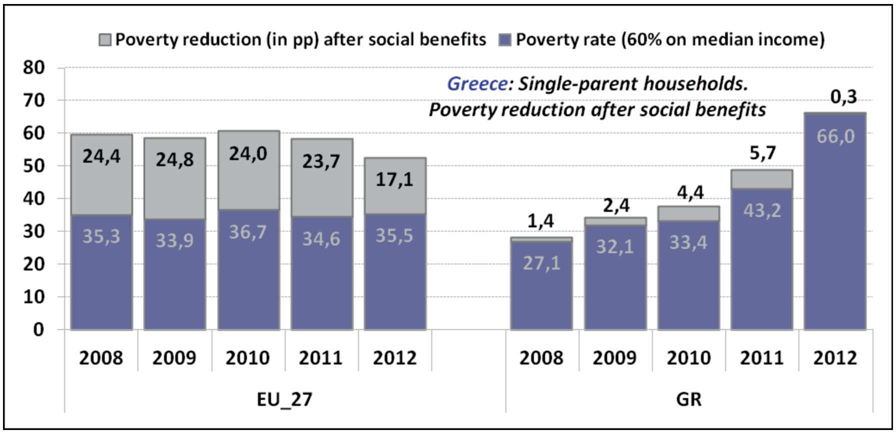
The activation of women through reversal of existing trends promises a fiscal benefit. The existence of more workers who pay taxes and social insurance contributions acts to distribute existing fiscal burdens more widely and hence makes them more easily bearable. (Τήνιος, 2010 pp380-1) in looking at the pension problem poses a hypothetical question: what would happen to the greek pension issue if Greek women were to work as much as Danish or German women? Following Germany would add contributors equal to one more self-employed pension fund (OAEE). Alternatively matching Denmark could mean almost one million more workers (20% of the working population) and would add more than a decade to the 'window of opportunity'. Consequently, fiscal viability has a very important, yet usually completely neglected, relationship with gender.

Positive developments, however seldom come on their own. To attain gender balance the policies followed must be aware of the issue, i.e. must exhibit a modicum of gender awareness and have some gender targets. Otherwise it is likely that the net result would be welfare losses for all.

The first weakness is that policies are gender blind. They remain wedded to the old order things, interpreting everything from the viewpoint of one gender only. They are trying desperately to give priority to male breadwinners in order to serve his needs first. It is as if these difference or different impacts among women do not exist. And in so doing they are addressed to 'Mr' Breadwinner, ignoring the potential existence and different needs of 'Ms' Breadwinner. Just like old times …

The Second, weakness is an implicit prejudice. Gender equality is thought of as a 'luxury'. It is something that is good to have when funds exist, when times are good, when we have solved other problems. During the times of plenty we can afford a little equality. It is not so. In hard times especially equality is more important. It is needed in order to be able to muster all hands to help exit the crisis and to deal with its effects. In a deep crisis no one is surplus to requirements. Especially if we look a little

Figure 6: The effectiveness of the Welfare State in reducing poverty risk of single-parent households



* in percentage points

further than the annual budget cycle, fiscal balance would be hard to attain without gender balance.

A dangerous scenario is easy to describe. At the time of retrenchment when cuts need to be found, it is easy to cut expenditure financing care infrastructure, simply because these cuts may cause fewer protests. If these cuts take place and given lower incomes, families would not be able to afford private care to compensate. In the same direction, female migrants who used to supply these services are also pushed out of the market (and possibly out of the country as well). The ultimate result is to have more women staying at home in order to provide care to family members – young or old – simply because there is no one else available.

The crucial point is that it is not retrenchment or austerity itself that raises gender concerns, at least not automatically. The real point to look out for is what expenditure items exactly are targeted and how (Bettio et al. 2012; European Parliament, 2012; Lyberaki, Gonzalez & Schmidt, 2012). If you cut back on what is a precondition for women to work more, then this policy could prove self defeating. If alternatively it is possible to prune overspending, promote tight management and curb bureaucracy this might have a multiplicative effect.

There are strong indications that the importance of gender for employment is missed. Even when equilibrating legislation is being pursued, for instance in retirement ages, at the same time we have declarations for generous transitional periods which in reality extract women from the labour force into early retirement (Lyberaki and Tinios 2012). These women have left in droves and will be entitled to only a small pension. They go back to their homes in order to care for all the others who have been abandoned by social policy. They are transformed from tax and payers social insurance contributors to unpaid family labour.

Policies during the crisis move, alas, in the footsteps of an old style logic (Λυμπεράκη, 2014).

- Early retirement (sends women and older people out of the labour market.
- Protection of existing jobs (mainly in the public sector in general and non-tradable goods and services). In those sectors wage increases were largely independent from productivity.

This is a bad use of scarce talent and resources. It is a break in attempts to exit the crisis. Using women's productive potential is a key development and growth choice. If the available working potential of women is not tapped, then the chances of leaving the crisis will shrink. Our condition after the crisis will be that much worse.

Persisting with the traditional rationale (that survives and perhaps intensifies during the crisis) leads to shrinkage of the productive economy. In protecting the job and not the person who fulfils it, that factor of production on which recovery should be based – human capital - is effectively neutered. Finally, this persistence maintains a kind of 'Passive Social Policy ' which is both expensive and unable to respond to real social needs.

So, we return to the question which was at the start of this chapter: Are women the inevitable fated victims of fiscal adjustment?

No, women are not victims – at least not inevitably. On the contrary, guaranteeing continuation of their activation is the best hope for a fiscal situation viable in the long term; so long as we look a little further than the immediate future.

This crucial message, unfortunately, has yet to be received and understood.

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4. SOCIAL EMERGENCY AND POLICY RESPONSES IN GREECE

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1. THE CRISIS AND THE AUSTERITY

Greece made the headlines in 2009, when its fiscal crisis rapidly turned into a sovereign debt crisis, which finally mutated into a full-blown recession. By the beginning of 2014 the Greek economy had been in recession for six consecutive years. The latest official figures (Eurostat 2014a) revealed that the size of the economy has contracted by almost 24% in real terms relative to 2007. The loss in output, amounting to a dramatic fall in living standards, is far greater than the equivalent contraction in other southern European economies (Italy: -9%; Spain: -6%; Portugal: -7%) or Ireland (-6%) over the same period. So deep and drawn out a recession has simply no precedence in the peacetime economic history of most advanced economies.

In response to the debt crisis, the Greek government accepted in May 2010 a bailout package with the International Monetary Fund (IMF), the European Commission (EC), and the European Central Bank (ECB), known collectively as the 'Troika'. In return for access to credit, the Greek government signed a Memorandum of Economic and Financial Policies, committing it to an austerity programme of sweeping spending cuts and steep tax hikes. Both the bailout package and the austerity programme have been revised several times since: the latest update (and extension) was the Mid-term Fiscal Strategy Framework of 2013-2016, specifying fiscal savings to the tune of €13.5 billion, or 5% and 2.25% of GDP respectively in 2013-2014 (CEC 2012).

2. UNEMPLOYMENT AND EARNINGS

The austerity programme was introduced when the Greek economy was already in recession and made it deeper still. 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, jobs and earnings bore the brunt.

The rise in joblessness has been steep. In 2008, the unemployment rate stood at 7.7% of the labour force. Five years later, it had reached 27.3%, surpassing the corresponding rate in Spain (26.4%), far higher than in Portugal (16.5%), Italy (12.2%) and Ireland (13.1%) (Eurostat 2014b).

Labour market changes have been qualitative as well as quantitative. Until recently, labour market institutions and norms in Greece, formal and informal (such as for example those concerning hiring and firing practices), 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 before an unusually late age[1]. However, this 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 youngsters sharing the parental home; the latter mainly concerned the elderly and others living in rural areas. For instance, shortly before the crisis, only 7% the population below the poverty line were unemployed (Bank of Greece 2009).

This was to change dramatically under the impact of the crisis. In 2008q2, the unemployment rate for men aged 30+ was a mere 3%, while for women aged 20-29 it was much higher (20%). Five years later, young women faced massive unemployment (52%), while young men did little better (45%). However, this time men of prime age were no longer spared: by 2013q2 their unemployment rate had gone up to 20% (ElStat 2014). Many of those concerned found themselves living in jobless households, with few other resources to draw upon. Otherwise, unemployment affected manual work-

[1] In 2008, the female employment rate in Greece (48.7%) ranked 25th in the EU27 (only Italy and Malta scored worse). In 2005, the mean age at which Greek men left the parental home was 30 years (see Ward et al. 2006).

ers more than non-manual ones, men more than women, employees in small firms more than those in larger ones, young workers more than older ones, and foreign workers more than Greek nationals.

Earnings also declined: in the public sector, as a result of the austerity; in the private sector, as a consequence of anaemic demand for labour. Policy choices also played a key role. Crucially, in February 2012, the IMF-EC-ECB Troika forced upon a reluctant government (not to say hostile social partners) 'internal devaluation', as the way 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% in nominal terms (32% for workers aged below 25). Unemployment continued to rise (even though arguably at a slower rate), while the fall in minimum wages reinforced the adverse effects of the recession in depressing earnings across the wage distribution. On the whole, average real gross earnings for employees lost more ground since 2009 than they had gained in the decade before that, and were 9% lower in 2013 than they had been in 2000 (Bank of Greece 2013). In the 'informal sector' (concerning the construction industry, agriculture, tourism and other services), where employers are often subject to no legal or other constraints except those implicit in the free play of unregulated market forces, earnings declined by even more. The rising fiscal pressure implied losses were even more pronounced in net terms.

3. INEQUALITY AND POVERTY

Predicting the distributional impact of a crisis is less straightforward than 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-benefit system to absorb macroeconomic shocks (Atkinson 2009, Nolan 2009). Moreover, the distributional impact may vary depending on the dimension considered: in a crisis, average living standards will decline, but inequality need not rise, while the estimated effect on poverty will be less pronounced when the relevant threshold is set as a proportion of average (or median) incomes than when it is held constant in purchasing power terms (Jenkins et al. 2013).

According to our most recent findings (Matsaganis & Leventi 2014), inequality in Greece has actually risen significantly in recent years. The Gini coefficient, whose values range from 0 (when everyone has exactly the same income) to 1 (when all income is held by one person alone) appears to have risen by 13.5% (from 0.321 in 2009 to 0.364 in 2013). The S80/S20 ratio (showing the income of the richest 20% of population as a multiple of that earned by the poorest 20%) has registered a sharper increase: from 5.3 in 2009 to 7.8 in 2013 (i.e. by 47%). This suggests that changes were more significant at the two ends (especially the lower end) of the income distribution, than was the case around the middle.

As shown in an earlier study (Matsaganis & Leventi 2013a), relative poverty, measured by reference to a poverty line of 60% of median incomes, appears to have risen from 20% in 2009 to 23% in 2013. Seen differently, 45% of the population in 2013 were below the 2009 poverty line kept constant in real terms. As regards extreme poverty, the proportion of population unable to purchase the cheapest basket of goods consistent with dignified living, at 2% in 2009, had reached 14% in 2013.

Looking at poverty by category, the situation of households headed by unemployed workers emerged as clearly alarming. Not only has their poverty rate increased dramatically (from what was a very high level before the crisis), but so has their relative weight in the population, because of the sharp rise in unemployment among primary earners. Considering the gaps in the social safety net (of which more below), and that long-term unemployment was expected to remain high in the foreseeable future, the plight of those in jobless households had become the new social question par excellence.

Compared with early estimates for other countries hit by the Great Recession (Jenkins et al. 2013), and our recent estimates comparing Greece to other Southern European countries (Matsaganis & Leventi 2014), our findings suggest that the Greek crisis has made the income distribution more unequal, and has led poverty to increase by a greater extent, than elsewhere.

4. GREEK WELFARE FACING THE CRISIS

In general, a recession (even a 'great' one) should not overly trouble a well-designed system of social protection. Mitigating the social effects of economic crises is what public institutions spectacularly failed to do in the 1930s, and what post-war welfare states were created for. As Castles (2010) has 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.

On the eve of the crisis, the Greek system of social protection 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).

Social expenditure in Greece had always been lower than the EU27 average (23.5% vs. 26.4% of GDP in 2000), but shortly before the onset of the crisis it had practically converged (26.3% vs. 26.7% of GDP in 2008). Briefly, social expenditure as a proportion of GDP was higher in Greece than in the EU27: the former peaked at 30.2% in 2011, while the latter at 29.6% in 2009 (Eurostat 2014c). Thereafter, the differential timing of the crisis itself in Greece and the rest of Europe, and the better reflexes of European welfare states in 'coping with the consequences of the crisis', meant that the position was reversed and the distance widened again (OECD 2013a)[2].

Peaks of generosity were mainly – but not exclusively – located in the pension rights of public sector employees (in the civil service and the utilities sectors) and professionals (judges and lawyers, doctors and pharmacists, engineers and architects). Workers in private firms outside banking and the self-employed did not get such a good deal. Institutional fragmentation allowed the parameters defining pension rights to differ greatly: for example, the statutory retirement age for a full pension for men ranged from 45 to 65 years. Variation was also wide in terms of contribution rates, minimum length of contributory period, reference earnings and replacement rates.

Unsurprisingly, pensions had emerged as the most highly contested policy area in Greek politics over the last few decades. In an ageing world, pension expenditure as a proportion of national income is expected to rise everywhere. In order to counter the fiscal effects of unfavourable demographics, most European countries had reformed their pension systems from the 1990s. By and large, reforms defused the pensions 'time bomb'. For instance, on the eve of the current crisis, spending on pensions in the EU was estimated to rise gently to 12.5% of GDP in 2060. In the South, pension expenditure was expected to increase a bit more rapidly than in the EU27 as a whole: in Italy to 13.6%; in Spain to 15.1%; in Portugal to 13.4% of GDP in 2060. Nowhere was pension expenditure projected to rise as steeply as in Greece, to a clearly unsustainable 24.1% of GDP in 2060 (CEC 2009). Moreover, in spite of high and rising expenditure, old age poverty and inequality in Greece remained well above the European average. In sum, the country's pension system failed to deploy the resources it commanded to meet fundamental distributional objectives.

Nevertheless, recent attempts at significant reform had ended in failure. A combination of fierce opposition on the part of labour unions and other professional associations, and lack of resolve on the part of the political class, led to paralysis. Particular episodes of aborted reforms, and of legislation passed only at the cost of nearly total capitulation to the demands of privileged groups, are extensively documented in a growing literature (see Matsaganis 2007). As seen shortly, the crisis changed all that.

Elsewhere in the system, the heavy reliance of Greek welfare on contributory social insurance disenfranchised non-standard workers and their families. The risks inherent in that were fully revealed

[2] OECD estimates extending to 2013 show that social expenditure as a proportion of GDP fell by 2.4 percentage points between 2011 and 2013, while it rose by around 1 percentage point in the other South European countries (a bit more in Portugal). Note that the OECD methodology for the estimation of social expenditure differs from that of Eurostat (whose most recent figures at the time of writing referred to the year 2011).

by the crisis, as hundreds of thousands of workers lost their jobs and hence access to social benefits for themselves and their dependants.

Indeed, gaps in the social safety net were considerable. Short-term benefits in case of sickness or maternity ranged from quite generous (for labour market insiders) to inexistent (for non-standard workers). Contributory unemployment insurance seemed adequate on paper, but its duration was short (maximum 12 months) and its coverage less than complete. On the other hand, as a result of stringent eligibility conditions and low rates of take up, very few received non-contributory unemployment assistance. Child benefits were substantial for large families, as were family allowances for workers in the civil service, banks and public utilities; in contrast, most families 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 underdeveloped, while a means-tested rent subsidy was only available on a contributory basis, i.e. beyond the reach of most poor families. Disability benefits were extremely fragmented even by Greek standards, with no fewer than 10 different categories with 22 sub-categories, often hiding absurd cases of differential treatment. Finally, Greece remained the only EU country where a comprehensive social assistance scheme, acting as a social safety net of last resort, was unavailable even on a local or regional basis, as in Italy, Spain and Hungary (Matsaganis 2011).

As this brief outline suggests, the Greek welfare state was singularly unfit for the crisis. As a matter of 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. GREEK WELFARE UNDER THE CRISIS

In recent years, 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) was unable to respond to the prolonged recession by temporarily relaxing the eligibility conditions for unemployment benefits and by extending their duration, as happened elsewhere, and as recommended by the European Commission (CEC 2013).

On the contrary, eligibility conditions for contributory unemployment insurance were actually worsened in 2011, when a ceiling was set on the total duration of separate spells of benefit receipt (400 days over a four-year period in 2014). Furthermore, the value of unemployment insurance benefit was cut in February 2012 (from €454 to €360 per month), in line with the minimum wage. As a result of these changes, both the value of benefit and the number of recipients[3] declined, while of course the number of unemployed workers continued to climb.

Examples of thoughtless retrenchment abounded. In 2010, the Workers' Housing Organisation (OEK) suspended the means-tested rent subsidy it had provided on a contributory basis. 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[4]. In 2012 OEK itself was abolished. Plans for a broader-based means-tested housing assistance scheme were announced but not acted upon.

As a result of the austerity programme, pensions were significantly reduced in nominal terms. The cumulative impact of the cuts depended on a variety of factors: age, social insurance affiliation, benefit level etc. In annual terms, and taking inflation into account, income losses ranged from 17.6% for low-income pensioners to 36.8

The July 2010 pension reform was the first significant one since the early 1990s. The broad out-

[3]In 2010, the proportion of unemployed workers receiving unemployment insurance benefit was 36%. By 2013, the ratio had fallen to 12.5%. The number of recipients over the same period declined from 224,000 to 169,000.

[4]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.

line 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 was widely criticised as neoliberal, and did indeed imply lower pension benefits and a higher age of retirement for all. Nonetheless, in terms of structure, the reformed system, to be introduced from 2015, might almost be described as Scandinavian (Matsaganis & 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 by annual accrual rates multiplied by the number of insurance years. To enhance incentives, accrual rates increase with career length, from 0.8% per year for workers with less than 15 insurance years, to 1.5% per year for those with 40+ 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 (i.e. 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, as a result of both the 2010 pension reform and the 2013-2014 Spending Review, the statutory retirement age for future cohorts of pensioners was raised to 67 (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.

On the whole, pension reform is expected to contain the growth in pension expenditure. While earlier projections of pension spending (CEC 2009) suggested that it would reach 24.0% of GDP in 2050 and 24.1% in 2060, a more recent report (CEC 2013) estimated that, following the two reforms, it would rise less steeply to 15.4% of GDP in 2050 and 14.6% in 2060. Nevertheless, in the short run, spending on pensions declined less than other social benefits, and less than earnings and GDP. As a result, pension spending as a proportion of GDP continued to rise, from 14.3% in 2009 to a forecast 15.8% in 2013.

Health and social care are beyond the scope of this paper (for a detailed discussion, see Matsaganis 2012 and Petmesidou 2013). To sum up a complex set recent changes: waste and efficiency before the crisis had been endemic, and hence the scope for efficiency improvements was very substantial; however, indiscriminate funding cuts and ill-thought reorganisations ended up harming the proper functioning of services.

6. GREEK WELFARE FACING PERMANENT AUSTERITY

As shown above, the social safety net suffered from poor administration, differential treatment, and significant coverage gaps. In response to that, the OECD (2013b) and the IMF (2012) have urged the 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 smaller number of broader-based well-targeted social benefits.

In this context, the 2013-2014 Spending Review allowed some scope for policies to strengthen the social safety net, even as it explicitly targeted social transfers[5]. More specifically, four policies improving social protection were phased in: unemployment protection was extended to the self-employed in 2013; eligibility conditions for unemployment assistance were broadened in 2014; a non-categorical means-tested child benefit was introduced in 2013; and a minimum income experiment in two local areas was planned for 2014.

These measures, though welcome, were too limited to tackle effectively the social emergency. As a result of broader eligibility conditions and improved funding, the number of recipients of non-contributory unemployment assistance is expected to rise to 41,700 persons in 2014 (up from 26,500 in December 2013 and a mere 1,850 in 2010). Nevertheless, the number of long-term unemployed in extreme poverty (i.e. living in families with less income than the cost of a basic basket of goods) was estimated at 455,000 in 2013 (Matsaganis & Leventi 2013b).

Moreover, because of the strict cash limits attached to the new measures, the balance of 'retrenchment' vs. 'expansionary' policy changes remained 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 improving social provision mentioned above.

Finally, the political class (government and opposition), the media and public opinion do not seem that interested in the plight of the jobless and the poor. One case among others is emblematic: although the introduction of a minimum income scheme has been endorsed by the IMF (2012), and is actively supported by the European Commission, preparations for the pilot phase enshrined in law in November 2012 were still 'at an early stage' in May 2014.

7. CONCLUSIONS

As the preceding pages illustrate, the social cost of the Greek crisis was unnecessarily high. National income has declined by almost a quarter. Unemployment now affects over a quarter of the workforce face. Average real earnings for those in employment are below their level in 2000. Poverty and inequality are on the rise. The austerity policies failed to compensate, and eventually reinforced, the adverse effects of the recession.

This was not inevitable. The policy content and distributional impact of austerity policies need not necessarily be regressive. Moreover, social rights in Greece have always been so unequally distributed between categories that the scope for improving social protection, while at the same time trying to cut budget deficits, remained more substantial than elsewhere. Nevertheless, since the onset of the Greek crisis, policy makers have done little to expand coverage and mend holes in the social safety net, using savings from reductions in the generosity of benefits reserved for privileged groups. Rationing resources, scarcer now than ever before, by political influence rather than by need for social protection has often reaffirmed itself as the guiding principle behind the exercise of social policy in Greece.

As Pierson (2011) has argued, the main reason social programmes have proved relatively 'resilient' in the 'era of permanent austerity' (from the mid-1970s to the present day) is that, by benefiting large sections of the electorate, they help create coalitions in favour of the status quo. Let us set aside for a moment that the current austerity in Greece is much harsher than the 'permanent austerity' of the last four decades in Europe and North America. Pierson's point implies that the coalitions in favour of new social programmes, not yet in force, potentially benefiting groups that are weak in political and social as well as economic terms, will be a lot less powerful. There is evidence that this is exactly what has been happening in Greece: defenders of the status quo, ranging from trade unions in nationalised industries to professional associations (judges, engineers, medics) with good connec-

[5] 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 (CEC 2012).

tions to the political establishment, have been quite successful in resisting cuts; as a result, most of the burden of fiscal consolidation is shifted onto less powerful groups (civil servants, other public sector workers including university professors), leaving little space for policy measures aimed for the real victims of the recession (the unemployed, the poor).

Furthermore, a certain asymmetry can easily be identified between 'retrenchment' and 'recalibration' policies. Cuts have been deep and systematic, even indiscriminate at times; but reforms restoring equity as well as efficiency have been pursued less consistently; as for measures to strengthen the social safety net, they have been rare and grossly underfunded[6].

On the whole, policy responses to the social effects of the Greek crisis have been misguided or inadequate. Welfare reform did produce some welcome improvements, but many cuts were indiscriminate, causing hardship and disrupting social provision. For all the rhetoric of political actors at home and international organisations abroad as to the need to strengthen the social safety net, recent policies can only be described as extremely inadequate. To deal effectively with Greece's new social question, a far more concerted effort will be required than anything seen so far.

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[6]For a similar point on recent policy change in Italy, cfr. Ascoli & Pavolini (2012).

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5. FISCAL ADJUSTMENT: DISTRIBUTIONAL EFFECTS OF AUSTERITY

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1. INTRODUCTION

It is commonly accepted that the measures taken in the bailout programs have given priority on the reduction of the fiscal deficit, increase in revenue, cut down on expenditure. It is also widely accepted that the fiscal adjustment in this direction was rather impressive and many say that it was unprecedented although the issue of the viability of the debt is still pending. However it seems that the redistributive impact of all these measures in the current crisis hasn't been given attention. There is a contradiction in such view.

It has been shown in many surveys, and we had the recent survey by the Athens University supporting the weakest strata of society in times of fiscal adjustment of course helps in social cohesion and this is important (Kaplanoglou, Rapanos and Bardakas, 2013). But it is also a crucial factor in order to achieve fiscal adjustment. Therefore fiscal adjustment and fair distribution of burdens have to be seen together.

This paper presents the recent trends and the characteristics of inequality, poverty and living conditions in Greece, emphasising the distributional effects of the austerity measures adopted during the current economic crisis. The empirical results of the analysis regarding inequality, risk of poverty or social exclusion and living conditions trends are presented in the second section. The last section concludes and some policy remarks are suggested.

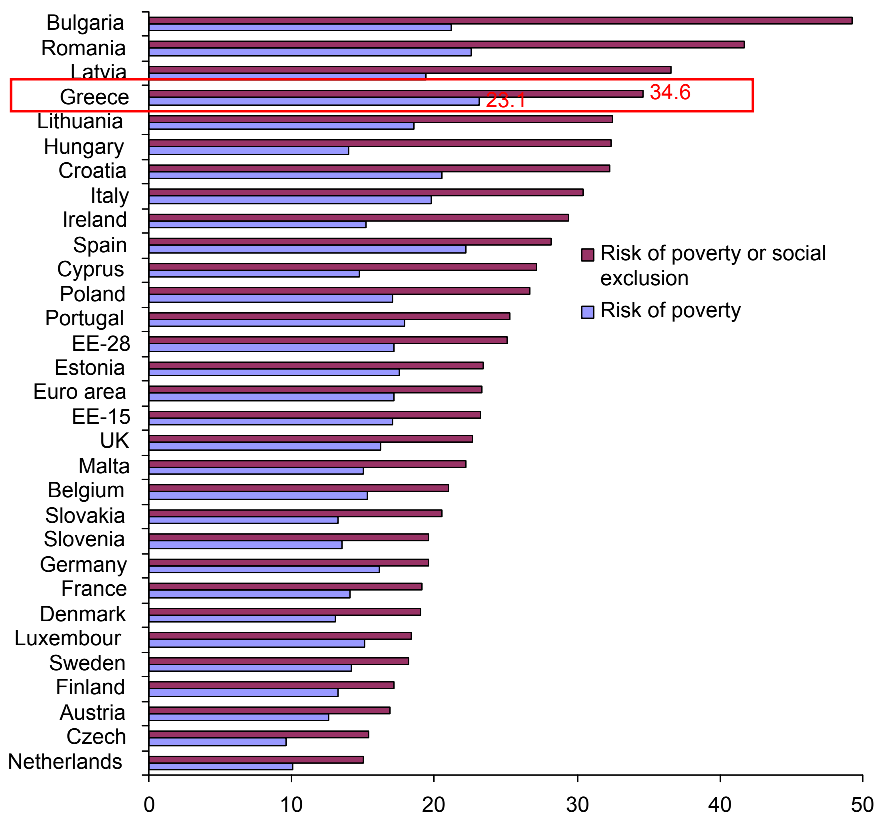
2. EMPIRICAL RESULTS

Greece entered the global economic crisis already facing high levels of income inequality. With the increase in unemployment and lower returns to capital, the crisis not only weighed heavily on incomes from work and capital but also made the income distribution in these countries more unequal. In the first three years of the crisis, the inequality in income from work and capital according to OECD (2013) estimates increased as much as in the previous twelve.

According to the latest data from the sample survey EU-SILC for the year 2012, as announced by ELSTAT and published by Eurostat, 23.1% of the Greek population or 2.5 million people live below the relative at-risk-of-poverty threshold (based on 2011 incomes). Now, if poverty also takes into account other issues such as material deprivation from goods and services, so again on the basis of the European definition 34.6% or 3.8 million people are in risk of poverty or social exclusion (see Figure 1). That is they live in almost joblessness or in material deprivation. Moreover 837.000 people live in households where nobody works or maybe there is a working member but they only work three months a year. Then, 20% of the richest households have 6.9 times more income than the lowest 20%, and of course we shouldn't forget the great dimensions of unemployment and the fact that 1.365.000 people are unemployed according to ELSTAT as announced in August 2013. We should also take into consideration that sometimes poverty is not properly calculated because there are the immigrants, homeless people, Roma, which are not the picked in the statistics.

The relative position of Greece is very bad as regards the European Union or the other OECD countries. Greece is in the last position as regards poverty risk as defined by European Union. As regards the OECD countries, a report published in the beginning of November has sawn that Greece is in the fourth worst position on the basis of well being indices, some positions before Mexico, Portugal and Turkey, with very bad performance as regards employment, remuneration, well being, subjective well being and the quality of the environment. Also in the worst position as regards the 35 OECD countries, as to what people say, about the satisfaction of their lives. It is not worthy to say that only 13% of the Greeks for 2012 say that they trust the national

Figure 1: Poverty rates in EU countries: 2012



Source: Eurostat, (EU-SILC).

institutions and their government.

The relative position of Greece became even worst during the first years of the bailout program. More specifically on the basis of the European survey for 2010 we see that Greece was in the fourth worst position and then followed by Spain, Croatia, Lithuania. In 2011, Greece goes down by four places and in the recent data for 2012, Greece as regards relative poverty is last among the 28 European Union member states. During current crisis we have an important increase of poverty risk in relative terms on the basis of the mid income. This poverty risk indicator rose by 3 percentage points in the first two years of the crisis (2008 incomes: 19.7%, 2009: 20.1%, 2010: 21.4%, 2011: 23.1%) and remains significantly higher than in most EU countries (see Figure 1). Greece has a poor ranking among EU countries also in terms of income inequality. The wealthiest 20% of the country's population has a 6.6 (2009: 5.6) times higher income share than the income of the poorest 20% of the population (S80/S20 indicator), while the value of this ratio is 5.1 (2009: 5.0) for EU-28 as a whole.

In absolute terms, i.e. when the poverty threshold remains stable over time in real terms, the poverty rate during this period has been significantly reduced. For example, the at-risk-of-poverty rate for the year 2010 (20.1%), calculated using the poverty threshold for the year 2005 (60% of the median income for 2005 expressed in 2010 prices, on the basis of the harmonized index of consumer prices) would be only 16.0%, i.e. 4.1 percentage points lower. In other words, 16% of the population in 2010 (survey year) would be considered as being at risk of poverty under the conditions prevailing in 2005. However, the corresponding poverty rate for the 2012 climbed to 32.3%, suggesting that in only two years in the current crisis the poverty rate in absolute terms increased by 16 percentage point (or by 98.2%, see Figure 2). On the basis of our estimations for 2013 we believe that 47.8% of the households with a poverty line of the income before crisis, now they have dropped down this poverty line in absolute terms.

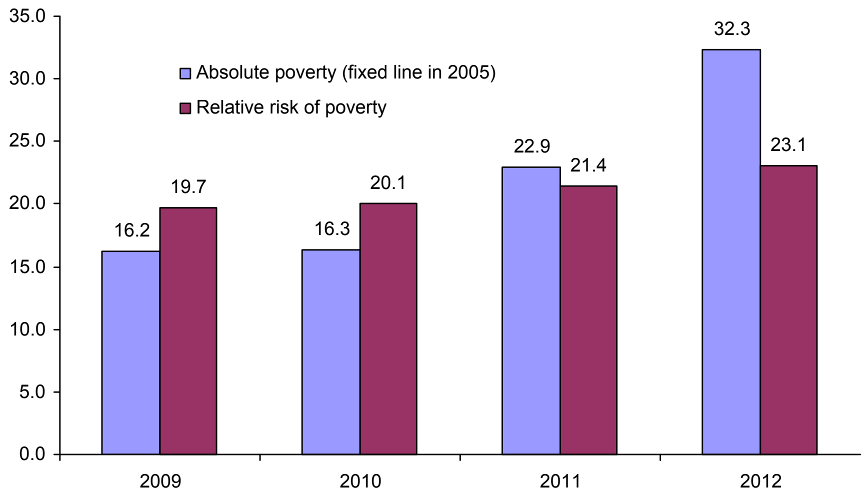
Similar conclusions are reached by the studies of Matsaganis and Leventi (2011, 2012) using tax-benefit microsimulation techniques in order to provide estimates of the impact of the austerity measures and the concomitant decline in economic activity on aggregate inequality and poverty. They conclude that the austerity measures undertaken by the Greek government were progressive but had small redistributive effect in relative terms and very important in the absolute poverty. While the authors argue that austerity measures contribute to the crisis, they highlight the significant role of more fundamental problems of the Greek economy such as the weak production structure, low competitiveness, etc.

So, what we see on the basis of official statistics published by Eurostat is that unfortunately in the current crisis, within the first two years of implementing the bailout measures, we had an exacerbation of almost all indices, inequality, poverty and of course the huge increase in unemployment which also hides very interesting changes in the composition of the unemployed population. From a deeper analysis we see that unemployment affects more the "hard core" of family. Unemployment as regards males 30 to 55, which are heads of the households, has increased by 10%.

Inflation was not negative during the crisis. Unfortunately the prices mechanism, the way it automatically operated, indicates that 20% of the poorest households in 2011 had an inflation of 3.7% whereas it was 2.6% for the 20% of the richest households. In 2012 this difference became even greater as 20% of poor households were faced with an inflation of 2.1%, whereas it was 1.1% for wealthy households. Finally, in the first 10 months of 2013, that is the last data, it is amazing to see that inflation for the poor is still positive, +0.3% whereas for the wealthier is minus.

Now, what has changed as regards the composition of the poor population during the crisis? I would to point out three factors. Poverty has switched from the aged population, over 65, to the unemployed group, to young couples with children, and young workers. Secondly, another important finding is that after 2005 it is clear that child poverty is in the rise and now 510.000 children liven in poor households. Their poverty rate 19% in 2005 and it is up to 26% in 2012, and it is more than double in the cases of immigrant children. Finally, in the long run, placing emphasis on times of crisis, poverty has moved from rural areas to urban cen-

Figure 2: Changes in relative and absolute poverty: Greece 2009-2012



Source: Eurostat, (EU-SILC).

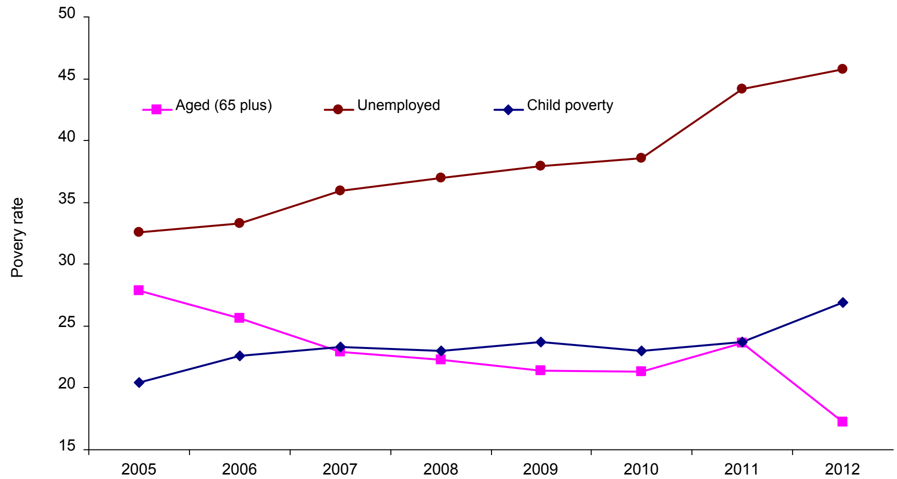
tres and from people with low education to people with higher education (See Figure 3).

Reducing the child poverty risk should henceforth be placed at the heart of social policy concerns. The adoption of measures aimed at improving the educational level of mainly the population's poorer sections is practically bound to help limit child poverty. Furthermore, based on research findings, it is estimated that a reduction of uninsured employment and a fast inclusion of economic immigrants into the country's social and economic life will most probably reduce the size of child poverty. Similar results can be created by policy measures supporting the access of young couples with children to employment and high-quality jobs. Consequently, combating child poverty requires multifaceted actions that not only increase monetary social benefits, but also provides services (in the fields of education, health, social security, culture, etc.) and facilitate the access (of poor families with children) to social services and primarily to the labour market. Moreover, the disparity and divergence in child poverty rates among EU countries can be seen as signalling an objective economic problem for the sustainability of the union. A high level of child poverty is synonymous with an investment deficit that is simultaneously cause and effect in a vicious circle of underperforming labour markets and education systems. If members of the EU get trapped into such a vicious circle, we could be confronted with an objective problem for the long-term sustainability of the monetary union.

High risk of poverty groups are the unemployed (the percentage goes up to 45.8%), especially unemployed males, even higher poverty rate which was increased by 10% in the last two years. One parent families with one child, it is a small group of the population in Greece, people with lower education level (only middle secondary education), households with many children, households living in rented homes, and of course we have double rates of poverty in immigrants and huge poverty dimensions as regards the children.

Finally, an examination of the indicators of living conditions in Greece shows that material deprivation (difficulties in meeting basic needs, poor housing conditions, housing costs, inability to repay loans or instalments for purchases, difficulty in paying bills, difficulties in meeting ordinary needs, quality of life) concerns not only the poor, but also a significant part of the non-poor population. For example, the percentage of population living in a house with limited space stands at 25.9% in total, 23.2% for the non-poor population and 35.8% for the poor population. Similarly, 24.9% of non-poor population faces difficulties financing extraordinary but necessary expenditure of around €600,

Figure 3: Inter-temporal trends in poverty rate for unemployed, elder and children



Source: Eurostat (EU-SILC).

while the corresponding percentage for the poor population is estimated at 69.5%. Moreover, 18.7% of the total population declares an inability to keep their home adequately warm, while the corresponding percentage of the poor population is estimated at 38.9% and the percentage of the non-poor population is estimated at 13.7%.

3. CONCLUSIONS AND SOME POLICY REMARKS

Fiscal tightening has affected employment in EU countries through both public sector employment and aggregate demand channels. Changes to the tax and benefits systems and cuts in public sector wages have led to significant reductions in the level of real household disposable income, putting a heavy strain on the living standards of low income households in particular. Figures for 2011 indicate that, among different population subgroups, it is the unemployed, the inactive, single parent families and non-EU migrants who face the greatest risks of poverty or exclusion. Among age groups, children and young adults are more at risk than others, while with regard to skill levels it is the low-skilled who face a much higher risk. Moreover, the crisis has not impacted uniformly across the whole population and has often worsened the situation for these groups already at high risk before the crisis. The recent analysis of European Commission shows that the design of measures is crucial to avoid low income households from being affected disproportionately. Different fiscal consolidation packages impacted differently on high and low income households, with regressive effects in a few countries (European Commission, 2012a, 2012b, 2013).

Various international comparisons, as well as the present study, show that the level of inequality and (relative) poverty in Greece were and remain substantially higher than in most developed countries (OECD, 2008, 2013). In the course of the fiscal crisis and the deep recession, some negative developments, primarily the dramatic rise in unemployment (from 7.2% in the second and third quarter of 2008 to 27.0% in February of 2013), are estimated to have contributed to an exacerbation of relative poverty and economic inequality in Greece. It should be pointed out that the significant increase in the number of the unemployed (from 355,000 in the third quarter of 2008 to more than 1,320,000 in February 2013) comes on top of other, even more alarming developments. For example, unemployment has already reached the core of the social fabric, as the share of unemployed persons that report themselves as ”heads of household” has increased by more than five percentage points in the last three years.

Only 29.4% of the registered unemployed in the records of the Public Employment Agency in December 2012 received some kind of unemployment benefit. As a result, it is estimated that an extension of the grant period and, more importantly, a widening of the group of beneficiaries to other unemployed people, such as professionals and traders, who, because of the crisis have stopped their self-employed professional activity, are policies that could help to maintain social cohesion.

The available data on the first two years of the crisis (2009 and 2011) indicate that income inequality and relative poverty increased considerably during the crisis, while the composition of the poor population changed. However, the sharp decline in disposable income led to a significant deterioration in economic prosperity and absolute poverty, i.e. when the poverty line remains stable in real terms. Most of the austerity measures undertaken by the Greek government were progressive and had a small redistributive effect in relative terms but were very important in influencing absolute poverty. Hence, there is a clear need to strengthen specific features of the safety net, to assist those most affected by the crisis. Job training programs and income support programs for the unemployed both need to be geared up, leveraging European Community funds where available. The need for a policy launching an investment programme for growth and employment is now more than obvious.

Initial estimates from this study, as well as Matsaganis and Leventi's simulations of income distribution after 2010, reveal that the trends indentified in this paper have continued (since 2011), worsening an already bad social situation. However, given that detailed data on incomes after 2010 are not yet available (the last available data come from household surveys in 2011 monitoring the income of the previous year), it is difficult to draw sure conclusions about how inequality and poverty have developed in more recent years. Certain developments most probably were not in the direction of reducing poverty and economic inequalities. For example, the significant increase in unemployment, particularly youth unemployment will likely have increased poverty and inequality. Additionally, the rise in VAT and Excise Duties (Special Consumption Tax) on alcohol, tobacco and heating oil, will have caused the purchasing power of poorer households that consume a larger share of their income on such products to erode further. On the other side, other developments, characteristic of periods of sharp economic recession, may have had a dampening effect on poverty and inequality. Such developments include, for example, the significant decrease in profits, a source of income for mostly wealthier persons, and the one-off extraordinary levy usually imposed on higher incomes, profitable firms and large real estate property. Such measures were certainly progressive in nature, in the sense that they targeted higher income brackets relatively more than lower ones. Moreover, implementing a more progressive tax scale, abolishing separate taxation on certain incomes and other special tax regulations and tax exemptions, broadening the tax base and curtailing tax evasion are expected to yield results which can be characterised as more progressive in nature. Other policies to mitigate or combat the current adverse situation must be targeted to specific vulnerable groups, enhance their human capital and facilitate their access to the labour market.

The system of social solidarity in Greece is flawed and characterised by considerable leaks. For instance, among households with dependent children and no employed members, the poverty rate rises to 54%. The existing social solidarity system unfortunately does not provide anything for the unemployed once the relatively short period of unemployment benefit collection lapses, similarly to many other vulnerable groups. No matter how much the existing system's targeting improves, these people will remain well below the poverty line. A solution could be to establish a universal and at the same time selective measure (on the basis of income), aimed at eliminating extreme poverty and ensuring for all a minimum income and living standard, not necessarily on a compensatory basis. The implementation and management of such a universal measure in the case of Greece would address, in addition to the issue of cost, some serious practical problems, mainly as regards the identification of the persons really entitled to the relevant benefits. However, a pilot-phase implementation of such a selective programme for ensuring a minimum living standard for all would allow for a systematic examination of its crucial management problems, just as was the case in other South-European countries that, one after the other, proceeded to the establishment of such a programme. Successful pilot-phase implementation of such a programme requires cooperation between different sections of the state mechanism, but also the involvement of local governments and "civil society". In any case, the social policy measures identified should not destroy the very important contribution of informal social network solidarity (Lyberaki and Tinios, 2012).

In any case, the experience of European countries shows that the adoption of policies that are indeed universal but also targeted towards groups facing a high risk of poverty and/or social exclusion can reduce economic inequalities and poverty. The introduction of a similar measure for the sensitive population of the pensioners had outstanding results in Greece. After the introduction of a pension for the uninsured elderly there are no leaks in the network of their social protection, as everyone now receives some kind of pension. This measure, combined with the remarkable rises in minimum pensions and in the EKAS, has most probably contributed considerably to the notable reduction of the poverty rate recorded in the group of the elderly in Greece in the decade before the current crisis.

Finally, various surveys have indicated that the basic parameters defining poverty risk in Greece are the inclusion on the labour market, as well as education. Enhancing employment is the best way to avoid poverty. Secondly, policies of improving the educational level shall obviously reduce the explosive dimensions of poverty and inequality. Of course targeted actions to those in greater need will improve the effectiveness of social expenditure or social policies. However we have to point out that this lagging behind is not only focused on income. We must also have social services, accessible to those in need. We need social investment in education, culture and so on and so forth. Most surveys have indicated that the social safety net in Greece is fragmented, unfair, and with a very low success in addressing the real needs. Obviously what we most probably need is a safety net of last resort. This is the minimum guaranteed income for all and its pilot implementation is the next challenge for our country.

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6. INTER-GENERATIONAL JUSTICE: THE END OF RETROSPECTIVE ADJUSTMENTS?

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1. INTRODUCTION: LONG RANGE STORM NAVIGATION

Some academic semester ago, I set my students an essay to test how they understand intergenerational justice. The question set was "We should not cut grandmothers' pensions, because they use their pensions to give pocket money to their unemployed grandchildren. Discuss". The vast majority replied enthusiastically: 'Yes! Yes! You should not cut these pensions because we are all counting on the pocket money'. Unfortunately for them, the correct answer is that, in order for the grandmothers to be able to collect any pension, it is the grandchildren who should be working. (Tinios 2012).

A budget is primarily an annual programme of revenue and expenditure. It therefore attracts comments chiefly on short term issues, such as the macroeconomic and fiscal stances. As the chief instrument the government possesses, it unavoidably also has a long term aspect – intergenerational balance, the give and take between generations. Every budget needs to settle issues which directly enter into this balance: We give pensions to the older generation, training and family benefits to the working generation, education and sports to the young. Intergenerational balance may be overshadowed by current issues, but, nevertheless, cumulatively provides the framework for the overall course of the country. Approaching this, we must attempt to tell the wood from the trees. Where are we now? In what direction are we heading?

This essay tackles the issue of long term strategy. We may think of the country as a ship –the good Motorship Hellas – on which new generations board at regular intervals. This ship – partly due to neglect partly due to faulty instruments – was sailing unawares in difficult waters when it was hit by a storm. After jettisoning the ballast it was carrying, the crew notes that, as the storm slowly abates, the ship has been tossed off course- current position unknown. The gist of this essay is that, in order to set sail towards whatever destination, we should first settle old scores. We need to know by how many degrees our instruments were not true, but we should also attempt to discern what happened during the storm – if we are to find out where we are today.

This piece attempts to chart the course of our national vessel. At the bridge of the M/S Hellas the helm has been controlled since the '90s by the baby boom generation – which we call in Greece 'The Polytechnic Generation'[1]. It has been responsible for the overall course of the ship and thus also for the state of the ship when subsequent generations board. In the past the pilot at the helm had undertaken to find a new equilibrium between the State and the family. This duty was discharged deficiently – with delays and postponements[2]. The result was that when the storm hit, repairs were still halfway through and the navigation instruments had serious problems. The storm blew us into unknown waters. The repairs were finally undertaken under severe fiscal pressure. We need to find our current coordinates, where we are now – by interpreting what happened since 2010. On the answer to that question hinge both our future course to a safer destination, as well as the design of improvements to the ship.

The task of the ship's captain, at least regarding generational justice, is not a simple one. This is due to problems built into the structure of the intergenerational social contract[3] . This contract concerns three generations: yesterday's (which collects, having contributed), today's (which con-

[1] 'Polytechnic' refers to the Polytechnic student rising of 1973, which is shorthand for those born between 1950 and 1965. The previous generation is here called the 'Pindus' generation referring to the Greek–Italian war of 1940/1 which was fought in the Pindus mountains.

[2] Many like quoting Cavafy's 'Ithaca' in which the journey is more important than the destination …

[3] These issues are dealt with greater detail in Tinios 2010.

tributes, amassing future rights) and tomorrows (which will contribute, hoping to collect). This contract does not produce anything directly, but simply redistributes resources taking from one generation and giving to the next. It is a zero-sum game, as whatever one generation wins, another loses. However, at any one time at the negotiating table, only two generations are present– the pensioners and the current workers. For those two generations taken separately the game is positive-sum. In other words, the two sides present can agree between themselves, can order exorbitantly for themselves and send the bill to the generation which is to come – to the absent generation[4].

This intergenerational game is mined, given it is structurally unbalanced. If there is no reaction on behalf of the absent generation, the problem is enlarged and shifted forward – towards those yet to come. Under this light, we can interpret the crisis of 2010 as the time of reckoning – the delivery of overdue bills to the absent generation; that unlucky absent generation is ours own.

However it may be, those nominally in the pilot's seat – the nation's representatives –must also play the role of trustees of all future generations. Legislators must act as the advocates of the missing generation – if only because there exist no other takers for that job. The storm we hit was largely due to the fact that this function was not served. Our plans for the future must include installation of instruments and institutional structures to ensure this role is not once more neglected. In this light this chapter offers in turn an interpretation for the past, one for the future and a series of exhortations for the future.

2. INTERPRETING THE PAST: SEARCHING A NEW FAMILY-STATE EQUILIBRIUM

The identity of the generations participating was ordained by our demographic past –the course of the birth rate over the last 70 years (Figure 1). Greece followed advanced nations with two differences. First, the baby boom came with a delay due to the civil war and to overseas emigration, while it lasted longer – until 1970. The second distinction is a catastrophic fall in births around 1980, leading to inflows into the labour market 25 years' later half the size of those of the 1980s (Tinios 2010).

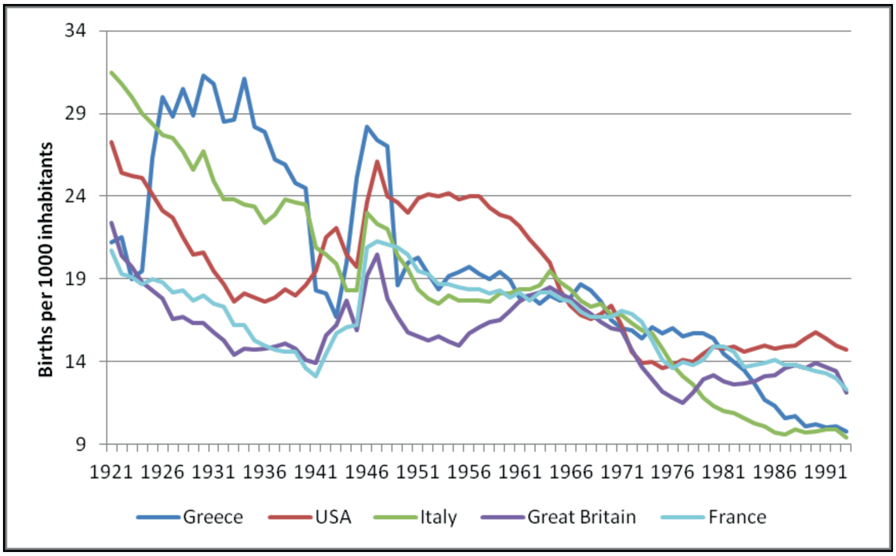
These two facts dictate the shape of the 'family photo' of the Greek population, of the demographic pyramid of 2009. (Figure 2) That pyramid has a protuberance around the ages of 50-60 (baby boomers entering retirement) and a narrow stem (the small new generations entering employment). Such a pyramid is unavoidably to morph into a mushroom, as the few young necessarily will be called to support the numerous old.

The quantitative relation between generations appears as the shape of the pyramid and largely predestines the pension problem. However, intergenerational balance is not simply a quantitative issue. Each generation has its own history, identity, personality. Three generations appear in our family photo. "The War generation" was the protagonist between 1950-70 and was responsibility for setting up and spreading of Social Insurance as a supplement to family solidarity. Milestones along its way was the relaunching of IKA in 1951, the inauguration of the Farmers' fund OGA in 1962 but also the first IKA deficit in 1957. An official report issued in 1958 characterised the pension problem as 'extremely urgent'[5]. That generation was followed by the 'Polytechnic generation', which was at the helm from the late 1970s to 2010. Pensions were expanded, at the expense of other programmes. The repeated attempts at pension reform did not prevent the continual inflation of pension promises. In the labour market, protection was built around jobs rather than workers. The Polytechnic generation did bequeath EU membership and considerable infrastructure improvements, at the cost however, of excessive national debt. The generation waiting to take over is often called 'Generation X'. The date when it will take over is still to be decided, though it is certain that its lottery ticket involves rebuild-

[4] Generational conflict is less evident in Europe, where the pension issue appears as between occupational groups Ebbinghaus 2006. In the US it is far more evident in public debate –e.g. Williamson et al 1999, Kottlikoff and Burns 2004. A key role in this low profile was played by family solidarity – as the pocketmoney example makes clear. However, this does not mean that the issue is ruled out for all time …

[5] That report, authored by the mother of minister of the 1990s, is extensively quoted in Tinios 2001 and commented in Borsch-Supan and Tinios 2001. For subsequent developments see Tinios 2012.

Figure 1: Birth rates in selected countries 1921-1993



Source: Tinios, 2010, p. 275

ing the wreckage left behind by the 2010 crisis. Its members are fewer in number; on the positive side, it has benefited from a quantitative expansion of education while the genders have never been so balanced. The (enforced) political silence of Generation X exacerbates the debt crisis problems, as does the explosion of unemployment. Its problems will not be lightened as the selfless 'War Grandmothers' are gradually being replaced by the demanding and insistent 'Polytechnic Grandmothers'[6].

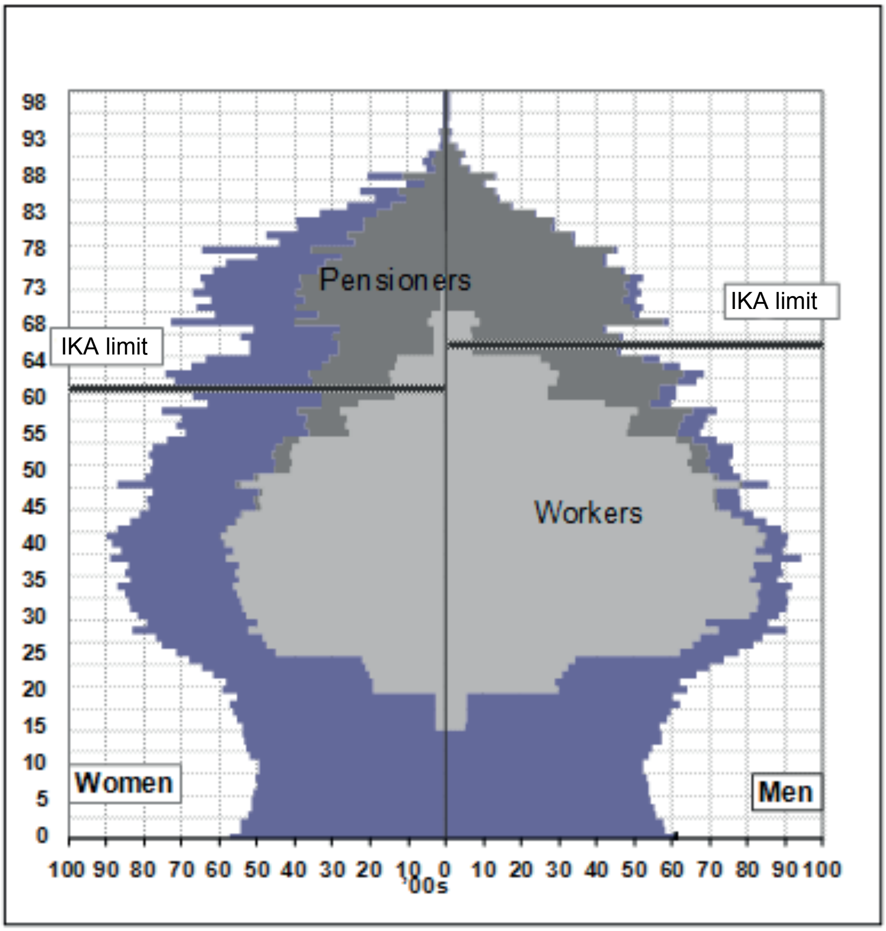
The grand project of social policy since 1990, both in Greece and in Southern Europe, was the assumption of responsibility by the State for tasks hitherto undertaken by the family. This was part of the europeanisation and convergence process; in Greece was seen as a key part of 'modernisation'. Ferrera 2010 calls this 'recalibration and reform' and explains that it was shared by all Southern European welfare states replacing familism. Greece was part of this movement, though unfortunately at a rhetorical level only. What we can characterize as the 'Stalled Reform' of 1990-2007 remained as a visionary target. The objectives were the same as elsewhere – building a European-style welfare state that could operate as a factor of production and stabilization tool. (Simitis 1995). However, this ambition stumbled on the failure to reform pensions: Pensions sucked in most of the available funds leaving little room for other programs; innovative programs such as the Help At Home long term care program remain at a perennial 'pilot phase'.

The stalled reform did not change structures, but heralded a huge expenditure increase. Figure 3 shows that all bailout countries increased their social protection expenditures since 1995, converging towards the EU15 average. However Greece increases expenditure whenever it can, while Ireland whenever it must, i.e. when the economic cycle generates greater need for help. This distinction is also apparent in the structure of benefits. Greece focuses on long term programs such as pensions and other cash transfers that all create a permanent 'client base'. Ireland, in contrast, expanded means tested programs, such as unemployment and family benefits. In as EU study of the elasticity of social expenditure, Greece is the least responsive country by a wide margin (Vyprachticka and Garnero, 2012)
.

The 'gift of EMU' was a large cumulative increase in social protection per head – by 49 per cent between 2000 and 2010. Structures, though, were unchanged. The most significant innovation was

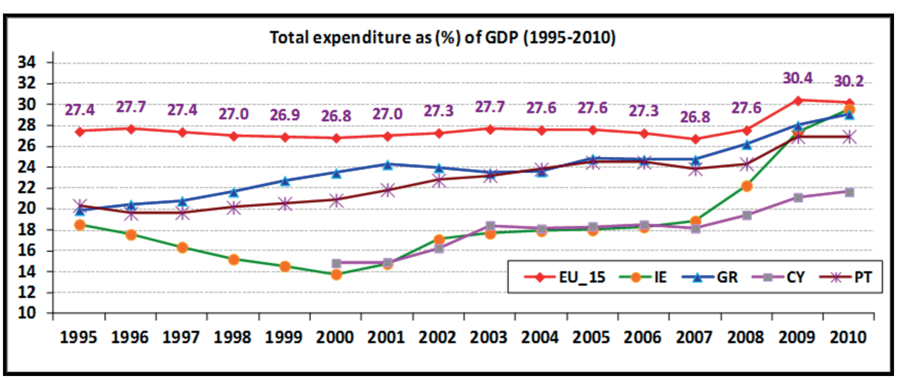
[6] In the US the baby boomers were called 'the ME generation'.

Figure 2: Greece, 2009: Demographic pyramid, workers and pensioners



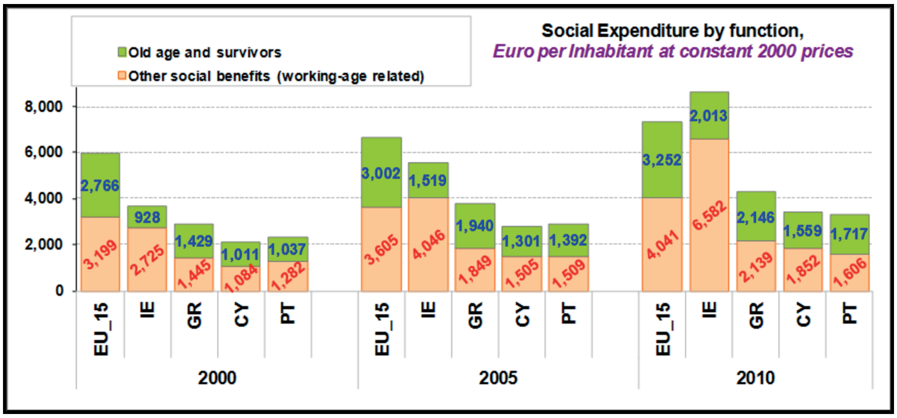
Source: Tinios, 2010 p. 272

Figure 3: Time trends in social protection in bailout countries 1995-2010



Source: Eurostat, Esspros data

Figure 4: Per capita social expenditure in bailout countries, 2000-2010



Source: Eurostat, Esspros data

the introduction of the pension supplement EKAS in 1996, which remained the single utilization of the idea of means testing. (Tinios 2003, Börsch-Supan and Tinios 2001). The result was that social policy offered little protection during the crisis. Indeed, an argument can be made that the greater success of Ireland in shaking off its own memorandum was partly due to the fact that social policy was able to play a more active role by allowing a front-loaded macroeconomic programme. Schematically we may say that, though in Greece social protection was part of the problem, in Ireland it was part of the solution (Tinios 2013).

3. INTERPRETING THE PRESENT: STORM-TOSSED INTO UNKNOWN WATERS

What had been postponed from 1990 appears to have been ventured since 2010 under severe fiscal duress and under the supervision of the Troika. The pension law L3863/10 was the first piece of legislation after the bailout. That was followed by other laws on pensions while the cycle of changes is not yet complete (OECD 2011, Tinios 2010, 2013).

However it may have been, changes since 2020 add up to a large and sudden adjustment in generational balance. A number of questions can be posed: Is the adjustment complete, or has there, possibly, been overshooting? How much remains in order to regain balance? These reasonable queries cannot be answered, as since 2010 the flow of statistics has been stopped: The 'Social budget' was discontinued in 2010 (Tinios 2014). The new 'Helios' system of monthly pension payments gives data since may 2013 but with no possibility of time comparisons and no indication on whether they include the post 2010 cuts. IKA pension distributions stop in 2010. Returning to the navigation metaphor, this is similar to having thrown instruments such as GPS out the window. As a result, we do not know where we are – how far we were blown off course. The most we can do is examine what indications exist.

The first serious indication is the repeated official announcement that the 'System is viable until 2060'. This is founded on the projection of the Economic Policy Committee of the EU. In the 2003 report of the Ageing Working Group of that committee, Greece showed the largest expected expenditure rises to 2060. That increase was 12 ½ points of GDP, almost doubling the burden of pensions on the economy since 2010. In the 2006 report Greece, characteristically, was the only country not to post updates. However the 2009 report confirms stagnation –- the 12 ½ increase remains[7]. The 2010 pension changes were conducted 'blindly' in th sense there was no data back-up. Consequently, the publication of the next report in May 2012 was the first chance to gauge the results of the 2010 reform. The reason is that what was published discretely in Brussels, were official Government projections,

[7]Given that GDP was revised upwards by 15% in 2007, this is rather an increase …

produced in late 2010. For the first time we are able to check the veracity and exact meaning of the viability assertion.

Indeed, Figure 5 shows Greece with the largest downward difference between the 2009 and 2012 projection – by almost 10 points. Figure 6 which compares the time course of the two projections shows how that reduction was attained.

In the current decade, in 2015, we have a deterioration of the newer projection by two points[8]. Even though no historical data exists for 2005-2010 (!), we see expenditure largely stable during the crisis. Improvement starts hesitantly after 2015 and then gallops after 2020. The huge retrenchment by 9 ½ points is due to changes in coverage (3,2 points chiefly due to retirement age increases) and a further 4.3 points due to reductions of generosity of pensions to the average wage. A crucial point to take on is that, as those projections were undertaken in end-2010, they did not include the impact of increases in retirement ages and cuts in pension implemented since then.

According to the government itself, the pension system was already viable after the changes up to the end of 2010. If that is the case, then it is not clear how subsequent changes can be evaluated. Has there been overshooting? In the grand scheme of the generational balance may this be the 'sincere apology' of the Polytechnic Generation? Or, alternatively, can we interpret these changes as of merely temporary duration and hence not to be included in the generational balance, as they will be reversed with time?

It is certain that the government itself would like to encourage the latter interpretation, though without saying so openly. This confirms the impression all pensioners must form each time they look to their quarterly pension statements - which start with the original pension as that was in 2009 and itemize each of the ten cuts since then.

The contradiction between the original declaration of viability and the repeated pension cuts constitutes the key enigma of the period. This contradiction could be seen as the continuation of the habit of issuing severely underfunded promises.

How can we explain this contradiction? It is a fact that L3863/10 increased minimum retirement ages and reduced pensions drastically – but only for those retiring after 2020 (Matsaganis 2011, Tinios 2010, 2013). In contrast the Polytechnic Generation largely retains the pension privileges it used to have. The law protected 'mature pension rights' while it added new 'fictitious' years of contributions. A new provision expanded the right to early retirement of mothers. As the crisis deepened, pensions increasingly appeared a 'safe haven' compared to employment. Workers especially in the public sector where early retirement substitutes for redundancies respond by taking a pension. However, the increased flow into retirement squeezes available funds. In this way, imperceptibly and without being fully realized, each year a new equation is set in operation:

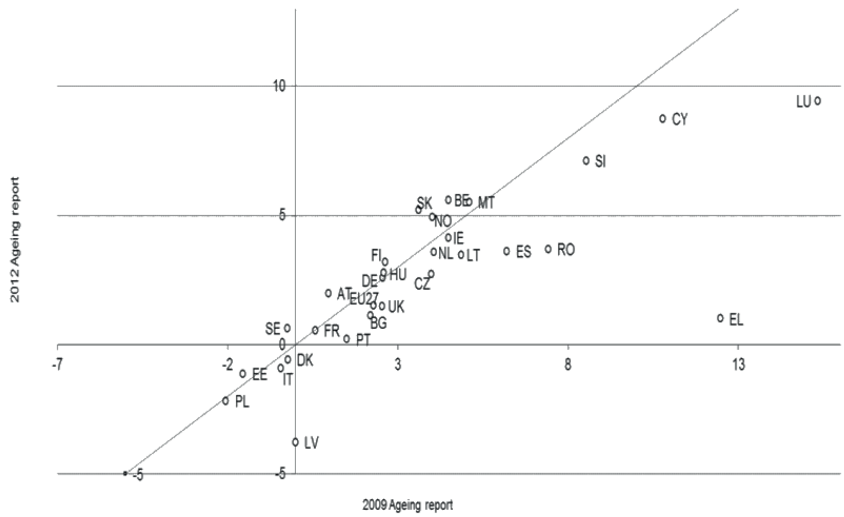
(Need for retrenchment) + (keeping promises) = generalised (ad hoc) pension cuts

Insofar as protected clients are not affected or other changes with 'political cost' are not pursued, by necessity, as a kind of collateral damage, pension rights are reduced in an ad hoc manner. This equation started operating when the possibility to finance expenditure overruns simply by borrowing was no longer possible. We may see those kinds of cuts as retrospective adjustment applied to pensions in payment – affecting drastically the intergenerational equilibrium.

Figure 7 shows the cumulative change applied to different pensions over 201-2013. The breadth of changes starts with an increase of 8.8% in basic farmers (OGA) pensions up to a cut of 48% in top pensions in the Civil service. Minimum IKA pensions were reduced by 17%, while medium pensions of c EUR 1000 fell by around 20%. These changes, in addition to the overall fiscal burden also sever the link between contributions and pensions, as no reference to the total contributions paid was made in determining the extent of the cuts. Thus people who had worked a long time contributing most were those most affected. The differential protection to low pensions is the reason for another radical, if counterintuitive, development: Poverty among people over 65 fell significantly between 2010 and 2011. For the first time in Greece to be a pensioner was a factor making it less rather than

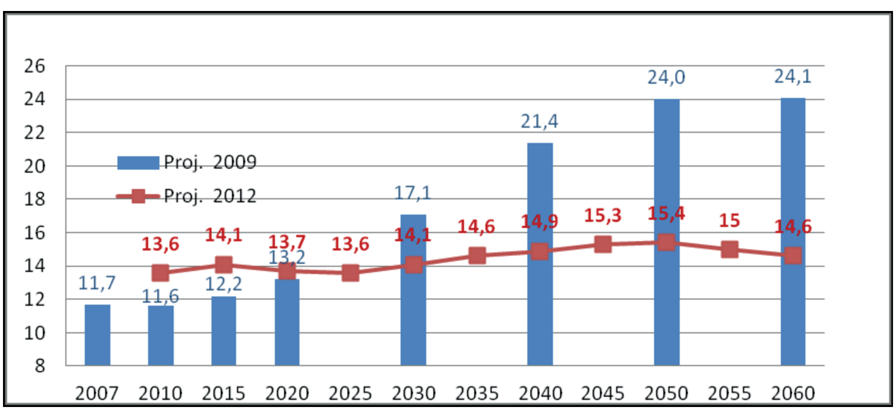
[8] The analysis draws from Tinios 2013 Appendix 2

Figure 5: Comparison of 2012 and 2009 pension expenditure projections



Source: EPC 2012, p. 143

Figure 6: Comparing EPC projections 2009 and 2012 (% GDP)



Source: Tinios 2013

Table 1: Enumeration of Pension Cuts May2010- January 2013

	Month legislated	Law	Primary/ supplem entary	Description
1	May 2010	3845/10	Primary	Replacement of holiday pay (2 monthly packets) with fixed holiday bonus (€800 in total, with exceptions).
2	July 2010 MoU	3863/10 3865/10	Primary. Some suppl	Pension reform. New system after 2015. Transition arrangements for 'mature rights' "Safeguards viability".
3	Sept. 2011 applied 8/2010	3869/11	Primary	Special Solidarity Contribution Graduated reduction 3% on <€1,4 thousand to 13% for > €3,5 thous on the entire amount [1]
4	Sept. 2011,	3869/11	Suppl[2]	Graduated falls from 3% >€300 to 10% for >€650
5	July 2011	3986/11 4002/11	Primary	Bigger reduction for pensioners <60 years old 6% for > €1700 to 10% for >€3000 on entire amount[1]
6	Octover 2011 applied 11/2011	4024/11	Primary	Further cuts for younger pensioners <55 years : 40% reduction form amounts over €1000 <60 years: 20% reduction for amounts >€1200
7	October 2011, applied. 11/2011	4024/11	Suppl.[2]	(a) ETEAM – reduction 30% for amounts over €150 (b) Other suppl. – general reduction 15%. (c) Civil servants cut of second suppl. Pension 20%
8	March 2012	4046/12	Primary	Further cuts 12% on pension over €1300
9	March 2012 applied 1/2012	4046/12	Suppl	All supplementary pension (a) Under 250 cut 10%[1] (b) 250-300:cut 15% (c) Over 300 Cut by 20%
10	November 2012 Applied 1/2013,	4093/12	Both	On the total pension (primary+ supplementary) (a) €1000-1500 cut 5% on the total[1] (b) 1500-2000 cut 10% on the total[1] (c) 2000-3000 cut 15% on the total[1] (d) Over 3000 cut 20% on the total[1] Abolition of all holiday bonuses (primary+ suppl.)

[1] 'On the entire amount' –i.e. not marginal tax. E.g. 3% levied on 100 means zero tax if 99, 3 if 100. This tactic can give rise to 'poverty traps' as an increased pension can leave someone worse off.

[2] Supplementary cuts imposed independently of the height of the primary pension.

Source: Tinios 2013

more likely to be poor.

These changes to the link between contributions and pensions were certainly a blow to incentives to participate in social insurance. However, retrenchment did not leave pension adequacy unaffected. Even though large, electorally important, groups of pensioners were protected, the most vulnerable group saw their own right to a pension abolished. Indeed, elderly people who had been encouraged to emigrate to Greece from Southern Albania or the Caucasus in the mid 90s were entitled to a small pension (approx €300/month) given to those with no insurance history and subject to a means test. The argument leading to the cessation of their pension was the enforcement of a 20-year residence requirement and/or an interpretation that a right to any foreign pension (as low as €40/month), would ipso facto imply that the person concerned was a charge of another country's pension system and hence not entitled to protection in Greece. However it may have been, some 40 thousands of the poorest people, some well over 80 years of age, suddenly lost both their pension and their health insurance cover (Ombudsman 2013). Once this blatantly socially unmerited act was commented on by the foreign press, promises were given for its repeal; despite this, one year later, the abolition and the loss of health cover both stand.

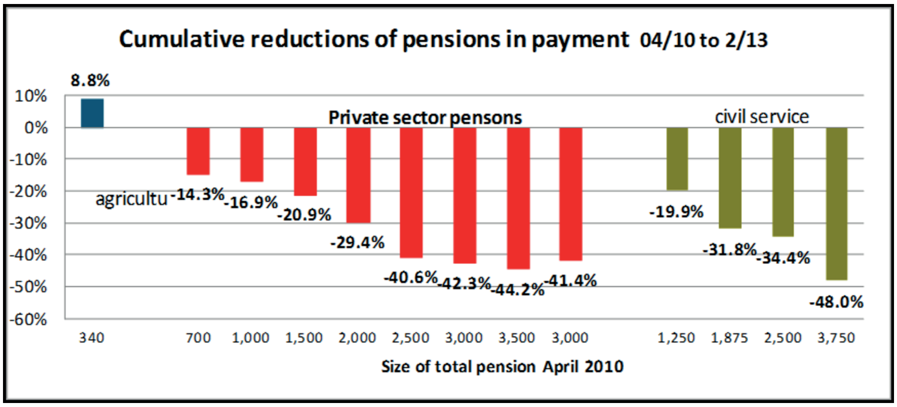
In consequence of all these changes the picture of pensions in 2013 is radically different from that in 2009. The interpretation of these changes is thus of paramount importance. On this issues our indications are contradictory: On the one hand, the extent of pension reductions is not radically different from how much pension were eroded by inflation in the period 1990-3. Pensions then had lost 23% of their purchasing power, a level largely retained for the rest of the decade. Despite electoral promises in 1993 of recouping pension losses, nothing of the sort transpired; the introduction of EKAS in 1996 was exactly to forestall such an eventuality. On this rationale it is easier to see the reduction of pensions as of structural and permanent character; pensions were adjusted downwards as a kind of retrospective corrective or instead of reforms that were (wrongly) postponed. On the other hand, unlike the earlier period, the only justification proffered for the cuts was the invocation of fiscal necessity. Every time a cut was announced reassurances were offered that that particular cut would be the last, accompanied by reminders of viability. If that is correct, there is a strong presumption in favour of reversibility of the changes. The IMF mentions as justification that 'immediate problems were tackled separately as part of the fiscal consolidation including by eliminating pension bonuses' (IMF 2013 p38, italics added). Nevertheless, there never was a suggestion that the sums cut were bonuses – they were income replacements resulting from the application of pension formulae which remained in operation even in 2013. New pensions are still computed on the basis of old formulae and pension cuts are applied one by one.

However the matter may be, if pensions of 80-year olds which have been collected for 20 years can be cut, then no pension can be safe and the credibility of the pension promise will suffer. In attempting to correct fiscal imbalances without proffering justification, the 'baby was thrown out with the bathwater'. In this way participation in insurance appears to the individual insured as a kind of 'bottomless pit'. By undermining the insurance character of pensions the usefulness of public pensions in planning retirement income is directly thrown in doubt. This only accelerates the collapse of the contribution base and feeds another downward spiral of the vicious circle.

Cutting pensions without offering an excuse or justification is a major blow to old age income security – i.e. to the very reason for having public pensions. In private pension systems such an act would be unthinkable and illegal. Indeed, the constitutional courts of Latvia and Romania annulled reductions to pensions in payment as unconstitutional.

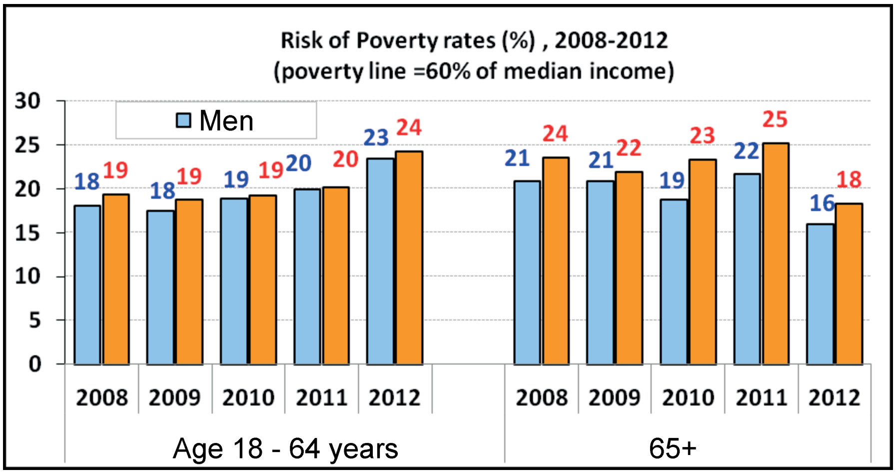
Cutting pensions of grandparents comes as the final straw in the picture their grandchildren have of the utility of social insurance. We must not forget that the 2010 law had already severely curtailed their (hoped for) entitlements by a large though equally opaque amount. Their justified distrust of pension promises still being handed out can only be confirmed by their grandparents' treatment – who, it must be remembered, are the ones who give then pocket money. In this way the parting gift of the Polytechnic Generation to the Generation X could be taken the final demise of the pension system.

Figure 7: Cumulative reductions of pensions-in-payment 2010-2013



Source: Author's calculations from Tinios 2013

Figure 8: Poverty rates for elderly and non-eldlerly during the crisis



Source: Eurostat

4. THE FUTURE: WHITHER REFORM?

In order for the pilot to draw a new course after a storm she must first ascertain the exact current position of the vessel. After a storm, to decide in which direction we will head we should both know we are now, as well as to make sure the ship survived without the type of damage that could pull it underwater.

The last point – repairs – can be applied to the insecurity created by a system ostensibly designed to promote security. However loudly viability is proclaimed, as long as the cuts are not explained and justified, reform will remain in the air. To embark on a post-memorandum course there must be a frank narrative of what happened during the preceding period; this should encompass both objectives and outcomes. If we measure what was needed and what remains to be done, the citizen can tell which of the changes since 2010 are permanent and structural and which she can hope to be temporary and reversible. In the reluctance to quash the impression that everything can in principle be rolled back, hangs the credibility of the entire project of starting afresh. The experience of other countries shows that when there is no cogent explanation of legal changes, those changes remain vulnerable; judicial reversals are the natural corollary – as happened in the case of Portugal (Petroglou 2012).

What is clearly needed is closure - a stocktaking of what changes happened, who was affected and how these changes are split in retirement age changes and which in pension amounts. Such a reckoning is facilitated by two factors: Changes in pensions are not different from remunerations in the private sector, while the crisis (as we have seen) has limited pensioner poverty. In this way a cogent argument can be built around maintaining the relative position of pensioners. This can be buttressed by a historically-based argument based on comparisons with earlier stabilization periods (1990-3). As compared to the earlier adjustment within the strong protection of the single currency and in the context of price stability was far more favourable to pensioners. Finally, an added consideration is an argument built around making up for past procrastination in reform calls. It is as well to be reminded that pension reform has been on the urgent list since 1958, while the Spraos Report had mentioned in 1997 that 'we have until 2007 to make up our minds'. The changes can thus be rationalized as a retrospective correction for which there had been ample warning. In any case, the arguments are there – so long as there exists the political will to use them as well as the courage to take responsibility for actions by those who undertook them.

Closure must be accompanied by a settling of accounts. This is necessary ex post to make up for a social debate which did not take place ex ante (Stergiou and Sakellaropoulos 2011). By doing this, it will be possible to draw a line under the period, signposting the end of major quantitative corrections, which would thus allow history to be on its way. An appropriate technical means to allow ex post rationalization is a reexamination of the generational balance by means of generational accounting. This technique has the advantage of examining pensions together with other social programs[9] . In this way it can highlight the fact that changes in pensions can open the way for other programs. Such could be a greater emphasis on means testing in order to protect against medium-term issues linked with poverty and the crisis, aid to the family which by default assumed the greatest burden to respond to the crisis (Lyberaki and Tinios 2012).

Generational accounting could be a springboard for planning new departures in social policy. The changes in pensions can be seen to be as a (long overdue) correction between the Polytechnic Generation and the hapless Generation X. The fall in average pensions can be shown to be part of a generalized correction of incomes in the country; this can be further explained as much of the increases were financed by borrowing (ultimately proved infeasible). Other changes may be justified as corrections of horizontal injustice (between pension providers or occupational groups). Review and criticism of the state of things up to 2009 is the only way of convincing citizens that the current level of pensions is here to stay.

The 'New Welfare State' was a familiar rhetorical construct, and was used extensively by the centre-left and other political groupings (Simitis

[9]The technique of generational accounting was first used by Auerbach et al 1994; an international application is Kotlikoff, and Raffelhüschen, 1999. An interesting exchange took place between Diamond 1996 and Kotlikoff 1997. There has been no application to Greece.

1995). In practice rhetoric was accompanied by inactivity and a progressive burdening of the younger generation. Changes since 2010 are the first correction since 1992 in generational balance between the Polytechnic Generation and Generation X. This correction consisted of a reduction of pensions by the Polytechnic Generation (as yet of unknown extent and distribution) but also significant changes on the other side. Generation X is affected by tectonic shifts in the distribution of responsibility between the family and the state. It is hit by unemployment, while education and family benefits are also collateral damage of the crisis.

After a catastrophe there needs to be a careful quest for its causes. This quest allows us to find what the new issues are, allows for wounds to heal and opens the way for a fresh start. Drawing a new course needs to take on board the implications of major choices as between generations. Generational accounts would be a useful technique to instill momentum to the debate on the future of welfare state. In order to meet the challenges of the future we must first be able to rule out a return to the past.

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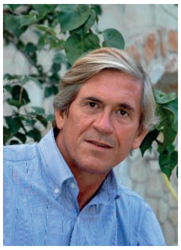

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