

## DISMANTLING AND RECASTING THE SOCIAL MODEL DURING THE GREEK GREAT DEPRESSION

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The current crisis is a moment of rupture for Greece's social model. The two Economic Adjustment Programmes that followed the 2009 sovereign debt crisis have not only triggered a state-led depression but also involved the radical recasting of the pre-crisis labour market institutions and welfare regime. An 'endless' series of reforms have removed the strong legal protection of employment, dismantled collective bargaining, restructured the social security system, downsized the public sector and drastically cut welfare state benefits and services. Combined with depression-level unemployment and the collapse of wages and incomes, these sweeping reforms have not only heightened precariousness and destitution in the short term. They also point to the gradual transition towards a new social model based on deregulated labour markets, residual social protection and a new public-private mix of welfare provision.

L'attuale crisi rappresenta un punto di rottura per il modello sociale greco. I due Programmi di risanamento economico che sono seguiti alla crisi del debito sovrano del 2009 non hanno solo innescato una recessione economica guidata dallo Stato, ma hanno anche comportato una trasformazione radicale delle istituzioni del mercato del lavoro che esistevano prima della crisi, nonché del regime di welfare. Una serie "infinita" di riforme ha portato alla distruzione del regime giuridico di forte tutela dell'impiego, all'eliminazione della contrattazione collettiva, alla ristrutturazione del sistema previdenziale, alla riduzione del settore pubblico e a drastici tagli al welfare. Tali riforme radicali, sommate a una disoccupazione a livelli da depressione e al collasso di salari e redditi, hanno accentuato la precarietà e l'indigenza nel breve termine. Esse suggeriscono, inoltre, una transizione graduale verso un nuovo modello sociale basato su mercati del lavoro deregolamentati, una protezione sociale di tipo residuale e un nuovo partenariato pubblico-privato nelle prestazioni di welfare.

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### 1. INTRODUCTION

Between 2008 and 2013 Greece experienced a 'Great Depression' equivalent to the US Great Depression of the 1930s. GDP decreased by 23.6% and employment shrank by 20.5% over a six-year period during which unemployment rose from 7.7% to 27.3% of the labour force. The forecast for 2014 is stagnation of the economic activity. However, the main difference between the inter-war US and the current Greek Great Depression is that the latter is state-led; that is, stimulated by a continuous recessionary push fuelled by harsh austerity policies that are being implemented uninterruptedly since the beginning

of 2010. These were prescribed in the two Economic Adjustment Programmes (EAP) that were imposed in 2010 and 2012 by Greece's creditors (Eurozone partners, IMF) as a condition for granting financial assistance to the Greek state, and are supervised by the troika (European Commission, ECB, and IMF).

Five years of fiscal consolidation and internal devaluation of wages and assets – the two main pillars of the EAP – have not only caused social suffering but also the demise of the pre-crisis social model. The aim of this article is twofold: to show how the Greek social model has been methodically dismantled and radically recast by the combination of a drastic retrenchment in public and social expenditure and a long series of public sector, labour market and welfare state reforms; to discuss the short and longer-term effects of such developments.

We argue that a long and ongoing series of reforms have removed the strong legal protection of employment, dismantled collective bargaining, restructured the social security system, downsized the public sector and drastically cut welfare state benefits and services. Combined with depression-level unemployment and the collapse of wages and incomes, these sweeping reforms have not only heightened precariousness and destitution in the short term. They also point to the gradual transition towards a new social model based on deregulated labour markets, residual social protection and a new public-private mix of welfare provision. We conclude that the crisis has been used as an opportunity for the completion of the neoliberal project by forces inside and outside Greece which, already before the crisis, considered the social model as an obstacle to profit-led growth<sup>1</sup>, and the neo-liberal model as the only sustainable pattern in a globalized world predominantly governed by free markets and dominant actors.

In section 2 we sketch the main features the pre-crisis Greek social model while in the next section we look at the main changes brought about by austerity policies and structural reforms under the EAPs. In section 4 we assess the depth and nature of the changes and their effects on the pre-crisis social model. In the final section we draw the general conclusions on the direction of change that will shape the main features of the upcoming social model.

## 2. THE GREEK SOCIAL MODEL AS A VARIANT OF A SOUTHERN EUROPEAN EMPLOYMENT MODEL AND WELFARE REGIME

In the early 1990s, Greece shared similar labour market structures and institutional arrangements with Italy, Spain and Portugal, often considered typical of a *south European employment model* (Karamessini, 2008a). Greece at that time had the highest self-employment rate in the EU and informal work was widespread. It also had among the lowest rates of female and part-time employment, very high unemployment rates among young people and women; very low unemployment rates among prime-age men and older workers and pronounced labour market segmentation along various lines (public/private, large/small firms, formal/underground economy, by age, sex, ethnic origin). The industrial relations system and the wage-setting and employment regimes were characterized by high industrial conflict, a confrontational culture and lack of social dialogue institutions, strong state intervention in wage setting and stringent employment protection legislation, but very weak enforcement of labour and social security legal mechanisms.

<sup>1</sup> For the distinction between profit-led and wage-led growth see, among others, Stockhammer (2011).

The Greek welfare model in the early 1990s could be seen either as a variant of the *conservative/corporatist welfare regime* of continental Europe, whose basic features are the Bismarckian principles of social insurance – differentiation in benefits/provisions according to occupational status and work performance – and the predominance of income transfers over service provision (Esping-Andersen, 1999; Katrougalos, Lazaridis, 2003) or as a variant of a distinctive *south European welfare regime* characterized by an extreme fragmentation in entitlements; large gaps in social protection; selective distribution of public sector jobs and welfare benefits through clientelism; recently reformed health-care systems on universal principles; strong familism in social security; and residual family, employment and social assistance policies (Leibfried, 1992; Ferrera, 1996; Petmesidou, 1996, 2012; Karamessini, 2008b).

After the recession of the early nineties, Greece entered a new period of growth that ended the stagnation of the 1980s. This coincided with important changes in the Greek social model that contributed to its final shape before the advent of the current crisis.

### *2.1. From adversarial to more consensual industrial relations*

As also happened in Spain and Portugal in the mid-1970, the fall of the colonels' dictatorship in Greece opened up a period of rising unionism and intensive industrial action. From 1974 through the 1980s industrial relations were extremely adversarial. Although highly politicized and internally divided into factions, Greek unions remained unitary, unlike their counterparts in Italy, Spain and Portugal. The 1990s and 2000s saw a decrease in strike activity while union density fell from 37.6 per cent in 1992 to 24 per cent in 2008<sup>2</sup>.

The recession of 1990–1993, the ideological impact of the collapse of the communist bloc on the union factions of the left and the accession to power of a liberal government that remained in office during 1990–93 contributed to a turn by the majority of trade unionists towards a social-partnership approach to industrial relations (Karamessini, 2009). EU integration is an additional determinant of the gradual decline in industrial relations conflict (Kouzis, 2002). However, social dialogue has culminated in only one social pact since 1994.

### *2.2. Wage determination: decline in State intervention but strong wage regulation*

The post-war wage-setting system was based on collective bargaining and state regulation of wages. National-level bargaining on the national minimum wage was the core element of the collective bargaining system and was followed by national-level bargaining on sectoral or occupational minima. Company-level bargaining was added to the system only after 1974.

State intervention in the post-war wage-setting system was very strong. Its role was to make collective bargaining outcomes compatible with the targets of incomes policy either through direct control of wages or through state-controlled compulsory arbitration, which was established in 1955. In 1982 a system of automatic indexation of wages to inflation was put in place but was abolished in 1990. In the same year, a new law on 'free' collective bargaining replaced compulsory arbitration by independent third-party mediation and

<sup>2</sup> OECD.Stat (data retrieved on 25.2.2013).

arbitration. As a result, the share of arbitration awards in the total number of collective agreements declined sharply. Despite these changes, the Ministry of Labour kept its prerogative to extend collective agreements to non-unionised employees and employers, which accounts for the high coverage of employees by collective agreements.

### *2.3. Strong labour market segmentation along the formal/informal work divide*

Greece was a typical example of a segmented labour market before the crisis. Strong protection against the dismissal of formally employed permanent employees, especially white-collar, has been a core element of the traditional Greek employment regime, along with extensive informal/irregular work. The former remained intact during the twenty years before the current crisis. As for informal work, this expanded in the 1990s and 2000s, mainly due to mass illegal immigration and the irregular situation of large numbers of migrants staying and working in Greece. Efforts have also been made by several governments to introduce types of employment and working-time flexibility in the labour market in the 1990s and 2000s. Union opposition tempered the degree of flexibility actually introduced and ensured relatively good protection for employees involved in some forms of atypical work, such as part-timers and temporary agency workers. In 2007, Greece had the lowest rate of part-time employment and incidence of flexible working-time arrangements in the former EU15, while the rate of fixed-term contracts among employees was below the EU27 average. However, at the same time, project/service contracts among dependent workers, uninsured employment and informal/irregular work thrived but, by their very nature, remained unrecorded.

### *2.4. Fragmented (and not universal) welfare system*

The main characteristics of the Greek welfare state at the beginning of the 1990s were:

- An extremely fragmented pay-as-you-go pension system with major inequalities in entitlements (Featherstone, Tinios, 2006; Tinios, 2007), a diminishing ratio of insured persons to pensioners and extensive and long-standing contribution evasion.
- Major disparities in levels of cover and access to health care between different population groups and a high level of private health expenditure despite the operation of the National Health System (NHS) since 1983 (Davaki, Mossialos, 2006).
- Strong familism and gender bias of the welfare regime, stemming from (a) residual unemployment compensation, social assistance and family policy which is based on the assumptions that the family is responsible for assisting its unemployed and dependent members and that women are the primary care providers; (b) the lower legal age of retirement for women and special early retirement schemes for married women and mothers of children under 18. Strong familism and gender bias have kept the female activity rate low.

Reforms of the pension system in the 1990s and 2000s established mixed funding of insurance funds through contributions and general taxation. They also introduced a means-tested supplement to low basic pensions, increased the minimum insured time for full pension entitlement and reduced the replacement rate of pensions. Furthermore, they gradually equalized the legal age of retirement between public and private sector employees and between women and men at 65 for those insured from 1<sup>st</sup> January 1993 onwards. However, the reforms did not ensure the financial sustainability of the pension system, which was constantly eroded by extensive contribution evasion by employers and

the expansion of informal work. Similarly, reforms of the public health service did not prevent the spectacular rise in private health expenditure, which reached 57 per cent of total health expenditure in 2005, the highest share among OECD countries.

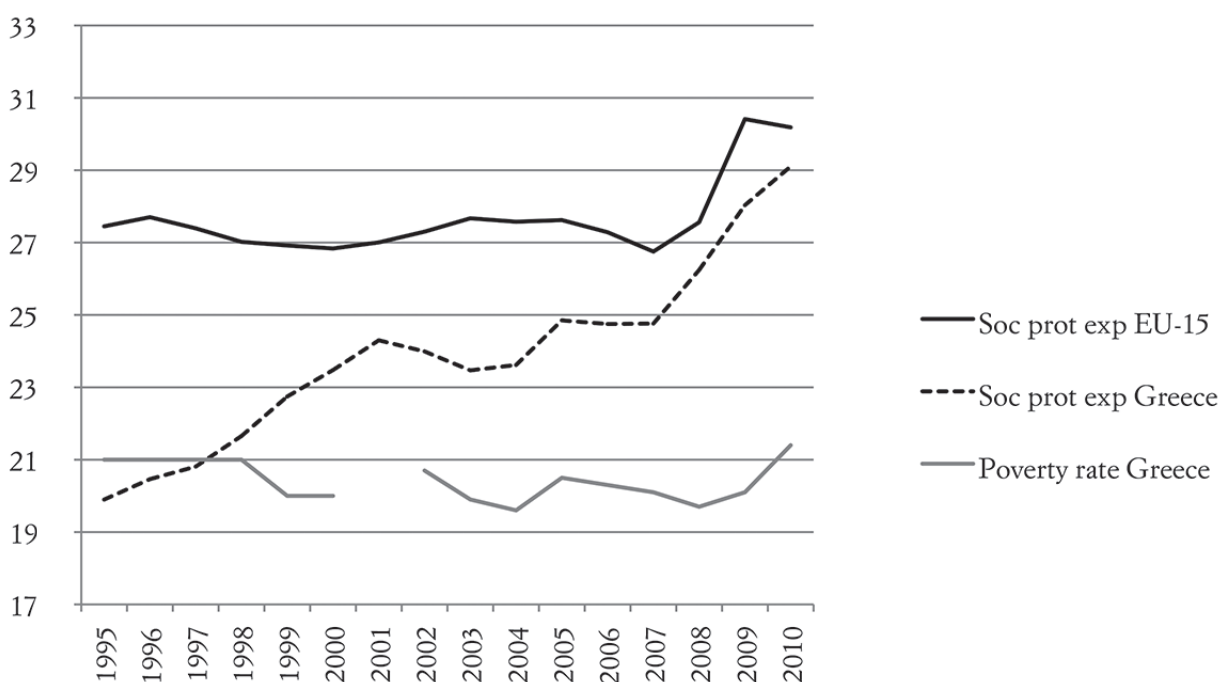
The late 1990s and 2000s also saw an improvement in maternal and parental leave and a ‘catching up’ of child and elderly care services (Petmesidou, 2006; Karamessini, 2010a). However, just before the current crisis, Greece had the lowest coverage of children and elderly by care services in the former EU15. Grandparents and migrant women hired as carers by high- or medium-income households stepped in to cover unmet demand. Last but not least, the residual system of social protection against unemployment (Papadopoulos, 2006) became even more so when, on top of a quasi-inexistent social assistance pillar, a 2007 reform replaced wage-related benefits with a single flat-rate basic benefit set at 55 per cent of the minimum wage (Karamessini, 2010b).

In conclusion, despite its improvements, the Greek welfare state was suffering from substantial weaknesses at the onset of the crisis.

### 2.5. Social expenditure: solid convergence with EU15 – failure to combat poverty

The Greek welfare state was underdeveloped relative to the north-western European welfare states in the post-war decades. A catching-up process was initiated after the end of the colonels’ dictatorship in 1974, which intensified in the 1980s. However, in 1995 social protection expenditure represented 19.9 per cent of GDP in Greece as against 27.4 per cent of GDP in the former EU15, on average, a gap of 7.5 percentage points.

Figure 1. Social protection expenditure (% of GDP) and at-risk-of poverty rate (%)



Source: own elaboration of Eurostat data (extracted on 28.10.2013).



Catching up continued in 1995-2007, a process led mainly by pensions and health (FIG. 1). In 2007 social protection expenditure as a percentage of GDP had nearly converged with the EU15 average. If to social protection expenditure we add public expenditure on education and social services, then the gap in total social expenditure as a percentage of GDP between Greece and the EU15 average was 4.1 percentage points. However, on the eve of the current crisis, the Greek welfare state could no longer be considered underdeveloped, at least in terms of expenditure, as was the case in the mid-1990s.

Although the income poverty rate and gap retreated somewhat between 1994 and 2004 and nearly stabilized between 2004 and 2008 (Tsakloglou, Mitrakos, 2012), Greece possessed the third highest poverty rate in the EU27 in 2008 (20.1 per cent). This means that the expansion of social expenditure as a proportion of GDP between 1994 and 2008 proved unable to reduce poverty significantly, as can be seen in Figure 1.

The weak redistributive effect of social expenditure – and thus its ineffectiveness with regard to poverty reduction – has been attributed in the literature to two sources: the unequal levels of generosity enjoyed by different categories of pensioners (Matsaganis, 2011) or to the low level of social transfers other than pensions and their low effectiveness in reducing poverty, which is related to the lack of universal benefits (Dafermos, Papatheodorou, 2010). Generally speaking, «expansion of social expenditure was barely framed by universalistic social citizenship values» and has been accompanied by fragmentation, polarization and particularism of interests and entitlements (Petmesidou, 2013, p. 180).

### 3. SOVEREIGN DEBT CRISIS AND THE SOCIAL MODEL: THE BIG CLASH

In May 2010 the IMF and euro-zone partners granted Greece substantial loans to prevent disorderly default on sovereign debt, which might have triggered the collapse of exposed European banks and the EMU. A new package of loans was granted by the same lenders in March 2012 after a 53.5 per cent write-off of sovereign bonds held by the private sector, which made necessary the recapitalization of the Greek banking system. The disbursement of loans was made conditional on the implementation of two Economic Adjustment Programmes supervised by the troika (European Commission, ECB and IMF).

Fiscal consolidation, internal devaluation through reduced labour costs, and financial stability were the main goals of the EAP. The fiscal consolidation effort was estimated at 18.5 per cent of GDP (OECD, 2012), while its aims were to reduce the general government deficit from 15.7 per cent of GDP in 2009 to less than 3 per cent of GDP in 2015 and generate primary surpluses to repay sovereign debt. The EAPs also included a series of structural reforms in the labour and product markets intended to restore competitiveness through a 20-30 per cent devaluation of wages, prices and assets and re-launch growth through investment and exports.

The EAPs comprise two kinds of measures that directly affect the social model. The first includes wage and benefit cuts and parametrical changes in the social protection system, leading to an immediate or medium-term reduction in public expenditure. The second kind of measures include radical reforms of the wage-setting system, the employment regime and the welfare state, leading to structural changes and having long-lasting effects. Undoubtedly, the austerity 'cure' imposed since 2010 has shaken the foundations of the pre-crisis social model and structural changes are leading to its demise and recasting. This turned into a big clash.

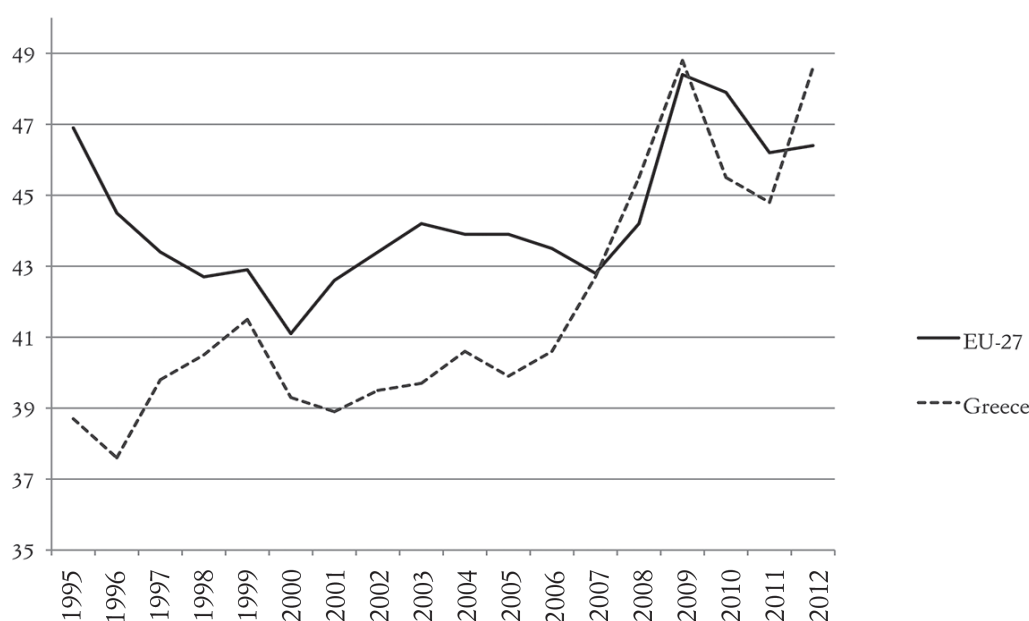
### 3.1. The rationale of reforms

The rationale of the imposed EAP reforms of the Greek social model is based on a diagnosis of the problems that can be summarized in two key arguments. First, the pre-crisis public sector was oversized and the social protection system (especially pensions and health care) financially unsustainable. Both represented an obstacle to fiscal adjustment in the short term and a growing burden on the state budget in the long term. Second, the pre-crisis wage-setting system and employment regimes favoured large wage increases in the non-tradable sector of the economy, which were transmitted to the tradable sector. These account for the loss in competitiveness and the spectacular rise in the current account deficit after Greece's entry in EMU in 2001. But is the social model responsible for the crisis?

#### 3.1.1. Public sector and social protection unsustainable

Admittedly, inefficiency and waste were pervasive features of the Greek public sector before the crisis. However, the size of the sector, when measured by the primary public expenditure-to-GDP ratio, was equal to the EU27 average in 2007 (FIG. 2). In the same year there was a substantial gap of –4 percentage points for Greece versus the EU in the public revenue-to-GDP ratio (FIG. 3). It follows that the very high sovereign debt at the onset of the crisis reflected a long-standing public revenue deficit rather than excessive public expenditure (Stathakis, 2010). The deficit was maintained through structural tax avoidance and evasion by firms and the self-employed; tax privileges were granted to banks, maritime capital, the Church of Greece and liberal professions, but also tax concessions to capital and high incomes in the 2000s. On the expenditure side, the 2004 Athens Olympics, the overpricing of public works due to corruption and high military spending were important determinants of rising public expenditure ignored by the official documents of the EAP.

Figure 2. Primary public expenditure (% of GDP)



Source: own elaboration of Eurostat online data (extracted on 29.10.2013).

Figure 3. General government revenue (% of GDP)



Source: own elaboration of Eurostat data.

Additionally, in 2011, Greece was the OECD country with the lowest rate of employment in general government as a percentage of the labour force but had the third highest rate of employment in public corporations (OECD, 2013, Figure 5.2, p. 103). The rates were 6.9 per cent and 12.8 per cent, respectively, while total public sector employment rate was average. The alleged urgent need to downsize the public sector was thus based on a myth.

Finally, as regards social protection, the unsustainability argument overlooked the remaining gap in total social expenditure as a percentage of GDP between Greece and the EU15 (see above) and the very important role of tax evasion in explaining the growing social security deficits in the 1980s, 1990s and 2000s, which were covered by state budget allocations.

### 3.1.2. Wages as the source of inflation and loss of competitiveness

Greece's current account deficit deteriorated dramatically during the decade preceding the crisis; it passed from 3.1 per cent of GDP in 1998 to 18.8 per cent in 2008. The debate on the determinants of this deterioration has been vigorous. Throughout the 2000s, the Bank of Greece has attributed growing deficits in the balance of goods and services mainly to losses in price competitiveness due to the persistent inflation differential with the euro-zone average. It suggested that real wages should increase less than productivity, while nominal wages should increase in line with productivity and average inflation in the euro zone until the inflation differential was erased. Wage-driven inflation was later on contradicted by EU publications that attributed 67 per cent of the rises in Greek prices during the first half of the 2000s to profit margin increases, 20 per cent to indirect tax increases and only 13 per cent to labour-cost increases (European Central Bank, 2006; European Commission, 2007).

Similarly, the annual reports and several studies by the Institute of Labour of Greek Trade Unions (see, for instance, INE GSEE/ADEDY, 2010; Ioakimoglou, 2011) have repeatedly



underlined the minimal role played by labour costs in the loss of competitiveness in the 2000s. They have also highlighted the important role played by euro appreciation<sup>3</sup> – 36 per cent between 2001 and 2008 – and low non-price and structural competitiveness and have showed that Greek employers could have easily increased price competitiveness by reducing their profit margins, given that these were the second highest in the EU15 after those in Ireland in 1995-2009. Finally, these reports and studies have attributed a significant part of deficit deterioration to the much higher growth rate in Greece relative to its trading partners and defined Greece's chronic trade deficit as a problem of structural competitiveness.

Notwithstanding their minor role in the deterioration of the current account balance, lowering labour costs became the second most important quantified target of the second EAP.

### *3.2. Public sector: the main target of fiscal consolidation*

The public sector has been the main target of fiscal consolidation. To drastically reduce public expenditure, draconian measures have been implemented in the civil service, state agencies and public companies. On the other hand, the revenues from the long list of privatizations included in the EAP are intended to directly repay sovereign debt.

#### *3.2.1. Drastic reduction in the public sector wage bill*

Cuts in the wage bill of the public sector took place through cuts in wages, bonuses and personnel. Between 2009 and 2013, real gross wages declined by 24.8% in the civil service and 35.4% in public utilities. Nominal pay cuts were even more important.

A quantified target was also set in the EAP for the reduction in the number of public sector employees and a series of measures have been implemented to this end:

- Suspension of recruitment of permanent employees in the public sector in 2010, except in education, health care and security; application of the rule 'one hire for 10 exits' in 2011 and that of 'one hire for five exits' in 2012-16.
- Reduction of employees on short-term contracts by 30 per cent in 2010, 50 per cent in 2011 and 10 per cent annually in 2012-16.
- Increase in the standard working time from 37.5 to 40 hours weekly without any rise in pay and drastic reduction in overtime working.
- Mergers of municipalities and reduction of their number by two-thirds and of local government personnel by 50 per cent.
- Labour reserve and mobility schemes through which staff is either reallocated to new positions or dismissed after a certain period on the scheme.
- Closures, mergers and downsizing of public and private law legal entities.

Although the above measures were considered sufficient for meeting the target, the troika has exerted pressure for «up-front mandatory exits» that would «send a powerful signal that the taboo against public sector dismissals is finally being broken» (IMF, 2013a, p. 15). This means that the stakes were much greater than just fiscal consolidation. As a result, the government committed itself to 4,000 dismissals in 2013 and 11,000 in 2014.

As a result of the above measures, employment in general government retreated by 34% between the end of 2009 and the end of 2013 and further declines are expected in 2014-15.

<sup>3</sup> Greece's extra euro-zone trade represented 40 per cent of exports and 45 per cent of imports in 2007.

### 3.2.2. *The welfare state in the eye of the storm*

Pensions and health care are the welfare state sectors that have experienced the deepest benefit cuts, the highest rises in contributions and the most radical reforms since 2010. This is because, before the crisis, they jointly represented a very high share of social protection expenditure and an important share of general government expenditure (88 per cent and 29 per cent, respectively, in 2008).

– *Pensions: series of cuts and radical reforms in 2010 and 2012.* The ‘austerity measures’ that have been implemented in pensions since 2010 are aimed at containing rising public expenditure on pensions between 2010 and 2060 to a maximum 2.5 percentage points of GDP. They consist in reductions in benefits, increases in contributions and radical reforms of main and supplementary pensions.

Nominal cuts in main pensions by 10.5 per cent on average, the introduction of a progressive ‘solidarity contribution’ on pensions exceeding 1,400 euros and the freezing of all pensions over the next three years were among the first austerity measures taken in 2010. Many rounds of reductions in all kinds of pensions (main, supplementary and lump-sum) have followed since then. However, the greatest implications for the social model follow from the radical pension reforms, starting from the reform of main pensions in July 2010. The 2010 reform introduced a two-pillar pension system – a basic quasi-universal means-tested pension and an earnings-related contributory pension – to replace the former one-pillar pay-as-you-go system that had been increasingly subsidized by the state. This same pension reform merged all social security funds into three by 2018 and brought the pension system of civil servants into line with the private sector pension system by eliminating all its more favourable provisions from 2013 onwards. The above reform was completed by an increase in the retirement age from 65 to 67 which took effect on 1.1.2013. Supplementary pensions were revamped in 2012. All funds were merged into a single one, while the existing defined-benefit pay-as-you go system is to be gradually replaced by a notional defined-contribution system. As a result, the amount of benefits will no longer be determined ex-ante but will depend strictly on the contributions accumulated over the lifetime on individual accounts (capitalization principle).

Although it is true that most cuts in pensions ‘have been progressive, mostly affecting those that are better off’ (European Commission, 2012b, p. 41) recent reforms ‘clearly give precedence to sustainability over adequacy, leaving important questions as to the pension levels of future pensioners open’ (Sakellaropoulos, 2012).

– *Health care: reduction in public expenditure, increase in private funding.* As previously mentioned public expenditure on health as a percentage of GDP in Greece was very low by international comparison at the beginning of the 2000s but caught up with the EU27 average at 7.4 per cent of GDP in 2009. One of the main reasons for the steep rise in total expenditure was the increase in expenditure on pharmaceuticals (Tzannatos, Monogios, 2012). Furthermore, at the onset of the crisis the National Health System (NHS) faced serious problems of efficiency, equity and quality of service delivery (Economou, 2012) and suffered from chronic shortages of nursing personnel. Citizens trusted public hospitals more than private clinics in case of serious illnesses and operations, however.

The main EAP objectives and targets in health care were the reduction and stabilization of public expenditure at or below 6 per cent of GDP and the reduction in public pharmaceutical spending towards 1 per cent of GDP. The structural measures taken since 2010 were

directed at reducing and thereafter controlling expenditure on drugs and diagnosis tests; merging the health care branches of the numerous social security funds into a single health insurance fund (EOPPY); increasing private funding of public health care; reorganising the hospital sector to reduce costs (mergers, closures, restructuring of public hospitals) and increase revenues (afternoon outpatient consultancies); closing down the clinics of EOPPY and transforming the latter into only a buyer of health care services from the NHS and private providers; and reorganising primary healthcare to reduce costs.

Savings in public expenditure were also sought with a 40 per cent reduction in the operating costs of public hospitals, reductions in the salaries and overtime pay of the doctors and nursing personnel and application of the attrition rule 1:10 in hires from 2011 onwards.

– *Social welfare: towards residual but more universal protection.* Although the second EAP and its reviews by the European Commission and the IMF recognize the need to rationalize the social welfare system, savings of public money was set as an equally important goal in this field.

The main changes concerning unemployment benefits are the reduction of the ordinary flat-rate benefit by 22 per cent in 2012, the introduction of caps to its cumulative duration over a four year period and the abolition of all special benefits. On the other hand, the group of beneficiaries entitled to the means-tested allowance for the long term unemployed has been somewhat enlarged. As for financial support to families with dependent children, all child tax allowances as well as the benefits for large families have been abolished and replaced by a single targeted benefit granted from the first child.

The above measures constitute a mix of severe cuts in untargeted benefits and entitlements and the redirection of public monies to flat-rate, targeted and means-tested benefits. If the latter are complemented by the postponed minimum guaranteed income scheme in the coming years, this will represent a move towards more universal but residual protection.

– *Social care services: greater dependence on EU funding.* Since 2010 fiscal consolidation has entailed substantial cuts of about 60 per cent in state budget allocations to municipalities, which are the almost exclusive providers of social care in Greece. At the same time, private nurseries face a serious reduction in demand for their services due to the impoverishment of the middle class. An EU-funded voucher system enacted in 2008 saved both municipal and private crèches and nurseries from collapse in the following years. A voucher for free access to accredited childcare structures is granted to employed or unemployed mothers if their household income is below a certain ceiling, depending on the number of children. Having said that, the most important negative effect of fiscal consolidation can be seen in the deterioration of the quality of provision in municipal crèches and nurseries, due mainly to acute understaffing. As for the EU-funded Home Help programme for elderly and disabled people, this was discontinued in 2009 and reintroduced in 2010 with different eligibility criteria that left 30 to 40 per cent of previous beneficiaries without cover (Matsaganis, 2013).

### 3.3. Labour costs: the adjustment variable for internal devaluation

Reducing labour costs in the business sector of the economy, to be achieved by ‘structural labour market reforms’, was one of the key goals of the first EAP, which became an explicit and quantified target under the second EAP. Structural reforms encompassed both the employment regime and the system of wage determination.

### *3.3.1. Employment regime: dismantling the protection of permanent employees*

Both EAPs included a host of measures aimed at recasting the pre-crisis employment regime by significantly increasing employment and working-time flexibility in the formal labour market. The most important ones that have been adopted since May 2010 are those related to the easing of individual and collective dismissals in the private sector and the abolition of all clauses on tenure in collective agreements applying to the employees of public agencies and undertakings. To these measures one should add the creation of labour reserve and mobility schemes in public administration meant to receive personnel made redundant, of whom a certain number has been/ will be dismissed.

All the above measures entail the dismantling of a core feature of the Greek employment regime, namely strong employment protection of permanent employees. They have been accompanied by a long series of measures intended to ease recourse of employers to atypical contracts, make the latter more flexible by reducing protection of atypical employees, reduce the cost of overtime work and adapt working time to the needs of firms.

The joint outcome of the above changes in the employment regime is the blurring of segmentation lines between permanent and atypical employees, on one hand, atypical work and informal employment on the other, and the generalization of precariousness.

### *3.3.2. Wage-setting system: unprecedented changes to bring wages down*

Since mid-2010 the wage-setting system has seen unprecedented changes, meant to bring about substantial wage reductions in both public companies and agencies in which wages were set at the firm level through collective bargaining and the business sector. Between May 2010 and February 2012, the measures of the first EAP gave priority to the dismantling of collective bargaining in state-owned enterprises and agencies, with the legislated reduction of nominal wages and, in the private sector, to the decentralization of collective bargaining to firm level where the employers' position is stronger than that of the unions. In late 2011 and early 2012 the government launched a tripartite dialogue in order to discuss with social partners national minimum wage developments compatible with boosting competitiveness and preserving employment. The results of this dialogue were considered by the troika to be unsatisfactory (European Commission, 2012a, p. 38) and led in February 2012 to the decision on a legislative reduction in the national minimum wage and the dismantling of the collective bargaining system through a series of measures included in the second EAP. The dismantling of the system is the joint outcome of the abolition of collective bargaining on wage floors, the restriction in the scope of mediation and arbitration bodies to regulate wages, the removal of the 'favourability clause' in case of overlapping collective agreements and the suspension of the extension of the nation-wide sectoral and occupational agreements to non-signatory firms.

## 4. WHAT SOCIO-ECONOMIC EFFECTS?

In studying the socio-economic effects of changes in the social model one should distinguish between short/medium-term effects that are linked to the recession from long-term effects that are structural in character. These are associated with the radical reforms in the wage-setting system, the employment regime and the welfare state that were described above.



#### 4.1. Short/medium-term effects

Between 2009 and 2013 domestic demand fell by 31.3 per cent, GDP contracted by 20.8 per cent, employment decreased by 18.8 per cent and working conditions have deteriorated. Reforms in the employment regime and wage-setting system have contributed to such developments by leading to a major fall in wages, the acceleration of dismissals and the expansion of flexible labour contracts and informal work.

Between 2009 and 2013 nominal wages in the economy as a whole declined by 16.3 per cent while real wages fell by 25.6 per cent. Moreover, the monthly expenditure of households on goods and services declined by 27.4 per cent in real terms over the same period, pointing to a deterioration of living standards. At the same time, the new wage floors – especially for youth – are below subsistence levels while wage arrears now affect more than half of private sector employees. Both render the reproduction of employees precarious.

Income precariousness has increased alongside mass unemployment, that reached 27.3% in 2013 and part-time work. In the first quarter of 2014, 11.7 per cent of households with both spouses/partners aged 20-55 were jobless, while in 9.1 per cent only the female spouse/partner was working. With respect to part-time work, a recent report by the Labour Inspectorate shows that, between 2009 and 2012, the number of full-time work contracts converted into part-time or rotating work contracts increased fivefold, while the share of part-time or rotating work contracts in new hires increased from 21 per cent in 2009 to 45 per cent in 2012 (SEPE, 2013, pp. 55-6). Uninsured work has also expanded as a result of firms' difficulties with continuously falling demand and a credit crunch; the readiness of employees to accept such work due to mass unemployment; and the incapacity of the Labour Inspectorate to effectively supervise the enforcement of labour law due to staff shortages.

Table 1. Social expenditure by type, Greece and EU27, 2007-14 (% of GDP)

	Social transfers in kind		Other social benefits	
	Greece	EU27	Greece	EU27
2007	10.2	12.5	15.3	14.8
2008	10.6	12.9	16.7	15.2
2009	11.3	13.9	18.1	17.0
2010	11.1	13.8	18.1	16.9
2011	10.7	13.5	19.2	16.6
2012	10.5	13.5	19.9	16.9
2013	9.7	13.5	18.6	17.1
2014	9.2	13.3	19.3	17.0

Note: Figures for 2014 are forecasts.

Source: European Commission (2014, Tables 61 and 64).

Living conditions and social reproduction also depend on welfare state provision which has been significantly impaired by fiscal consolidation (TAB. 1). Social transfers in kind will have dropped to 9.2 per cent of GDP in 2014, from 11.3 per cent of GDP in 2009 while social



benefits other than social transfers in kind will have increased by 1.2 per cent points of GDP across the same period. Given the estimates on the cumulative fall in GDP over 2009-14, social transfers in kind will have declined by 35.4 per cent while social benefits other than social transfers in kind by 22.1 per cent over 2009-14.

Between 2009 and 2012, public expenditure on health care contracted by 32 per cent. Much of the reduction was achieved by positive rationalization measures (lower prices of drugs, e-prescriptions, computerization of hospitals and so on) but the remaining part fell due to (i) the deterioration of access to quality health care, especially on the part of the most vulnerable groups and (ii) lower remuneration, the worsening of the working conditions of the medical and nursing personnel, and the non-replacement of exits to retirement.

Access to quality health care is impaired in various ways. Many drugs and diagnostic tests are not reimbursed by social security anymore; co-payments have increased for those reimbursed and there is a lack in basic medicines in the market after the reduction in prices imposed by the Ministry of Health. Besides, the closure of many smaller units and hospitals increases the cost of access to the NHS for large parts of the population, especially for the most vulnerable groups and those residing in remote areas. Moreover, for 2014 the Greek government and the troika are planning further increases in co-payments and the downsizing of EOPYY's benefit package. Moreover, NHS hospitals suffer from great shortages of medicine, materials and consumables and reductions in the number of beds. If to these inadequacies one adds a staff reduction in hospitals and health centres, one understands why the NHS is increasingly unable to deliver the same quantity and quality of care as before the crisis.

Last but not least, about one third of the population is no longer covered by insurance against sickness because it is unable to pay or dependent on persons unable to pay social security contributions to EOPYY. The majority of those unable to pay their contributions are (former) self-employed and long term unemployed persons. Unsurprisingly, increased costs of access and the large gaps in health insurance coverage have led to a humanitarian crisis.

#### *4.2. Long-term effects*

The seismic changes in the wage-setting system are having destructive effects on unions and social dialogue. The long term effects could be a union-free and deregulated labour market where wages will be set through individual bargaining. How cohesive but also how productive a society without collective actors and social dialogue can be, given that unions and collective bargaining have historically not only represented a collective voice for the interests of wage earners but also constituted a stimulus for productivity increases?

Of equal importance is that since 2010, the successive pension cuts and radical reforms of the pension system alongside the dramatic fall in receipts from contributions due to the prolonged recession are leading towards very low old-age social pensions from 2020 onwards. The explosion of unemployment, the severe wage cuts, the expansion of uninsured work and the inability of the self-employed to pay social security contributions are powerful determinants of the acute decline in the amount of receipts from contributions. In a recent report the Bank of Greece (2013, pp. 75-6) repeats the estimates by the National Actuarial Authority that the replacement rate of first-pillar old age pensions will be significantly reduced during the period 2020-60 while all pensioners that will have received in their lifetime up to 1.2 times the median income will be entitled to first-pillar pensions below the poverty line. On this basis, the Bank recommends the development of the second and third pillars of the pension system, in other words occupational and private pensions.

## 5. CONCLUSIONS

Since 2010, structural reforms in the public sector, the labour market and the welfare state have been dismantling and radically recasting all the pillars of the pre-crisis Greek social model. The main outcomes of these reforms are a lean public sector, a deregulated labour market, the erosion of social security and welfare state retrenchment. Although many of the reforms have contributed to fiscal consolidation and are still doing so, their main aim is to pave the way for a profit-driven export-led growth model and to assist in its consolidation. The way has been paved thus far by a drastic reduction in labour costs, which will continue in the coming years. Public sector downsizing and welfare state retrenchment will provide new investment opportunities to private capital, while a deregulated labour market ensures that wage development remains well below productivity growth to constantly boost profits.

The scale of fiscal consolidation and internal devaluation carried out by the Greek governments under the EAPs in recent years is huge, while the results of the endeavour have been, to date, disastrous and outrageous for any country during peacetime. The austerity 'cure' has led the economy into a depression comparable to that of the US economy in the 1930s and a recessionary spiral that has increased the burden of sovereign and private debt. Depression is destroying the economy's endogenous capacity for sustainable recovery. At the same time, internal devaluation has not produced any significant growth in exports. Adjustment of the external balance is realized through the impoverishment of the lower and middle classes, leading to a fall in imports. Structural competitiveness, the real cause of external deficits, has deteriorated as a result of disinvestment.

Last but not least, the evidence provided in this chapter runs counter to expectations that the crisis may represent an opportunity for the positive reconfiguration of the Greek welfare state, addressing its pre-crisis weaknesses and failures and leading to 'a more stringent welfare state overall but [one that is] more equitable and more effective at the low end of the income scale' (Matsaganis, 2013, p. 173). The erosion of social security and the reduction in state budget transfers point to merely residual social protection in old age and sickness in the coming years; this is already a reality in the case of unemployment compensation. The eventual implementation of a guaranteed minimum income is in itself a positive measure, but only to compensate for the mass and extreme poverty created by austerity, internal devaluation and the dismantling of the social model.

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