The welfare state and the crisis: the case of Greece

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Abstract

The paper examines the relationship between the severe economic crisis facing Greece and the country's social protection system, arguing that this relationship is ambivalent. On one level, the welfare state itself has contributed in a far from trivial way to the fiscal crisis of the state, its various failures including huge deficits in key programmes such as pensions and health. On another level, the crisis and the measures to counter it deprive the welfare state of resources, while at the same time setting in motion sweeping changes. On a third level, social protection can help cope with the consequences of the crisis, but enhancing its capacity to do so will require considerable reconfiguration and proper funding of social safety nets. The paper concludes by discussing the prospects for a revival of welfare state building in Greece in the current harsh climate.

Keywords

Crisis, pensions, unemployment, safety net, Greece.

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1. **Introduction**: Greece in crisis

Upon entry to the euro area, Greece enjoyed a period of fast growth (averaging 4% in 2000–08). However, behind the façade of prosperity based on strong consumer demand, boosted by cheap credit, lay a largely uncompetitive economy. Its many weaknesses, signified by chronic fiscal and external deficits, and a large public debt, were made plain in October 2009, when the incoming government announced that earlier fiscal data had been misreported. The general government deficit for 2008 was corrected from 5.0% to 7.7% (later revised to 9.4%) of GDP, while the estimate for 2009 was raised from 3.7% to a staggering 12.5% (later to 15.4%) of GDP. The public debt estimate for 2009 was also revised from 99.6% to 115.1% (later to 126.8%) of GDP. At the same time, the current account deficit reached 14.7% of GDP in 2008, reflecting the country's steady loss of competitiveness (Bank of Greece 2011).

The revised figures stunned public opinion at home and shocked markets abroad. Coming not long after the onset of the international financial crisis, and coinciding with sluggish growth worldwide, the Greek case assumed unanticipated dimensions. In this context the country's dependence on foreign borrowing, heavier than hitherto thought, proved fatal: markets reacted by increasing spreads (that is, interest rate differentials from German government bonds), and by lowering credit ratings (Featherstone 2011).

On 3 March 2010, the government announced a first package of austerity measures, aimed at fiscal consolidation. Although costing the government a great deal in terms of popularity, the announcement failed to placate the markets. In April, Standard & Poor downgraded the country's credit rating to below investment grade (i.e. junk status), while spreads on 10-year government bonds continued to rise sharply to 1,000 basis points (i.e. 10 percentage points), from 200 basis points in January. At that point, Greece effectively lost access to the international financial markets, and a sovereign debt crisis threatened to develop into a solvency crisis.

After much procrastination on all sides, an unprecedented €110 billion rescue package was agreed with the European Commission, the European Central Bank and the International Monetary Fund, designed to cover the country's borrowing requirements for the next three years. In return for that, the government signed a Memorandum of Economic and Financial Policies, ratified by Parliament on 3 May 2010. The Memorandum committed the Greek government to sweeping spending cuts and steep tax increases, aiming to reduce the country's public deficit below 3% of GDP by 2014 (IMF 2010; EC 2010a). To prove the government's trustworthiness, a second austerity package was also announced.

The rescue package did manage to impress international markets, but caused strong domestic reaction. Civil unrest reached a paroxysm on 5 May 2010, in the context of a huge and largely peaceful demonstration, when three workers lost their lives as extremists set fire to a high-street bank in Athens. The tragedy cast further doubt on the country's future, and lengthened the odds that the rescue package might prove effective[1].

The Greek crisis is a combination of external forces (endemic turbulence in financial markets) and domestic weaknesses (chronic fiscal and trade deficits). Therefore, it is unlikely to simply go away as the world economy recovers. By mid-2010 (and in spite of continuing instability elsewhere in the Euro area), all other EU member states had returned to positive economic growth - but in Greece the recession deepened. The implications of the crisis on the economy, the social fabric and the political system will take years to unravel. In the meantime, this paper is a preliminary attempt to explore causes and effects of the Greek crisis from the perspective of social policy and the welfare state.

Specifically, the paper argues that the relationship between Greece's severe fiscal crisis and the country's social protection system is ambivalent: the welfare state was among the causes of the crisis, while it is also being affected by it. At the same time, a reformed welfare state is urgently needed to prevent the crisis from turning into a catastrophe.

The structure of the paper is as follows. Section two reviews the contribution of the welfare state, especially pensions, to the crisis. Section three discusses the effects of the crisis on the welfare state, in terms of cuts as well as reforms, as in the case of the pension law rushed through Parliament in July 2010. Section four focuses on the capacity of the welfare state to mitigate the social impact of the crisis, helping individuals and families cope with income loss and unemployment. Section five speculates on the prospects for a revival of welfare state building in Greece in the current harsh climate.

2. **Causes of the crisis**: effects *of* the welfare state

The first question this paper asks is to what extent the failures and excesses of the welfare state may have contributed to the crisis. The very terms of the question run counter to popular wisdom (that the crisis was the fault of greedy speculators and corrupt politicians), but will hardly raise an eyebrow to anyone familiar with an older literature on 'growth to limits' (Flora 1986), the role of social spending in the fiscal crisis of the state (O'Connor 1973; Gough 1979), and the tense nature of the relationship between capitalism and democracy (Iversen 2005).

The notion that the welfare state and a market economy are deeply incompatible, developed in the aftermath of the oil crises at the end of the '*trente glorieuses*', now seems overly pessimistic. As it turned out, social expenditure was brought back under control in most of Europe, North America and elsewhere, proving that there was nothing irreversible about spiralling welfare deficits (Pierson 1998, Schludi 2005, Palier 2010). Furthermore, recent reforms appear to have managed the difficult exploit of containing costs without fatally weakening core services and benefits, as many had initially feared (Ferrera 2008).

Contrary to the experience of other countries, the case of Greece actually seemed to support the thesis that the welfare state was virtually unreformable. While social spending soared (usually without visible improvements in outcomes), reforms failed one after another (or, as in many cases, failed to be formulated in the first place), and the whole edifice appeared to be unassailable. It is in this sense that the welfare state, seemingly incapable for reform, contributed in a far from trivial way to the fiscal crisis of the state.

Nowhere was this more evident as in the case of retirement pensions[2], the largest item of social expenditure and the most highly contested policy area in Greek politics over the last few decades. Pensions form the backbone of Greece's system of social protection, providing households with as much as 24.1% of their disposable income on average (ElStat 2010). Other social transfers (for instance, family, sickness, housing, unemployment and social assistance benefits) are marginalised, accounting between them for a mere 3.2% of average household disposable income.

In an ageing world, pension expenditure as a proportion of national income will rise everywhere. In view of that, over the last two decades most European countries have taken measures to counter the fiscal effects of unfavourable demographics. By and large, such measures have defused the 'pensions' time bomb'. For instance, spending on pensions in the EU as a whole was recently estimated to rise gently to 12.3% of GDP in 2040 and 12.5% in 2060 (EC 2009).

In the other EU countries affected by the current financial crisis pension expenditure was set to increase a bit more rapidly: in Ireland to 6.4% and 8.6% of GDP in 2040 and 2060 respectively; in Portugal to 12.5% and 13.4%; in Spain (to 13.2% of GDP in 2040 and to 15.1% in 2060. Nevertheless, nowhere was pension expenditure projected to rise as steeply as in Greece: to 21.4% of GDP in 2040 and 24.1% in 2060 (EC 2009). True, the optimal level of pension spending cannot be determined *a priori* - it must reflect social and political preferences. However, it is hard to view such a burden on public finances as other than unsustainable.

Spiralling deficits are so often analysed in economic (efficiency) terms that it is easy to lose sight of the key fact that they primarily amount to a violation of equity, in this case between generations. Indeed, nothing can undermine the celebrated 'inter-generational contract' as much as the decision – it matters little whether by omission or commission – to send the bill for current largesse to future generations of workers and pensioners. It is not difficult to work out what a pension system absorbing almost one-quarter of a nation's resources might require in terms of contribution rates or, conversely, what the necessary benefit cuts might be if reform is left until too late.

What is more, largesse is unequally shared within the current generation of retirees. Institutional fragmentation is pretty extreme. Earnings-related retirement benefits were until recently paid out by hundreds of social insurance schemes, each subject to a bewildering array of rules. While recent legislation nominally consolidated social insurance into 13 agencies, privileged categories have retained their preferential treatment. Therefore, in spite of the merger of small social insurance agencies into the general regime, the acquired rights of the former will be protected for a long transitory period (Matsaganis & Leventi 2011a).

As a result of fragmentation, Greek pensions perform poorly with respect to intra-generational equity as well. The parameters defining entitlements differ enormously: to give just one example, the current statutory retirement age for men ranges from 45 to 65 years for a full pension. Variation is also wide in terms of contribution rates, minimum length of contributory period, reference earnings, and replacement rates. The general picture is quite complex, but systematic cleavages in entitlements can be identified between groups of pensioners, actual or future. In general, pension rules favour the self-employed over wage earners, public over private sector employees, middle-aged contributors over younger ones, standard over non-standard workers, and men over (most) women (Matsaganis 2002).

In spite of rising expenditure, poverty in old age remains above the European average (22% vs. 19%). What is more, the gap between Greece and the EU in terms of poverty rates is wider in the 75+ age group (28% vs. 22%). Inequality measures (S80/S20 income quintile share ratio for those over 65: 4.5 in Greece vs. 4.0 in the EU27) tell a similar story (EC 2010c). In sum, the country's pension system has failed to deploy the large resources it commands to meet fundamental distributional objectives.

Before the current crisis, although Greek pensions were clearly inequitable as well as unsustainable, 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 (Featherstone et al. 2001; Matsaganis 2002; Tinios 2005; Featherstone 2005; Triantafillou 2005; Matsaganis 2007; Vlachantoni 2007; Carrera et al. 2010; Tinios 2011).

In a certain way, the failure to reform Greek pensions can be formulated in terms of political economy, or even as a result of a failure of representation. The existing state of affairs jeopardized future prosperity and violated distributional justice, but generated winners as well as losers – and the former were powerful in society and politics. As important stakeholders were under-represented (e.g. the young, women, non-standard workers), while others were not represented at all (e.g. the proverbial future generations), the political system seemed incapable of producing a solution.

The only way out of the impasse is the emergence of 'advocacy coalitions', prepared to argue in favour of reform for the sake of justice and the public good, even when it would be against the narrow interests of some of its proponents (Sabatier 1998; Ferrera 1998). That such coalitions, effective elsewhere in Europe, failed to emerge, or proved ineffectual, in Greece should be a cause of concern for all those interested in the prospects of egalitarian reform in the country.

Observers of recent public debates on pensions in Greece, especially if unfamiliar with the minutiae of Greek politics, might be forgiven for drawing the conclusion that no politician (let alone union leader) of any weight was prepared to stand up and be counted in defence of the rights of future citizens. Enter the unloved 'troika' – as the international committee of donors dictating economic policy to the Greek government and supervising the implementation of the Stand-By Arrangement has come to be known. Projections of pension spending in 20 or 30 years' time (EC 2009) failed to shake domestic actors out of inaction, but they did impress international markets sufficiently to discourage them from lending to the Greek government, except at prohibitive rates of interest. This time, postponing pension reform was not an option. In this rather tortuous way, the interests of holders of Greek state bonds have partly overlapped with the interests of future generations of Greek workers.

3. **Implications of the crisis**: effects *on* the welfare state

As the previous section implies, among the causes of the current crisis one must enumerate the welfare state itself – or, to be more precise, the fact that social expenditure was allowed to spiral out of control, and with too little to show for it in terms of poverty and inequality reduction. At the same time, of course, the chain of causation also goes to the inverse direction. The crisis and the measures to counter it are affecting the welfare state profoundly, and in various ways. On the one hand, the fiscal crisis is depriving the welfare state of precious resources. On the other hand, it is acting as a catalyst for change, a critical juncture that makes reforms urgent and sets in motion far-reaching transformations (Pierson 2004).

Both effects are already evident. In terms of cuts, the austerity measures mentioned earlier froze all pensions for one year, abolished the 13th and 14th monthly payments (replacing them by flat-rate vacation allowances totalling €800 a year, for pensions below €2,500 per month), and introduced 'Pensioners' Solidarity Contribution', a tax on pensions at rates progressively rising to 10% for pensions above €3,500 a month, exempting pensions below €1,400 per month. As a result of these cuts, all pensioners suffered a loss, varying from 7% at €800 per month to 23% at €3,500 per month - in nominal terms. Inflation at 4% fuelled by sharp VAT hikes made losses more painful still in real terms.

Cutting deficits while protecting the weakest is a difficult balancing act in the best of cases. In the Greek case, the government's concern with the distributional implications of its austerity measures can be charitably described as wavering. A few examples suffice. Caught between a rise in benefit claims and a fall in contribution income, the Workers' Housing Organisation *OEK* simply decided to suspend payment of means-tested 'rent subsidy' in 2010. In a similar fix, the Manpower Employment Organisation *ΟΑΕΔ* seemed content to leave the income test for eligibility to unemployment assistance unchanged in nominal terms since 2001, allowing recipient numbers to dwindle to a few hundred. Equally unsettling was the government's mishandled bid to crack down on benefit fraud, which in November 2010 led to the pensioners' social solidarity supplement *ΕΚΑΣ* being withdrawn without warning from 15,285 pensioners (about 5% of all recipients) in the general regime *IKA* alone. When 8,447 of them appealed immediately, they were told their case could not be examined before April 2011, due to a shortage in personnel[3]. In all these respects, the government failed to protect recipients of essential social safety net benefits.

In terms of reforms, the crisis has already had one major effect: the passage of Law 3863, approved by a narrow majority in Parliament on 12 July 2010 - the first significant pension legislation for almost two decades. That the reform can be directly traced to the crisis is not in doubt. In fact, the general principles of the law had been laid out in the Memorandum of Understanding agreed by the Greek government and the international 'troika' of donors (the EC, the ECB and the IMF) in May 2010 – down to the provision that in the new system the annual accrual rate should not exceed 1.2% on average[4].

The reform, widely (and predictably) criticised at home as 'neoliberal', does in fact imply lower pension benefits and an increased age of retirement for all – and, especially, for some of the privileged groups accustomed to getting much more out of the pension system than they had ever put into it. At the same time, the reform embodies some of the principles of a financially viable and socially just pension system, as envisaged in a succession of blueprints for reform aired in the domestic debate since the early 1990s. Such proposals, which failed to attract much attention, let alone support, often originated with experts and - more rarely - politicians associated with the centre-left[5].

Specifically, the reform introduces a new structure: from 2015 retirement benefits will consist of a quasi-universal Basic Pension and a contribution-related Proportional Pension. This is decidedly path-breaking: it breaks away from traditional Bismarckian social insurance, paying earnings-related benefits, and moves closer towards a multi-tier pension system clearly separating contributory from non-contributory elements[6].

The Proportional Pension will be calculated as lifetime earnings multiplied by annual accrual rates multiplied by the number of insurance years. To enhance incentives, annual accrual rates increase with career length, from 0.8% for contributors with less than 15 insurance years, to 1.5% per year for those with 40+ insurance years. The final version of the pension bill eliminated the unusual (and blatantly inequitable) provision present in the original draft, in which accrual rates rose with pensionable earnings, as well as with number of insurance years. Even so, the risk that low-paid workers, with loose attachment to the labour market and uncertain career prospects, might see little point in paying contributions still remains - albeit in less severe form.

The Basic Pension is set at a modest €360 per month in 2010 prices. Access conditions fall short of full universality. Recipients must either meet the contributory conditions for the proportional pension (in which case a basic pension will also be paid without a means test), or provide proof of low income (personal income below €5,400 and family income below €10,800 per year in 2010 prices). Moreover, whereas the means-tested version of the basic pension will only be payable from age 65, recipients of a proportional pension will be able to draw their basic pension earlier, but in this case it will be reduced (by 6% per year short of age 65). A lower rate will apply in the case of a partial residence record: those meeting all other conditions, but have lived in Greece for fewer than 35 years between the ages of 15 and 65, will have their basic pension reduced *pro rata*.

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 (as stipulated in the National Collective Labour Agreement for 2015). At present, this would be worth nearly €500 per month.

According to a little-noticed provision of Law 3863, pension benefits will be indexed to the mean of GDP and consumer price index growth, *but cannot exceed the latter*. It follows that their real value will remain stable when GDP growth exceeds inflation, but will be eroded when inflation exceeds GDP growth. So far, this device has not attracted the criticism it deserves for its opaque nature and indiscriminate impact on all pensions, high and low.

On another note, ostensibly as a result of hard bargaining between the government and the joint EC-ECB-IMF delegation, the 'right' of press workers, Bank of Greece employees and the liberal professions of doctors, lawyers and engineers to insure separately (and thus to accrue more generous benefits) was enshrined in the law[7]. Moreover, the acquired rights of public utility workers, banking employees and press workers hired before 1983 were fully protected, as were those of 'uniformed' workers (the police, military etc.) irrespective of date of entry. Finally, the law did not affect farmers, whose contributory pension has been gradually phased in on favourable terms since 1998. In all of the above respects, the 2010 reform missed the chance to rebuild Greek pensions on a fully equal basis for all.

4. **Coping with the crisis**: the role of the welfare state

The final question this paper addresses is whether the welfare state is fit for the crisis – or, more formally, to what extent the social protection system in Greece, in its current form, is capable of helping vulnerable groups cope with the consequences of the crisis.

What these consequences might be is depressingly easy to imagine: according to the projections of the Stand-By Arrangement, in 2011 the official unemployment rate will climb to 14.6% (from 7.7% in 2008), whereas GDP will have shrunk relative to its 2008 level by 8.4% in real terms (IMF 2010). These figures, gloomy though they may be, may actually prove optimistic. More recent estimates (Bank of Greece 2011) forecast a deeper recession (9.2% cumulative decline of GDP from 2008 to 2011) and a steeper rise of unemployment (to at least 15.0%, and perhaps as high as 16.5%, in 2011).

A rise in unemployment, even of such proportions, should not overly trouble a well-designed system of social protection. As recently put by Castles (2010): "*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. Long lines of the unemployed caused by economic crises are the core business of the welfare state* […]." (p.96)

The trouble is that the Greek welfare state - with its bias in favour of pensions at the expense of unemployment protection and general income support - has neglected its core business for far too long. This was unhelpful even in good times. In the current conditions, it is likely to prove disastrous.

To show why this is the case it is necessary to shift the focus of attention. The key issue here is the interaction of social protection institutions with the realities of the labour market, where a true polarisation exists between hyper-protected insiders and un-protected outsiders. The former comprise about one million workers employed in the union strongholds of the civil service, public utilities, and - to a lesser degree - in formerly state-owned banks (ElStat 2011). The latter include possibly as many as two million persons[8] precariously employed on a temporary or part-time basis, immigrants in the shadow economy, women and youth trying to enter or re-enter the labour market, the long-term unemployed and others lacking access to secure jobs and associated benefits (Mouriki 2010). A third category of under-protected 'mid-siders' (Jessoula et al. 2010) should also be added, consisting of about 1.5 million workers formally employed in private firms (ElStat 2011). 'Mid-siders' occupy an intermediate position: they enjoy more limited job protection and less generous pay and benefits compared to insiders, but remain within a (more or less) legal framework – thereby being less fully at the mercy of employers than is the case with outsiders.

Under the terms of labour market reform, of which the first instalment was rushed through Parliament as an addendum to pension reform (Law 3863), 'mid-siders' may be moving closer to outsiders. In a bid to introduce greater flexibility, constraints on collective dismissals by larger firms have been relaxed, severance pay has been cut, and arbitration rules have been revised in favour of employers, while entry level wages for younger workers have also been allowed to fall below the statutory minimum. Recent changes in industrial relations legislation give precedence to plant-level over industry-wide contracts, making it easier for employers to arm-twist employees into accepting a wage reduction, which may or may not be reversed as business outlook improves. Clearly, the case for flexibility (of the kind typically promoted by the IMF) rests on the expectation that reducing labour costs will create jobs by making Greek businesses more competitive. Instead, many fear that employers will simply respond by taking higher profits[9].

Analytically, as the demand for labour plummets (in the cash-strapped public sector as well as in businesses hit by the recession and the credit squeeze), scarce jobs may be rationed either by quantity or by price. In few words, some workers lose their jobs, while others keep theirs but see their pay cut.

The impact of the crisis is asymmetrical. Insiders have not escaped unscathed: under the terms of the austerity packages, in 2010 average pay in the public sector was cut in real terms by 13.6% for civil servants and 9.7% for workers in public enterprises (Bank of Greece 2011). Nonetheless, as civil servants enjoy full tenure, redundancies in the public sector only affected marginal workers on fixed-term contracts.

In contrast, the threat of job loss is real for 'mid-siders'. Moreover, although wage reductions for workers covered by collective agreements (and protected by labour law) were more limited, average employee earnings in private firms still declined in 2010 by an estimated 7.3% in real terms (Bank of Greece 2011).

Outsiders have been hit hardest: in certain sectors of the economy (the construction industry, tourism and other services) where informal employment is the norm, many employers flout regulatory constraints in the shape of dismissal protection, statutory minimum wage, sick or maternity leave – not to speak of the right to join a union. As these same sectors have been worst affected by the crisis, non-standard workers are likely to suffer substantial income *and* job loss, albeit to a yet unknown extent[10].

Early data suggest that although unemployment remains higher for secondary earners than for primary ones, the crisis has affected the latter as much as the former. For instance, the unemployment rate for women aged 20-29 has gone up to 29.0% in 2010 (from 20.5% in 2008), but that for men aged 30-44 has also risen from 3.9% to 8.2% over the same short period (ElStat 2011). Because of this, the rise in unemployment is likely to translate into higher poverty, while in the past the correlation between the two has been rather weak[11].

Can the Greek welfare state help vulnerable groups cope with the crisis? Contributory social insurance, on which it heavily relies, disenfranchises non-standard workers and their families. Perfectly suited to fordist norms of long uninterrupted careers, social insurance has little to offer individuals with atypical employment trajectories. Those unable to collect enough social contributions to qualify for benefits on their own right are penalised for their labour market disadvantage, rather than compensated for it: they are excluded from welfare, or relegated to the status of 'dependent family members'. In such a context, the severe segregation of Greek labour markets, combined with the asymmetrical impact of the crisis, raise the haunting spectre of huge gaps in social protection for those in greatest need.

Such gaps are most glaring in three policy areas: minimum incomes, unemployment benefits and general income support - reviewed below in reverse order.

General income support

A rudimentary system of short-term benefits is the flip side of an overgrown pension system. The main issues here are differences in treatment, gaps in coverage, and the low level of most benefits.

Child benefits are only substantial for large families, and in the case of civil servants, employees of public utilities and banking workers. In contrast, most families with one or two children receive little or no support, even if they live in poverty. Moreover, public assistance with housing costs is limited. The general bias of policy in favour of owner occupation means that the social rented sector is negligible. A means-tested 'rent subsidy' is available, but only on a contributory basis[12]. As a result, many poor families are left unsupported.

As regards contributory benefits, social insurance fragmentation is compounded by labour market segmentation. Sickness and maternity leave is more generous for civil servants and other insiders. In private firms, the (less generous) provisions set out by law are often ignored by employers, or result perversely in *de facto* discrimination. This is the case, for example, of young married childless women, considered by many employers (above all in small firms) to be unemployable, as potential candidates for costly maternity leave.

Non-standard workers obviously fare worse still. Two categories are particularly vulnerable: undeclared workers and dependent workers disguised as self-employed.

The latter are defined as "self-employed workers providing services to a single work provider in a continuous manner, hence acting *de facto* as employees" (OECD 2010). Mouriki (2010) puts their number at 270,000, plus another 70,000 doing piece-rate work at home as 'sub-contractors'. Often such workers, dependent employees to all intents and purposes, can only find a job on condition that they agree to register as self-employed. This arrangement allows employers to save substantially on non-wage labour costs (e.g. social contributions, severance pay etc). For the workers involved, the implications are far less favourable: 'freelance' workers face job insecurity, no legal protection (e.g. in case of unfair dismissal), no right to sickness or maternity leave, and no access to unemployment benefit.

With respect to undeclared workers, their number is difficult to know with precision. Mouriki (2010) thinks they may be as many as one million. This may appear excessive, but could well be near the mark. In fact, the Minister of Labour and Social Insurance, in response to a parliamentary question (12 May 2010), stated that in 22,000 private firms inspected by the Labour Inspectorate from February to April 2010 about 25% of employees were found to be undeclared. Often, the most these workers can expect in case of need is emergency treatment in state hospitals - perhaps not even that, if they happen to be undocumented migrants.

Unemployment insurance

On paper, unemployment insurance seems adequate, albeit of short duration by international standards. Workers made redundant can claim unemployment benefit if they had paid unemployment insurance contributions (for at least 80 work days per year over the past two years, and for at least 125 work days over the previous 14 months). Benefit is paid for 5 to 12 months, depending on contributory record. The benefit rate is €454 per month (61% of the minimum wage, 30% of average earnings).

However, coverage is less than complete. Four categories of workers are excluded. The first two by design: contributory conditions exclude new entrants to the labour market, while the maximum duration of support (12 months) excludes the long-term unemployed. Another two categories are excluded *de facto*: undeclared workers and dependent workers disguised as self-employed, as discussed above.

Coverage gaps limit the effect of unemployment insurance as a 'routine mechanism' for coping with the consequences of the crisis (Castles 2010): while in December 2010 the number of unemployed workers rose by 45.1% compared to the same month in 2009, over the same 12-month period the number of recipients went up by only 9.6% (*ΟΑΕΔ* 2011).

Unemployment insurance seems to function most efficiently as a subsidy to seasonal workers, or rather their employers: it is common practice for hotel managers, owners of the ubiquitous 'cramming schools' and others to fire personnel at the end of the tourist season and the school year respectively, only to hire them back a few months later. Here unemployment benefit acts as a bridging device. In December 2010, 30% of all recipients were defined as 'seasonal workers in tourism' (*ΟΑΕΔ* 2011).

In a nutshell, the coverage of unemployment insurance in Greece is considerably less than full. This is due both to design faults as well as to the informality (and illegality) reigning in much of the labour market. As a result, large numbers of unemployed workers are left without support.

Unemployment assistance

The gaps in coverage of unemployment insurance might be less grave if compensated by a well-functioning programme of unemployment assistance, providing income support on a means-tested basis to those no longer (or not yet) eligible for unemployment insurance. However, this is not the case. Unemployment assistance was only introduced in 2001. Even then, eligibility conditions were made stringent: the new benefit, set at €200 per month, payable for a maximum period of 12 months, was reserved for (a) former recipients of ordinary unemployment benefit, (b) aged 45-65, (c) whose annual income was less than €5,000 plus €587 per dependent child. As a sign of the low importance policy makers attach to unemployment assistance, both the benefit rate and the income conditions have remained unchanged (in *nominal* terms) since its introduction a decade ago. Not surprisingly, the number of recipients is very low: 733 persons in 2008, or 0.5% of the long-term unemployed.

Rather than looking for ways to improve the coverage and take up of unemployment assistance, recent statements suggested the government actually considered means-testing unemployment insurance[13]. The logic behind such an idea (reduce the cost of benefits) is clear. But so is the damage this move, should it turn out to materialise, would inflict on the integrity and coherence of the social benefits system, including the distinction between social insurance and social assistance. In the meantime, gaps in coverage persist.

Minimum income protection

Finally, Greece enjoys the rather dubious distinction of being one of the very few EU countries where a national programme of social assistance - acting as a social safety net of last resort - is not available. What is more, while the other three countries in that group (Italy, Spain and Hungary), provide at least some social assistance at local level, at varying degrees of generosity and standardisation, nothing of the sort can be found in Greece[14].

Summing up: faced with the challenge of providing protection to the thousands of workers due to lose their jobs over the next few years, and to the countless others risking substantial income losses (pushing many below the poverty line), the welfare state in Greece seems to be in a very poor shape indeed.

5. **Bolstering the welfare state**: an emergency agenda

Greece's socialist government was elected in October 2009 on a manifesto pledging expansionary policies to kick-start the economy, and a Prime Minister who as leader of the opposition had famously declared "money *is* available". Instead of that, the government has found itself in the rather unenviable position of trying to manage the deepest recession in living memory, in the context of a severe fiscal-cum-sovereign-debt crisis forcing it to request international aid, and, as a consequence of that, suffer the humiliation of close foreign supervision for at least the rest of its mandate.

Under these circumstances, allowing social policy to slip from the government's immediate priorities, except for a few symbolic gestures of empathy with the victims of the recession, might be seen as inevitable – almost understandable.

Yet, if the preceding analysis is anything to go by, that would be a serious mistake. For the sad truth is that the Greek welfare state is simply unfit in its current form to help vulnerable groups cope with the emergency. Policy makers need to recognise that bolstering social protection, far from being a luxury the country can no longer afford, is essential for it to survive the crisis in one piece.

In the meantime, a number of temptations must be resisted. The first would be to resort to the time-honoured practice of announcing a 'social package' consisting of selective benefit increases plus the introduction of extra temporary assistance to existing beneficiaries. This would do little to close gaps in coverage, and leave the welfare edifice intact – heightening, if anything, its fragmentary and incongruous character. The second temptation would be to revive an earlier infatuation with selectivity and targeting in the mistaken belief that means-testing current benefits is the way forward. As explained elsewhere (Matsaganis 2005), this strategy, likely to resurface in the present desperate search for cuts, proved an unnecessary distraction when it was first tried in the late 1990s, and has precious little to offer anyway in a context of categorical fragmentation. The third, and worse, temptation would be to allow savings to be achieved through non-provision of benefits and services, or through low take up. As explained earlier, there are signs that the government may have yielded to these temptations already.

Historically, the Greek welfare state has been rather good at handing out pensions to well-paid workers in their early 50s (or earlier), but much worse at protecting low-income families or helping young people get a job or move out of the parental home. The recent pension reform has removed a huge obstacle to the necessary reallocation of social spending from the former to the latter, but more needs to be done. Eliminating residual pension privileges (such as those still enjoyed by farmers, the liberal professions, the military or the police) is bound to alienate key political constituencies, but will release resources which can then be redeployed in a concerted effort to strengthen the social safety net.

This is not the place to describe in detail what an emergency agenda for bolstering social protection in Greece might look like. However, its general outline is largely dictated by the earlier identification of coverage gaps. The main building blocks would be: a child benefit, payable from the first child (in place of the current plethora of overlapping family benefits); a non-contributory housing benefit, available on a means-tested basis (in place of mortgage interest tax relief and the other subsidies to owner occupiers); a rationalised unemployment assistance (partly financed by the elimination of fake 'active labour market policies' wasting European and national resources); and a minimum income scheme, at first introduced locally on an experimental basis.

Strengthening the social safety net cannot be a question of cash benefits alone. The expansion of child care, the restoration of 'home help' and similar initiatives to improve elderly care, the reform of the public employment service, the revival of publicly-provided health care, and the opening of state schools to all children, including those of undocumented migrants (which, to its credit, the government has guaranteed), are all essential to the task.

The required policy changes need not clash with fiscal realities. A determined effort to fight tax evasion could extend the boundaries of what is feasible. Within social protection, eliminating waste, inefficiency and fraud, as well as unjustified privilege, would have the same effect. Nevertheless, it would be disingenuous to claim that the momentous task of bolstering the welfare state can be achieved on the cheap. On the other hand, policy failures in health or education have placed a heavy burden on family budgets through higher private spending, while failing to soften the impact of the crisis is likely to prove costlier still in terms of social unrest and rising crime.

On a final note, coping with the crisis is not merely a question of the government taking the right decisions: the role of the social partners will be crucial. Nor can the difficult task of improving social cohesion in an emergency be entrusted to social policy alone, however modernised: its capacity to reduce poverty and inequality is undermined by a labour market producing low pay and a low level of employment.

As discussed earlier, the recipe of flexibility without security is unlikely to improve things much. At the same time, as more and more employers appear determined to resort to non-standard work in order to soften the impact of the crisis, the chances of a negotiated improvement in pay and conditions for precarious workers, possibly in exchange of a relaxation of employment protection for core workers, seem pretty remote.

Respect of the law on the part of employers, commitment to promoting the interests of all workers on the part of trade unions, trust between social partners, are likely to be some of the ingredients for a fair allocation of the costs of the crisis, and for a successful exit strategy. At least for the time being, none of these ingredients is in place in Greece. Whether the crisis itself will induce a change in behaviour on the part of social partners, rendering everyone more public-spirited and responsible than has hitherto been the case, remains to be seen.

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Endnotes

[1] It also prompted the celebrated economist and Nobel Prize winner Paul Krugman to comment: "*If Greece were a highly cohesive society with collective wage-setting, a sort of Aegean Austria, it might be possible to [confront the crisis] via a collectively agreed reduction in wages across the board – an 'internal devaluation'. But as today's grim events show, it isn't.*" From Paul Krugman's New York Times blog "The Conscience of a Liberal", entry dated 5 May 2010, rather ominously titled "Greek End Game" (http://krugman.blogs.nytimes.com/2010/05/05/greek-end-game/).

[2] Health care (the second largest item of social expenditure) is also deeply problematic. However, health care raises too dissimilar a set of issues to discuss congruously alongside retirement pensions. Crucially, these issues include a significant shift away from 'knightly' towards 'knavely' behaviour, in Le Grand's terminology (2003), elsewhere described as 'a moral crisis' (Matsaganis 2011).

[3] Apparently, concern with reducing targeting errors did not extend to improving take up, estimated in the case of *ΕΚΑΣ* at between 34% and 40% (Matsaganis et al. 2010).

[4] The *accrual rate* can be thought of as the rate of return on contributions, and is directly related to the more familiar *replacement rate* (of earnings by pension benefits). Specifically, the replacement rate equals the annual accrual rate multiplied by the number of insurance years. For example, an average accrual rate of 1.2% after a 30-year career results in a replacement rate of 36%.

[5] For an analysis, and a brief historical account, see Matsaganis & Leventi (2011a).

[6] Details on the various provisions can be found in the text of Law 3863/2010. For a discussion of Bismarckian pensions, and recent transformations, see the contributors in Palier (2010).

[7] As a *quid pro quo*, under Law 3863 the insurance agencies of these categories will bear the cost of the basic pension as well. Nevertheless, this is likely to be more than offset by the (direct and indirect) state subsidies currently received by the relevant agencies, left intact by the law.

[8] The figure of two million 'outsiders' is an approximation and should be treated with caution. It was arrived at by adding up 1 million undeclared workers in the informal economy, 400,000 precarious workers in the informal economy, 340,000 'disguised employees' plus another 285,000 workers who have been unemployed for at least 12 months. The first three figures are cited by Mouriki (2010); the fourth by ElStat (2011). The difficulty is that there is an unknown degree of overlap between the four categories.

[9] In the words of a former Minister of the Economy (Christodoulakis 2010): "*Without an option of a nominal devaluation, deflation must occur differently, and the IMF has already declared that a reduction in nominal wages in the private sector will be necessary. However, as the country already suffers from deep recession, a further deflation might further aggravate the situation rather than providing an exit from it. Price adjustment should take place by making firms behave more competitively, rather than through lower incomes. Take, for example, retail prices: since the 2008 crisis, companies in all European countries have cut prices in order to retain their customers and market shares. Exploiting administrative regulations and local market rigidities, several companies in Greece have raised prices in order to maintain profits.*"

[10] Recent data (ElStat 2011) show that out of a total drop in employment by 180,000 workers in the last quarter of 2010 (compared to 12 months earlier), 65,500 were in the construction industry. Earlier data had suggested that between mid-2008 and mid-2010 the unemployment rate among low-skilled workers rose from 7.1% to 11.9%, while unemployment among non-EU citizens increased from 6.3% to 14.8% (CEU 2010).

[11] Recent research confirms that households headed by an unemployed worker account for a rapidly increasing share of all poor households (Matsaganis & Leventi 2011b).

[12] As mentioned earlier, in 2010 'rent subsidy' was simply suspended.

[13] In a press conference on 14 April 2011, the Deputy Minister of Labour and Social Insurance had stated that unemployment and other benefits will be means-tested. In a subsequent TV interview on 3 May 2011, he denied rumours that unemployment insurance benefit will also be means-tasted: "this benefit cannot be cut, since workers pay social contributions for unemployment insurance".

[14] For an an earlier analysis, see Matsaganis et al. (2003).