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The Greek welfare state in the age of austerity: anti-social policy and the politico-economic crisis

Theodoros Papadopoulos and Antonios Roumpakis

Introduction

Greece was the first of the countries in the EU periphery engulfed in the so-called sovereign debt crisis that followed the crisis in the financial and banking sectors. The sovereign debt crisis exposed the serious weaknesses of the politico-economic regime that shaped Greece's development after the end of the military dictatorship in 1974. It also revealed the unprecedented power of unaccountable international financial institutions, banks and agencies to shape the dynamics of government bond markets across the globe and, therefore, the trajectories of national and regional political economies. More fundamentally, the Greek crisis exposed the limits of EU solidarity, and accelerated changes in the future politico-economic governance of the EU: the institutional innovations pursued as a means for managing the sovereign debt crisis, especially within the Eurozone, undermine national economic sovereignty to an unprecedented degree and, thus, place under serious question the role of national democratic politics in the process of EU integration.

This chapter begins with a brief discussion of the background to the crisis and explores how multiple and mutually reinforcing causes created the 'perfect storm' conditions for its eruption. This is followed by a critical presentation of the key austerity and deregulatory measures adopted by the Greek government until the end of December 2011. Most of these measures were preconditions for the tranches of the 'bailout' loan agreed with the so-called 'troika' of lenders, the ad hoc body comprising representatives of the European Central Bank (ECB), the European

Commission (EC) and the International Monetary Fund (IMF). A discussion of the impact of austerity measures on the economy, welfare and society more generally, as well as our final reflections conclude the chapter. It is argued that the austerity measures and the deregulatory, pro-market, policy reforms prescribed by the ECB/EC/IMF and pursued by consecutive Greek governments have culminated in an anti-social policy that has done nothing to alleviate the crisis. Instead, it has severely reduced socio-economic security, traumatised social cohesion and democratic governance, and sunk the Greek economy into the deepest and most prolonged recession in recent memory with detrimental effects for the state's finances and Greek society more generally.

Explaining the Greek crisis: historical legacies and politico-economic dynamics

The story so far

By the end of 2008, the global crisis in the financial and banking sectors was engulfing the majority of European economies. Despite the fact that Greek banks were not exposed to the so-called 'toxic assets', which had a particularly devastating impact in the US, UK, Ireland and Iceland, the government at the time (led by the centre-right New Democracy Party) sought to take pre-emptive measures. Following similar actions in other EU member states, the government provided a €28bn package (11.8% of Greek GDP for 2008) to support the Greek banking sector in order to boost liquidity, revive inter-bank loans and sustain economic growth. This package came on top of an already burdened budget that included, among others, meeting the excessive costs of hosting the 2004 Olympic Games, continuing with the highest military expenditure in the EU (3% of GDP in 2008; see SIPRI, 2011), and servicing an already substantial public debt (approximately 110% of GDP in 2008; see IMF, 2011). With the economy in recession and amidst accusations of serious political mismanagement and economic scandals, the then Prime Minister Kostas Karamanlis called for elections in autumn 2009.

Widespread media reports about a looming Greek crisis began in October 2009 when the newly elected PASOK government was reportedly 'surprised' to discover that Greece's public budget deficit was much higher than previously calculated by the Greek statistical authorities. It accordingly revised the official estimate of the 2009 annual deficit from 6.7% to 12.7% of GDP. This figure was later revised again, upwards, to 15.4% of GDP (Nelson et al, 2011), a controversial

1 act that, at the time of writing, was under judicial investigation (*The*
2 *Economist*, 2011). These revisions – to be added to others before and
3 since the country joined the Eurozone in 2001 – not only worsened the
4 already damaged reputation of ‘Greek statistics’, but, more importantly,
5 set off alarm bells in the EC and ECB as well as the international
6 financial markets and credit-rating agencies. Subsequent and consecutive
7 downgradings of Greece’s creditworthiness increased the costs of
8 borrowing and fuelled speculative attacks. With its credit ratings in free
9 fall and its government bond *spreads* and sovereign *credit default swaps*
10 (CDSs)¹ reaching all-time highs (Gibson et al, 2011), Greece became
11 the first Eurozone member state to formally seek financial assistance
12 from the IMF and the European Union. On 23 April 2010, the then
13 Prime Minister George Papandreou announced the Greek government’s
14 request for activating an ad hoc support mechanism jointly supervised
15 by the IMF/ECB/EC that was to provide a ‘bailout’ loan to Greece
16 with lower-than-market interest rates.

17 On 3 May 2010, the so-called Memorandum of Understanding
18 (Μνημόνιο) of the Loan Facility Agreement (LFA) was approved by
19 the Greek parliament amidst massive demonstrations and street violence.
20 Greece was promised €110 billion (€80 billion from Eurozone member
21 states and €30 billion from the IMF) to be used solely to meet the
22 liabilities to its debtors, that is, banks, financial institutions and states. The
23 LFA involved a regime of very strict conditionality that was accompanied
24 by what, by international standards, was an unprecedented loss of its
25 national economic sovereignty. According to the LFA’s Article (5) ‘the
26 Borrower [the Greek state] hereby irrevocably and unconditionally
27 waives all immunity to which it is or may become entitled in respect of
28 itself or its assets’, which effectively means that the Greek government
29 *voluntarily* surrendered national sovereignty to its lenders and placed
30 the country under a type of economic surveillance that could lead to
31 claims over its resources and territory if the terms of the agreement were
32 not fulfilled (LFA, 2010 [NIR?]). In fact, by October 2011, there were
33 already calls by a number of Eurozone countries for the creation of a
34 special task force by the EU to be given extra powers to oversee the sale
35 of Greek state assets and the country’s civil service, which some officials
36 described as ‘a form of colonialism’ (Reuters, 2011). Further, while the
37 vast majority of the Greek bonds, prior to the LFA, were issued under
38 Greek law, the ‘bailout’ loan under the LFA was issued under English
39 law, which substantially weakened the position of Greece as a borrower.
40 Overall, as Dizard (2010 [NIR? P.PREF?]) put it:
41

Greece is exchanging outstanding debt that is legally and logistically easy to restructure on favourable terms with debt that is difficult or impossible to restructure. It's as if they were borrowing from a Mafia loan shark to repay an advance from their grandmother.

By July 2011, only part of the loan (€65 billion) had been released to Greece (see [Table 10.1](#)). The next tranche, scheduled for October 2011, was postponed until December 2011 due to 'lack of progress' with reforms demanded by the ECB/EC/IMF. Subsequently, it was further postponed to March 2012 depending upon Greece fulfilling various old and new requirements of the loan to the satisfaction of its creditors (Reuters, 2012).

Table 10.1: Overview of disbursements, in billions of Euros, December 2011

Tranche	Disbursements	Euro-area	IMF	Total
1	May 2010	14.5	5.5	20.0
2	Sep 2010	6.5	2.5	9.0
3	Dec 2010/Jan 2011	6.5	2.5	9.0
4	March 2011	10.9	4.1	15
5	July 2011	8.7	3.3	12
6	Dec 2011*	5.8	2.2	8
	<i>Total</i>	52.9	20.1	73

Note: * Postponed until March 2012.

Source: European Commission (2011c).

By the middle of 2011, total Greek public debt was estimated to be approximately €360bn, comprising €285bn debt in bonds and €75bn in loans. [Table 10.2](#) shows the distribution of holders of Greek government bonds and debt by the origin of financial institutions. The majority of the debt is owed to the ECB and the national banks (NBs) of the Eurozone countries, with the IMF holding a €15bn loan. Greek banks hold an estimated total of €57bn debt, while Greek pension funds hold an additional €30bn in bonds. French and German banks hold approximately €19bn and €15bn, respectively – several large private European banks, such as BNP Paribas, Société Générale and Generali hold significant amounts of these bonds – while other private investors hold approximately €94bn in bonds and €16bn in loans (see Barclays Capital, 2011).

Table 10.2: Holders of Greek government bonds and debt, 2011

	Bonds (€bn)	Loans (€bn)
Europe (ECB, NBs)	49.0	38.0
IMF	—	15.0
Greek banks	45.7	11.4
Greek public funds	30.0	—
Germany	15.2	—
France	19.1	—
Italy	4.7	—
United Kingdom	1.9	—
Rest of the World (Asia)	25.0	—
Others	94.4	16.0
Total	285.0	75.0

Source: Authors' calculations based on estimates from Barclays Capital (2011).

During the ad hoc talks of European leaders on 26 October 2011, a bond exchange was proposed with the overambitious aim of bringing the Greek public debt down to 120% of GDP by 2020, which, incidentally, was the level of debt in 2009, prior to the IMF/EC/ECB involvement. The proposed so-called 'haircut' involved the voluntary exchange of Greek government bonds with new bonds of up to 50% of the original value. However, it is to exclude the European and IMF parts of the Greek public debt, and concentrates mostly on domestic Greek bondholders (ie Greek banks and social security funds) as well as European banks and institutional investors. The announcements that followed this meeting were vague and many details were still to be decided at the time of writing, most important of which were the change of the legal framework regulating all bonds to be exchanged from Greek to English Law and the level of interest rate, which was expected to be higher than the original bonds. Any agreed 'haircuts' and bond exchange will touch upon the profitability of major European private financial institutions as well as the solvency of the Greek banking sector while the viability of Greek pension and health insurance funds, and their capacity to meet their social policy obligations (eg occupational pensions, health coverage liabilities), would be under serious question.

Villains or victims: towards a synthesis of domestic and systemic explanations of the Greek crisis

Explanations of the causes of the Greek crisis oscillate between those that give emphasis to domestic causes and those that emphasise systemic reasons. For the former, the crisis is mainly attributable to the behaviour of a profligate society that ‘consumed beyond its means’, and its corrupt governments that ran large public debts and budget deficits. As a result, when the 2008 global financial crisis erupted, confidence in the capacity of the Greek state to service its debt plummeted and Greece was forced to seek the assistance of the IMF/EC/ECB. For the latter approach, the crisis was the outcome of chronic economic inadequacies and lack of policy options within the Euro, mostly outside the country’s influence, with domestic factors acting as triggers rather than as causes of the crisis. Our view draws from both approaches and argues that the eruption of the crisis was the combined result of ‘perfect storm’ conditions, both domestic and external, but also argues that the continuation and deepening of the crisis is a product of the very measures that were taken, supposedly, to alleviate it.

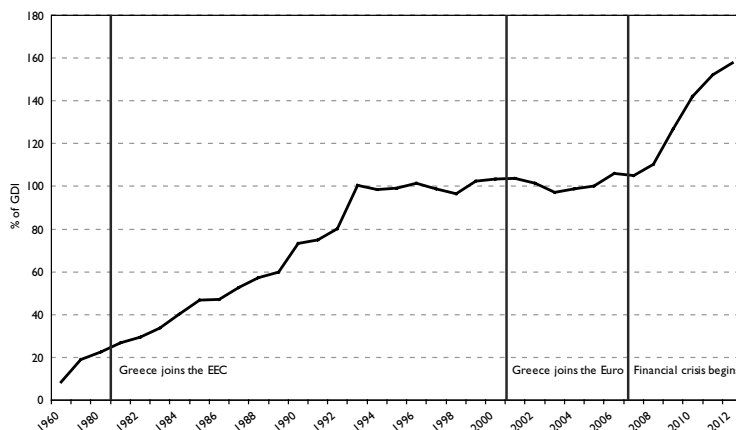
First, the crisis has to be understood in a historical context. There is a legacy of reoccurring defaults of the Greek state, as well as direct and indirect foreign interventions in the Greek politico-economic life related to servicing foreign-owned public debt (Levandis, 1944; Kofas, 1989; Eliadakis, 2011). This legacy is also related to the emergence and position of Greece as a semi-peripheral economy in Southern Europe (Fotopoulos, 1985), highly dependent on capital from core lending countries and their economic trajectories. As Michael-Matsas (2010 [NIR? P.REF]) put it, ‘the history of Greek capitalism [and the Greek state] is the history of its bankruptcies’, which follow global crises with remarkable regularity. Indeed, the Greek state was declared bankrupt at least twice before the current crisis, in 1893 and 1932, closely following respective global Great Depressions. This reoccurrence has been attributed to the so-called ‘sudden stop’ in lending, a rather familiar pattern in the history of emerging economies (Calvo, 1998; Catao, 2006; Lazaretou, 2010 [NIR?]; Bordo et al, 2010), which also occurred recently in the Eurozone (Mansori, 2011). As Lazaretou (2010 [NIR?], p 10) summarised it: ‘every time the economic and financial circumstances in the advanced lending countries changed leading to a cut off of cheap capital inflows to the emerging economies, the latter soon faced a balance of payments crisis and a debt crisis.’ Against this background, it can be safely argued that the 2007/08 financial crisis was not a direct cause of the Greek crisis and, indeed, Greece did

not immediately suffer the ‘first-order’ effects of the global crisis (see Farnsworth and Irving, 2011). Instead, the ‘sudden stop’ in lending that followed the global financial crisis operated as a catalyst to what was a disastrous combination of mutually reinforcing factors, of which the pivotal one, as we will demonstrate later, was Greece’s economic and fiscal performance after the adoption of the Euro.

Focusing on the domestic factors, the politico-economic regime established after the collapse of dictatorship in 1974 used state resources and public borrowing not only as a means to legitimise the young democracy, but also to maintain the political reproduction of ruling elites (see Karamesini, 2008; Katsimi and Moutos, 2010; Kouvelakis, 2011) and facilitate their enrichment in the context of the semi-peripheral Greek political economy. This was particularly the case in the 1980s and early 1990s when the public debt ballooned due to excessive borrowing (see Figure 10.1), which was partly used to fund a substantial increase in public sector employment and a modest expansion of the welfare state, without increasing substantially the taxes on higher earners and businesses. In this respect, the current crisis in Greece is not purely economic or fiscal in nature, it is deeply politico-economic, signalling, among other things, the exhaustion of the politico-economic regime that emerged in Greece in the last 35 years. This regime, characterised by state patronage and clientelism, tolerated extensive tax evasion practices (especially of higher earners, businesses and powerful individuals) while privileging specific socio-professional groups via a fragmented and highly unequal social security system (Petmesidou, 1991, forthcoming; Venieris, 1997). Further, its corresponding semi-peripheral political economy was ‘benefiting’ from the functioning of a substantial underground economy, which utilised uninsured and precarious labour, keeping production costs low, while continuing with familistic welfare arrangements that ‘externalised’ the costs of social reproduction to Greek families (see Papadopoulos and Roumpakis, 2009). These costs continued to remain low, especially since the mid-1990s, due to the extensive use of migrant workers, most of whom were undocumented, especially in the agriculture, construction and domestic/care sectors.

Regarding the systemic factors, one of the key economic consequences of Greece’s entry in the Eurozone in 2001 was the dramatic amplification of the already widening asymmetries in productivity and competitiveness between Greece’s semi-peripheral economy and those of core EU countries, asymmetries that followed Greece’s entry into the EEC in 1981 (see Fotopoulos, 1993). Following the adoption of the Euro, economic growth in the Greek economy was maintained primarily by

Figure 10.1: Historical evolution of public debt as percentage of GDP in Greece, 1960–2010



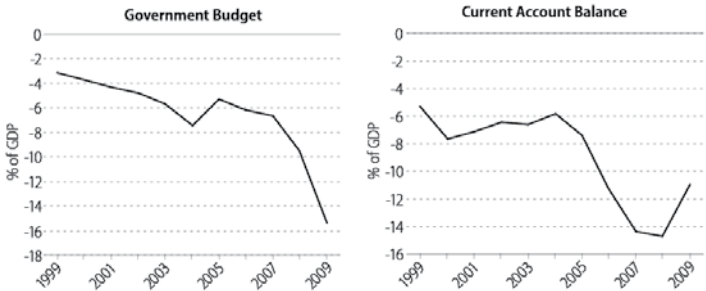
Source: IMF (2011). **[check alignment of vertical rules in this figure]**

boosting domestic demand through consumption and to a lesser extent investment in construction and real estate. While the supply of cheap credit from the ECB allowed the banking sector to expand rapidly, at the same time, the real economy did not yield enough streams of revenue to prevent the accumulation of high domestic debt while the trade deficit worsened. While advanced core EU countries, like Germany, were able to constrain wages, maintain higher productivity rates and create trade surpluses (Lapavistas et al, 2010), the only option for productively weaker states with chronic trade deficits, like Greece, was to borrow in Euros from the markets, given that the Eurozone states cannot expand their money supply unilaterally. The combination of these systemic factors contributed towards the ‘twin deficits’ of Greece: on the government budget and on the current account balance (see Figure 10.2). The end result was that the negative tendencies prior to the entry into the Euro (trade deficits, dismantling of the structure of production, etc) were further amplified. The lack of the policy option to issue its currency meant that, within the Euro, Greece’s semi-peripheral capitalism stood little chance of balanced endogenous growth (Lapavistas, 2011; Polychroniou, 2011) similar to other semi-peripheral EU economies like Portugal and Ireland (Mansori, 2011).

Examining the composition of debt reveals another systemic trend that was a direct consequence of Greece’s joining the Eurozone, namely the rise in private debt. At first glance, as Table 10.3 demonstrates, when we

compare *private* debt, including household and business credit exposure, Greece comes off relatively well with one of the lowest levels of private debt (122%) in comparison to other EU countries. This can at least partly explain why Greece did not suffer the first-order effects of the original global crisis in 2008: the latter was about servicing private debt and the risk of defaults from private debt. Sovereign debt became an issue after the ‘sudden stop’ in lending took place following the original crisis.

Figure 10.2: Greece’s ‘twin’ deficits: budget and current account deficits, 1999–2009



Source: IMF (2011b [NIR?]). [change hyphens to en-rules for minus signs?]

Table 10.3: Public and private* debt as a percentage of GDP, 2007–10

	Net general government debt		Private sector debt*	
	2007	2010	2007	2010
France	60	77	142	160
Germany	50	58	131	135
Greece	105	143	105	122
Ireland	11	78	241	305
Italy	87	99	122	133
Netherlands	22	28	209	217
Portugal	64	89	225	249
Spain	27	49	215	224
UK	43	67**	216	232**

Notes: * Includes household debt and non-financial corporate debt but excludes financial sector debt. ** UK data for 2009.

Sources: Data for UK from PricewaterhouseCoopers (2010), calculations based on data from Office for National Statistics (2010). Data for all other countries from Papadimitriou and Wray (2011 [NIR?]).

Still, despite the fact that Greek private debt is significantly lower than other Eurozone countries and the UK, private debt and in particular household borrowing boomed with the coming of the Euro. In fact, it increased faster than the public debt (Lapavistas et al, 2010) following a trend already set in the 1990s: since 1994 and up to 2006, the total increase of consumer credit touched upon the astronomic figure of 2,106% (Papadopoulos and Roumpakis, 2009). Sanctioned by the Greek banks, and helped by lower interest rates, this expansion of consumer credit was mainly concentrated on mortgages and consumer loans and left Greek households exposed to unprecedented levels of debt when the crisis erupted.

Against this background, we argue that the eruption of the Greek crisis was due to the dramatic combination of both domestic causes and systemic trends that created ‘perfect storm’ conditions (on this point, see also Featherstone, 2011; Katsimi and Moutos, 2011 [NIR? 2010?]). By 2009, when the budget deficit and the current account balance were at their worst with a very large public debt, a substantial trade deficit and a chronically weak productive base (that worsen after its entry into the Euro), the Greek government sought loans from the international markets at a time when the global financial crisis was still under way and lending was heading for a ‘sudden stop’. The PASOK government accepted the dramatic curtailment of national economic sovereignty as a price for the so-called ‘bailout loan’, and, under the strict supervision of the IMF/EC/ECB, began legislating and implementing austerity measures as preconditions of the loan’s tranches.

Austerity measures: the internal devaluation of Greece

The austerity measures and reforms that accompanied the IMF/EC/ECB ‘bailout’ loan were unprecedented, in their scope, severity, volume and speed. Substantial income cuts and extraordinary increases in taxation, accompanied the extensive deregulation of Greek industrial relations, the abolition of many hard-won socio-economic rights of numerous professions both in the public and private sectors, as well as an ambitious programme of far-reaching privatisations of state enterprises and the selling-off of public property. A selected number of them are critically presented below.

Wages, unemployment benefits and conditions of labour

Even before the EU/IMF bailout, the period 1995–2010 was characterised by the expansion of precarious jobs in the formal labour market, both in the public and private sectors (Karantinos 2006; INE-GSEE, 2008). As a precondition for the ‘bailout’ loan, the government accepted further moves towards the ‘flexibilisation’ of the labour market and strengthening of the rights of employers to ‘hire and fire’. Trade unions, meanwhile, would lose their right to refer to the Conciliation and Arbitration Service following disputes with employers over wage increases and collective agreements. Additionally, employers are not any more obliged to offer permanent contracts to employees on rolling temporary contracts. In June 2011, and in order to reduce government expenditure, 30,000 public servants, all aged over 60, were placed on an official ‘labour reserve’, with the number expected to reach 100,000 by the end of 2012. Public servants with the status of ‘labour reserve’ will receive 60% of their salary for 12 months and if they are unable to find a job in the private sector, they will receive early (and reduced) pensions.

This planned ‘flexibilisation’ of the labour market was accompanied by a stagnation or even reduction of real wages. Already in 2008, a substantial percentage of the workforce (22%) received very low salaries, with the average wage estimated at 83% of the European average (INE-GSEE, 2008). This situation changed for the worse after the PASOK government began adopting the new measures. The IMF recommendation for a 15% wage decrease in the public and private sector was accepted and the minimum wage was reduced by 20% for workers under 24 years old, setting a monthly minimum wage of €595 (Megas, 2010). Further, as part of the medium-term fiscal strategy and the pressures for additional structural reforms in 2011, the PASOK government introduced more cuts in wages that resulted in a 25% total wage cut in the public sector, while, at the time of writing, the government was discussing the possibility of further reducing the minimum wage in the private sector to €560 per month, applicable to the total workforce, with under-24-year-old workers receiving even less.

Back in May 2010, the government introduced new legislation that placed new employment contracts in the public sector under severe constraints, as five existing public servants have to be fired or retire for one new opening. In June 2011, the government further constrained new recruitments, as the ‘one to five’ rule was replaced for the ‘one to 10’ rule. It also curtailed by 50% the ability of the local governments and the so-called wider public sector (public utilities) to hire personnel in 2011,

with an additional 10% reduction for each year up to 2015 (INE-GSEE, 2011). Further, in November 2011, and as a precondition for the next tranche of the IMF/EU loan, the PASOK government introduced an amendment in collective bargaining and labour law that removed the role of national collective bargaining agreements and prioritised negotiations at the firm level. Unions can be bypassed as workers can form 'voluntary' associations within the firm. If the minimum majority of workers in a firm accept the new wage agreement on wage and working conditions (eg three out of five workers) following individual meetings with their employer, then these become applicable to all workers at the firm. The existing sectoral agreements, which will apply until 2014 regardless of future negotiations between unions and employers, set a de facto maximum on wages and erode working conditions. Mr Panagopoulos, President of the General Confederation of Greek Workers (GSEE) and a PASOK syndicalist, summarised the mood of the trade unions as follows:

the government's submissiveness has no end....The government should not 'toil' to keep the country in Europe and in the Euro. With such decisions the government takes the Greek workers outside European protection, outside the European social acquis, outside the European civilization, i.e. outside what is the real Europe....This final hour I urge the government not to legislate what the troika [IMF/EC/ECB] obliges, because it opens the door (more appropriately tearing down the walls) for wages and industrial relations of the type that exist in China, India and third world countries. (Panagopoulos, 2011)

Conditions for the unemployed have also deteriorated in recent years. Unemployment benefits in Greece have for decades remained very low in comparison to European averages with eligibility criteria strictly linked to previous employment records, thus excluding first entrants and the young unemployed or those with poor contribution records (Papadopoulos, 2006). While unemployment benefit (currently at €461.5 per month) is still well below the poverty line, lasts for a maximum of one year and has no follow-up benefits for the long-term unemployed, the government announced in April 2010 that state support towards the unemployed was to be reduced by €500 million (Kostarelou, 2010) at a time when unemployment was increasing rapidly.

Tax measures

As a desperate measure to increase the revenues to the state budget, the government decided to increase the standard rate of VAT to 23% (up from 19%) in July 2011, for medical services to 13% (up from 9.5%) and for books and newspapers to 6.5% (up from 4%). The increase of the standard rate was also accompanied with new listings of products that were previously taxed with the medium tax rate (eg restaurants, taverns). Additional increases applied to excise duties for petrol, gas, tobacco and alcohol. Thus, while wages and pensions are being curtailed, the cost of living is being increased. Further, the Greek government reduced the income tax threshold twice, first in May 2010 when it was set at €9,000 (from €12,000) and then in September 2011 when it was further reduced to €5,000.

Under the tax law of March 2011, a withholding tax of 25% shall be levied from 2012 on profits distributed by corporations, limited liability companies and cooperatives; for the year 2011, the withholding tax rate was 21%. Still, corporate taxation, which had already been reduced by 40% in 10 years (from 40% in 2000 to 24% in 2010), was to further drop to 20% under the new tax law. Also enacted were generous tax incentives for new enterprises, reaching up to five years of free taxes.

Finally, in September 2011, the government also introduced a controversial new property tax on top of existing ones for more than 5 million private houses and commercial properties, with the aim to achieve annual revenues of €2bn. The total bill for each household depends on the size of the property as well as the location but, crucially, it is not linked to any means testing or any ability-to-pay test. This tax hits at the core of the main pillar of socio-economic security of Greek families (Allen et al, 2004) – home ownership and small private property – and, in an unprecedented move, will be collected via electricity bills. In case of refusal to pay, electricity supply will be cut off from the property, a very controversial measure that met tough resistance by electricity workers' unions who declared that they will refuse to implement such orders.

Pensions

Already by 2008, the Greek centre-right government had introduced a series of parametric [term ok?] changes in the pension system. These changes strengthened the links between contributions and pension income, increased the statutory retirement ages and altered the calculation of pension benefits and included, among other measures, a

6% pension reduction penalty for each year of early retirement. However, the policy impetus towards further cutbacks accelerated following the eruption of the crisis. There have been two waves of pension reform: one as part of the first tranche of ‘bailout’ loan in May 2010 and one during the adoption of the ‘medium-term fiscal strategy’ that followed the fifth tranche in July 2011. The changes have touched upon stricter eligibility rules, lower replacement rates and lower contribution levels for employers. As it will be argued, the reforms not only curtail public spending, but also essentially question the ‘social’ and ‘redistribution’ principles of the system.

By May 2010, the PASOK government universally reduced pension incomes while the contribution years necessary for entitlement to a full pension increased from 35 to 40. For a full pension, the retirement age is set to 65 for both men and women, with early retirement at the age of 60 requiring 35 years of contributions. Previously, pension entitlement was calculated on the basis of the last five years of employment, but, since 2010, the formula includes all working years (GGG, 2010). Changes in eligibility were accompanied by curtailments in the pension replacement rates. Maxima on pension incomes were enacted (currently €2,500 per month) while a pension amount equal to two monthly payments (the so-called 13th and 14th month payments) was replaced by a fixed amount (€1,000), leading to further reductions. Substantial cuts of the so-called auxiliary pension supplements (which were financed solely by employer and employee contributions) were planned for 2012, which in some cases could reach 80%.

More important, however, was the regressive increases of replacement rates of future pensioners with higher wages and longer contribution records. According to new legislation, the pension system removes any redistribution from higher- to lower-income earners and, instead, uses contributions from low-income workers to finance higher pensions for high-wage earners. While the pension pot remains collective, the reward and the calculation of pension entitlement is divided among wage groups, with higher-income groups awarded pensions with higher replacement rates. The new average replacement rate for first-pillar pensions is to fall from 70% to 42.5%, while pensioners with disrupted and insufficient employment records are to be ‘awarded’ a pension with an, even lower, 30% replacement rate, a measure that will hit hard those in precarious employment and women. One can easily question why employees’ should continue to contribute with the same rates, only to receive substantially lower pensions.

1 In terms of financing, the Greek pension system is based on a tripartite
2 agreement with employers, employees and the government. In June 2010,
3 the government announced that it will halt all payments towards pension
4 contributions and that the state will no longer finance the existing
5 pension schemes. In 2012, employers' contributions will be reduced by
6 10% and it is estimated that further reductions up to 25% will apply by
7 2015. Additionally, the government charged pensioners earning more
8 than €1,400 (monthly) a 3–7% 'solidarity tax' (LAFKA/ΛΑΦΚΑ) on
9 first-pillar pensions in order to finance its own contributions towards
10 social assistance supplements. Essentially, this tax is not an additional
11 measure of government spending, but is replacing the government's
12 contributions, thus reducing government total budgetary payments and
13 possibly borrowing needs.

14 In October 2011, and in order for the Greek government to secure
15 the 'sixth support package', it introduced a new pension reform, which
16 curtails:

- 17 • 40% of the pension entitlement of retirees younger than 55 years old;
- 18 • 20% of all pension income that exceeds €1,200;
- 19 • 30% of any occupational pension that exceeds €150; and
- 20 • a minimum of 15% on all public sector lump sum payments
21 (retrospectively since 1 January 2010).

22
23
24 At the same time, the government increased the 'solidarity tax' from 3%
25 up to 14% of pension income in excess of €1,400, while for pensioners
26 younger than 60 years old, an additional tax of 6% up to 10% will apply
27 (Ministry of Finance, 2011). Additional new charges (2%) will be applied
28 to public sector pensioners in order to fund future lump sum payments.
29 In terms of eligibility changes, the government increased the requirement
30 for early retirement from 35 to 37 contribution years.

31 Amid the cuts, the government introduced a plan for a basic pension
32 of €360, to be introduced in 2018 and funded from general tax revenue
33 and privatisations. This entitlement will be linked partly to the changes
34 in GDP and price indexation in 2014 (INE-GSEE, 2010). So far,
35 there is uncertainty as to who will be eligible for this basic pension
36 but one cannot fail to admit that the model envisioned by the current
37 government resembles a residual model (Venieris, forthcoming). Further
38 to this, occupational pension schemes are under huge pressure, not least
39 due to lower wages and employment rates that do not channel enough
40 contributions to the funds. The government has reduced occupational
41 schemes' institutional role through lower replacement rates, ceilings

on contributions and the removal of state guarantees for occupational scheme entitlements. What emerges here is the government's intention to minimise the role of occupational pensions following the planned changes in collective bargaining. This conclusion is further supported by the fact that occupational pension funds have been forced to buy Greek state bonds in the past, a political act that essentially transferred pensioners' money to the government budget. According to the 26 October 2011 proposals, social insurance funds will be forced to accept a 50% 'haircut' in the value of the Greek bonds they own, and will most likely face solvency issues or even be taken over by the state, the very state that historically obliged them to buy its bonds.

Impact on economy and society

What was presented earlier represents only a selection from the plethora of austerity measures enacted and implemented since 2010. The PASOK government's aim was to meet the target of reducing the deficit to 8.5% of GDP by the end of 2011 with further substantial reductions in 2012; the ambition being to eliminate the deficit by 2013 and even generate some modest primary surplus. So far, these measures have had a devastating impact on the Greek economy, plunging it into a deep recession from which no end is yet visible. Since the beginning of the crisis in 2009, Greek GDP has contracted by nearly 15%, while it is estimated that it will contract by 5.5% in 2011 (OECD, 2011 [NIR?]). Subsequently, public debt as a percentage of GDP increased spectacularly (see Figure 10.1) and is expected to increase even more as Greece continues to use its loans to solely serve its lenders while failing to revive its economy or drastically improve trade account balances. A confidential report on the sustainability of Greece's debt (IMF/EC/ECB, 2011; see also Eurobank Research, 2011) estimated that the debt will reach 172.7% of GDP in 2012 (approximately €373 billion) from 120% in 2009, the year prior to the IMF/EC/ECB 'bailout' loan. The rather over-optimistic estimations of the government for 2012 anticipated a further contraction of GDP by 2.5%, putting in serious doubt whether there will be any return to positive rates of GDP growth from 2013 onwards. Rapid decline in domestic demand, industrial output and bank savings, the collapse of consumer confidence, and dramatic increases in unemployment were to a large extent the results of the state taking billions of Euros out of the Greek economy by means of relentless taxation and substantial reductions in pensions and wages. In this respect, and regardless of the original causes of the Greek crisis, it is clear that the measures taken so

1 far have failed spectacularly – as admitted by key ministers who oversaw
2 their introduction and implementation (Chrissochoides, 2011; Venizelos,
3 2011) – and in fact led to the dramatic worsening of the crisis. This
4 evaluation assumes of course that the measures' original aim was to assist
5 Greece in recovering from the crisis with reforms that were to help
6 the economy instead of primarily securing the interests of investors and
7 banks, domestic and international; for, so far, these interests have been
8 served remarkably well.

9 Nevertheless, more measures are planned for the very near future,
10 which include further reductions in the wages of public sector employees,
11 further tax increases, as well as the redundancies of thousands of public
12 sector employees, and some are already being implemented. However,
13 the 'jewel' in the crown of the measures demanded by the IMF/EC/
14 ECB 'troika' as a prerequisite for the, twice-postponed, 6th tranche of
15 the loan involves extensive privatisations and the selling of numerous
16 public assets and government stakes in companies (the railway company,
17 Hellenic Defense Systems, the port of Piraeus, Hellenic Postbank, the
18 telephone company, motorways, the Athens airport and the Greek
19 lottery and related group of companies), which, by 2015, should raise
20 €50 billion. As the German magazine *Der Spiegel* (2011) put it, this is
21 nothing short of the ultimate 'selling off the Family Silver'.

22 For most Greeks, the reality under the austerity measures signalled 'the
23 end of the world' as they knew it. The official unemployment rate more
24 than doubled – from 7.4% in May 2008 to 18.8% in September 2011
25 (Eurostat, 2011 [NIR?]) – with women and especially young people
26 hit particularly hard. For the latter, migration emerges as the main exit
27 route to find employment. By 2010, official statistics recorded 27.7% of
28 the population as at risk of poverty, the highest percentage among the
29 EU15 (ELSTAT, 2012 [NIR?]). Of children aged 0–17 years old, 23%
30 were estimated to be at risk of poverty in 2010 while, in early 2012, the
31 British media reported that increasing numbers of financially desperate
32 Greek parents were giving their children to charities or institutions
33 run by the Greek Church as they were unable to provide for their care
34 (BBC World Service, 2012). At the same time, while businesses are either
35 closing down or firing their employees, job creation has stagnated to
36 bottom levels both in the private and public sector. Since January 2009
37 and until August 2011, 68,000 businesses (15% of the total) have gone
38 bust (*Kathimerini*, 2011) while thousands more (approximately 10% of
39 the remaining total) reported severe difficulties in meeting their credit
40 obligations (ICAP, 2011). According to statistics from the National Bank
41 of Greece (2011), the distribution of private debt among household

and business debt reached 59.2% and 60.2% of GDP, respectively. The same report highlighted serious delays in the payment of mortgages while non-payment of consumer loans had reached 20%. More recent surveys in the Athens area reported that six out of 10 households find it very hard to meet their tax obligations, loans and utility bills, while 52% reported difficulties in meeting even their basic everyday needs (IME-GSEBEE, 2012).

Apart from a small minority, most Greek families have experienced a dramatic decrease in their well-being and their socio-economic security, as repeated surveys in subjective economic hardship reveal. Gallup's ongoing Global Wellbeing Survey reported that 60% of Greeks were 'struggling' with their current life in 2011, with the percentage of those reporting 'thriving' collapsing from 44% in 2007 to 16% in 2011. Further, 'the percentage of Greeks who rate[d] their lives so poorly that they are considered "suffering" has more than tripled to 25% in 2011, from 7% in 2007' (Gallup, 2011a), the highest percentage among the Eurozone countries. Using questions measuring the Index of Personal Economic Distress (IPED), a recent epidemiological study conducted by the Athens University Research Institute for Psychiatric Health found that 16.5% of respondents reported very high economic distress in 2011, an increase of approximately 20.4% in comparison to 2009 (URIPH, 2011). The same study recorded substantial increases in feelings of melancholy, symptoms of clinical depression, suicidal thoughts and self-reported suicidal attempts. Regarding the latter, approximately 1.5% of the sample reported having made a suicide attempt when the respective figure for 2008 was 0.6%. Against this background, it comes as no surprise that the reported number of suicides attributed to economic hardship increased by 40% in the first five months of 2011 – the vast majority of which were males aged 35 to 60 – while the total number of suicides doubled in the years of the crisis (Violantzis, 2011). These are unprecedented figures for Greece, a country that traditionally recorded one of the lowest suicide rates in the EU.

At the same time, a large number of publicly provided services and sectors (eg hospitals, schools, universities, welfare services) are facing a double challenge. On the one hand, they have to offer their services under serious economic constraints, reduced staff and budgetary cuts as the state withdraws its funding. On the other hand, it is reasonable to assume that they will face substantial rises in the demand for their services given that large parts of the middle classes will begin withdrawing from private services as their incomes diminish, and, further, that the demand

on the voluntary and non-governmental sector to fill the gap will intensify as some newspaper reports already indicate (*Eleftherotypia*, 2011).

Conclusion

The promises of a bright economic future that accompanied Greece's entry into the Eurozone in 2001 proved unfounded. Nine years later, Greece finds itself in a dire fiscal state, having surrendered substantial parts of its national economic sovereignty and having to implement very harsh austerity measures under the surveillance of its lenders. So far, the reforms prescribed by the ECB/EC/IMF and, to a large extent, implemented by Greek governments have done nothing to alleviate the crisis. Instead, they have severely reduced socio-economic security, undermined social cohesion and sunk the Greek economy into the deepest and most prolonged recession in recent memory, with no end in sight.

Similar to other nation states (Farnsworth and Irving, 2011), employment and social policy (especially pensions) were at the heart of the structural reforms. Although the character and direction of these reforms were similar to those attempted before the crisis, the adoption of the austerity measures accelerated their pace, and paved the way for even more reforms that previously met the resistance of the electorate, unions and many socio-professional groups. At the same time, in order to supposedly boost competitiveness and exports, both the PASOK government and the tri-party government of national accord that was in place at the time of writing – led by Mr Papademos, an unelected ex-banker – opted for a dual strategy of 'internal devaluation' and indiscriminate taxation of the working population and pensioners; that is, a strategy of severely reducing wages and labour costs, cutting welfare benefits, services and pensions, and increasing taxation regardless of ability to pay. It appears that the solution that these governments opted for was to transfer the risk, the cost and the responsibility of the economic crisis to the easy targets – the salariat working population and pensioners, in both the public and private sectors – and attack the main pillar of their socio-economic security – small private property – while keeping other sectors and practices protected. Instead of revisiting the role of the banking sector and the lack of investment in the real economy or seriously tackling tax evasion and corruption, endemic at the elite level in both the private and public sectors, or take the reorganisation of the state seriously, both governments picked a different enemy: social and employment security, wage and pension incomes, and working standards.

Taking as a starting point that even after two years of austerity the Greek economy is in a weaker position, there is not much scope for any optimism regarding welfare futures. In political terms, the policies of the PASOK government came in striking contrast with its electorate promises of centre-left inspiration back in 2009 by putting forward one of the harshest and most punitive packages of pro-market austerity measures in recent European history. They have culminated in an anti-social policy that wreaked havoc upon Greek society, forcing large parts of the population into severe insecurity. With many households and family businesses indebted and unemployment soaring, the middle and working classes are experiencing a free fall in their living standards and their faith in the politico-economic institutions, domestic and European, has understandably been seriously challenged. In a 2011 Gallup poll, 77% of Greek respondents said that they had no confidence in the national government and 78% said that they had no confidence in financial institutions or banks (Gallup, 2011b). Further, in a 2011 Eurobarometer survey, 83% declared that they did not trust the government, 82% that they did not trust the parliament and 67% that they did not trust the EU (compared with an EU average of 47%), while 75% said that the EU was not effective in combating the crisis (Eurobarometer, 2011). Hence, our assertion that the crisis is not only economic, but deeply politico-economic, signalling the end of the post-dictatorship politico-economic regime in Greece while seriously questioning the direction of EU integration and the role of national democratic politics within it. We would expect a radicalisation of political opinion and behaviour to reaffirm territorial and political control over the Greek economy, but any misfortune will directly spark rifts with the EU. Still, as a consolation, Greeks do not seem to be all alone in the EU in questioning both their domestic regimes and the direction and scope of the further politico-economic integration of the Eurozone. Countries in the EU periphery are undergoing very similar ‘treatments’ and, if Greece is to be taken as the testing ground, they will also face pressures for substantial reductions in their national economic sovereignty. As Mark Mazower (2010 **[NIR? 2011? P.REF]**), historian of modern Greece, put it:

The European Union was supposed to shore up a fragmented Europe, to consolidate its democratic potential and to transform the continent into a force capable of competing on the global stage. It is perhaps fitting that one of Europe’s oldest and most democratic nation-states should be on the new front line, throwing all these achievements into question. For we are all small powers

now, and once again Greece is in the forefront of the fight for the future.

Note

¹ The so-called spread represents the difference in the interest that financial market institutions are willing to charge in order to buy Greek government bonds over the interest they are willing to charge in order to buy German government bonds. A CDS is a financial instrument resembling, to some extent, a traditional insurance policy where, for a fee, the issuer of the CDS promises to pay the face value of the loan that the buyer of the CDS had issued in the case of loan default. However, there is a fundamental difference between a CDS and the classic insurance policy. A CDS can also be purchased by a buyer who has no exposure to the loan for which the CDS was issued. This so-called *naked* CDS is effectively a speculative bet where the buyer gains when the loan that s/he is not exposed to defaults. Even well-known figures of the financial world described *naked* CDSs as ‘toxic’ and called for their strict regulation (Soros, 2009).

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