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The Greek crisis as part of the crisis of the European Social Model

CONFERENCE
Wither Social Policy? Social Policy in Greece in times of Crisis

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Part I:

The politico-economic crisis in Greece: From permanent austerity to generalized insecurity
Explaining the Greek crisis: Historical legacies and politico-economic dynamics
Explanations of the causes of the Greek crisis oscillate between:

- those that give emphasis to **domestic causes** and
- those that emphasize **systemic** reasons.

For the former, the crisis is mainly attributable to the behavior of a profligate society that 'consumed beyond its means', and its corrupt governments that run large public debts and budget deficits.

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.
Explanations of the causes of the Greek crisis - 2

In Papadopoulos and Roumpakis (2012) we draw from both approaches to argue that the eruption of the crisis was the combined result of 'perfect storm' conditions, both domestic and external, and place it in a historical context.

We also argue that the continuation and deepening of the crisis is a product of the very measures that were taken, supposedly, to alleviate it.
Historical evolution of public debt
Figure 1: Historical evolution of public debt as percentage of GDP in Greece, 1960–2012

Source: IMF (2011)
Note: Estimated data for 2012
Greece’s “Twin” Deficits: Budget and Current Account Deficits
Figure 2: Greece’s “Twin” Deficits: Budget and Current Account Deficits, 1999-2009

Source: IMF (2011)
The effects of the crisis and the impact of measures – a first glance - 1

- As a result of the measures and reforms adopted under the agreements made with the IMF/EC/ECB the Greek state is taking billions of Euros out of the Greek economy by means of relentless taxation and substantial reductions in pensions and wages.

- By 2011, the Greek GDP had contracted by almost 15% while the Greek government estimated that for 2012 (WSJ, 2012) GDP will further contract by nearly 7%.

While the Greek economy is contracting, the Greek public debt is rising.

- 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.*

* Confidential report on the sustainability of Greece’s debt (IMF/EC/ECB, 2011); see also Eurobank Research (2011)
The aftermath of the Greek crisis: GDP falls, due to recession, while government debt rises

The evolution and trajectory of Greek GDP and Government Debt

Source: IMF (2011)
The effects of the crisis and the impact of measures – a first glance - 2

- Rapid decline in domestic demand, industrial output and bank savings, collapse of consumer confidence, hundreds of thousands of small business closed.

- Dramatic increases in unemployment from 7.4%, in May 2008 to 25% in September 2012

- Youth unemployment was around 55% and female youth unemployment more than 60% (ELSTAT data in FT, 2012)

- Dramatic impact of social cohesion, poverty, social violence and xenophobia/racism

- Collapse of the two-party politics, rise in political uncertainty and polarisation.

- Spectacular rise of the extreme right
The effects of the crisis and the impact of measures – a first glance - 3

Figure: Unemployment rates in the GIPS states, 2008 and 2012 (%)
Challenges for social reproduction in a (collapsing) familistic welfare regime
De-ommodation, the family and the ‘South European’ welfare states

The characteristics of South European welfare states were not just endogenous byproducts of ‘rudimentary development’ but, primarily, the results of how their national political economies were integrated in the global and European economies.

That is, as semi-peripheral economies that relied on ‘external growth strategies’ where competitiveness was based on the pursuit of low labour-costs. In turn, this was translated in continuous attempts, on behalf of both employers and the state, to minimize their responsibility for social reproduction.

The end result was the political choice to avoid introducing a universal system of social protection and instead institutionalize segmented and residual social programmes and welfare policies.
De-commodification, the family and the ‘South European’ welfare states

The role of the family in the familistic welfare model is not confined to household members but rather refers to an extensive network of kin that ‘provides a mechanism for aggregating and redistributing resources among its members’ (Allen et al 2004: 116, see also Ferrera, 1996).

Traditionally, in Southern European welfare capitalist regimes, the family acted as a ‘decommodification’ agent when its members were out of the labour market or lacked the necessary resources to maintain their living standard.

It also acted as a ‘decommodification’ agent during the life course

- by providing substantial assets or capital to its members when they started their own family or business,
- by providing material goods and gifts of substantial value to its members (e.g. cars),
- by mobilizing political contacts in clientilistic networks, or
- by providing employment via the engagement of members in family business structures.
Two periods in the reproduction of the familistic welfare capitalism in Greece

The first period (roughly between 1960-90) – can be described as a period of maximization of resources. Families accumulated resources but with substantial differences between socio-professional groups.

The second period (roughly between mid-90s to present) – can be described as a period of liquidation of resources

Strategies of high economic risk were adopted that utilized market means for investment and consumption. The main political parties, the state, and the banks heavily promoted these strategies. The alternative on offer aspired to transform families

• from stakeholders of the traditional family-contained low risk family collectivism
• to shareholders in emerging markets pursuing high risk strategies while relying on credit-funded consumerism.

Greek families began investing (and lost) substantial proportions of their wealth and savings in the stock market boom and bust during 1999-2003 as well as in the housing market.
Two periods in the reproduction of the familistic welfare capitalism in Greece - 4

The losses of savings but also the excessive borrowing of households in order to invest their money in the stock and housing markets, constitutes the single most important structural blow in the capacity of Greek households to mobilize resources and protect their members via the market.

Simultaneously, a socio-economic policy of ‘meagre social spending' and re-commodification that was enacted in the late 1990s constrained – though not completely - the possibility of families to consolidate economic resources via ‘social security rights’ acquired in the formal economy and labour market.

The major threat to the traditional mode of social reproduction was private debt and employment insecurity and, in this respect, this mode was already in a crisis trajectory, at least a few years prior to the explosion of the politico-economic crisis at the end of 2009.

Empirical evidence on the rise of private debt confirms this point.
A (collapsing) familistic welfare regime: Empirical evidence
The rise of generalised insecurity - 1

• Policies and reforms towards re-commodification prior to the crisis accelerated after the crisis (especially in pension and employment-related rights), adding to social insecurity

• Direct and indirect taxes increased.

• Home ownership and small property are also heavily taxed, irrespective of ability to pay

• Greek private debt is significantly lower than other Eurozone countries and the UK (Table 1). However…
The rise of generalised insecurity - 2

• **Private debt (and especially household debt) was increasing rapidly during the decade prior to the 2009-10 crisis.** Since 1994 and up to 2006, the total increase of consumer credit touched upon the astronomical figure of 2,106% (Papadopoulos and Roumpakis 2009).

• **Greek households’ capacity to accumulate and mobilize resources was undermined by exposure to debt for more than a decade prior to the crisis.**

• **Most of the household debt is related to mortgages and consumer loans.**
Psychological distress and lack of public support for families

- Apart for a small minority, most Greek families experience the continuing crisis as a dramatic decrease in their wellbeing and their socio-economic security, as repeated surveys in subjective economic hardship reveal.

- Gallup’s ongoing Global Wellbeing Survey reported 60% of Greeks ‘struggling’ with their current life in 2011 while ‘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.

- The reported number of suicides attributed to economic hardship increased by 40% in the first 5 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 (Violatzis, 2011).

- The latter are unprecedented figures for Greece, a country that traditionally recorded one of the lowest suicide rates in the EU.
Psychological distress and lack of public support for families

• At the same time, a large number of publicly provided services and sectors (e.g. 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 accessing their services given that large parts of the middle classes begin withdrawing from private services as their incomes diminish (see Vignette 1; Eleftherotypia, 2011) and, further, that the demand on the voluntary and non-governmental sector (see Vignette 3) to fill the gap will intensify.

• As Maria Stratigaki, head of the government’s General Secretariat for Gender Equality paying for help with child care ‘is an expense that fewer and fewer women will be able to afford” (NYT, 2011).
Reflections

The middle classes in Greece, either in the public or private sector, are under very serious economic pressure.

With large numbers of households and family businesses indebted, middle classes are facing a free fall in their incomes and an assault in their security. People in lower incomes are close to desperation.

Out of the fragments of the previous politico-economic formation and its familistic mode of social reproduction a political economy of generalised insecurity emerges.

The Greek family is left as the only welfare agent standing in support of its members in a context where its capacity to consolidate, mobilise and redistribute resources is drastically reduced.

The impact on social cohesion and political stability are severe.

Social violence, destitution and insecurity are already increasing.
Part II

The Greek crisis as part of the crisis of the European Social Model*

What is the European Social Model?
What is the European Social Model

In the context of social democratic and trade union debates on the EU the European Social Model primarily encompasses six policy objectives:

- **pursuing a macroeconomic policy aimed at full employment**;
- **in wage policy, allowing real wage increases that reflect productivity growth and implement European minimum wages that reduce the low wage sector**;
- **underpin social security systems that realise a high level of protection** in pension, health care and family policy, as well as in unemployment benefit;
- **provide for participation rights at enterprise and establishment level** that give employees a high degree of codetermination; furthermore, promote social dialogue at European, national and sectoral level;
- **maintain a strong public sector** that contributes both to providing services of general interest and to stabilising the level of employment;
- **incorporate a social progress clause in the EU Treaty** that gives basic social rights priority over market freedoms.

Klaus Busch et al (2013) pose 3 questions with respect to the austerity measures and policy reforms in southern Europe:

• Do the measures constitute catch-up reform policy aimed at closing the gap with liberalisation processes in western and eastern Europe?

• Is it possible, generally, to speak of a convergence towards a liberal European Social Model in the EU?

• What repercussions can be expected from these changes in Southern Europe for wage, labour market and welfare state policy in the EU? Will the setbacks described above in the realisation of a normative concept of a European Social Model – which could already be observed before the crisis – go even further?
The long march of liberalization of the European Social Model - 1

In many EU states there is a clear tendency towards liberalisation of the European Social Model, based on
- labour market reforms,
- decentralisation of collective bargaining systems,
- wage moderation,
- a reduction in relative pension levels,
- cuts in public health services and privatisation of services of general interest,

[These have taken place well] before the crisis of 2008/2009. Dumping processes have become evident in wage and social policy.

• However, [...] broadly speaking, liberalisation tendencies in western and eastern Europe are more marked than in southern Europe. Here many reform efforts have failed, especially in labour market, wage and pension policy, in the teeth of opposition from trade unions and left-wing parties.

• Since the global economic crisis of 2008/2009 and austerity policy in the wake of the euro crisis, the political and social balance of power has been changing in Southern Europe.
The long march of liberalization of the European Social Model - 2

Figure: Development of real wages in the EU, 2001–2009 (%)
The long march of liberalization of the European Social Model - 3

Figure: Development of real wages in the EU, 2010–2012 (%)

Note: Deflated by the National Harmonised Consumer Price Index.
Source: Ameco database, WSI calculations (data for 2012: previous year’s forecast by the European Commission).
A most worrying development:

EU’s new wage policy interventionism
The rise of EU’s wage policy interventionism

- Up to the outbreak of the global economic crisis of 2008 the EU largely limited itself to making more or less nonbinding recommendations on national wage and labour market policies as part of its economic and employment policy guidelines (see ‘soft’ forms of governance, such as the OMCs (open method of coordination)).

- [However, based on conflictual interpretations of the Services Directive and the Posted Workers Directive] the European Court of Justice has best been able to establish itself as a key actor at the EU level. Its judgments, have recently concentrated on emphasising the priority of economic freedoms against national labour market regulations which it has interpreted as protectionist.

- Recently a new European interventionism in the area of wage policy was established

- It combines European requirements for national wage and labour market policies with the threat of economic sanctions.
The rise of EU’s wage policy interventionism

- The legal basis for this new form of **authoritarian neoliberalism** (Bruff 2012) comprises above all the Euro Plus Pact adopted on the initiative of Angela Merkel and Nicolas Sarkozy in March 2011, which is supposed to achieve a ‘new quality’ of economic policy coordination in Europe (European Council 2011).

- Economic policy coordination explicitly includes wage policy which is considered the most important adjustment variable for promoting competitiveness.

- While in the EU Treaty a European regulatory competence with regard to wage policy is still expressly ruled out (Article 153, para 5), with the Euro Plus Pact the foundation stone of wage policy intervention at EU level has been laid.
The rise of EU’s wage policy interventionism

The EU’s new wage policy interventionism is taking place against the background of an explosive increase in unemployment. The latter is used as Legitimation and Power Resource for Implementing Structural Reforms

• Among the most far-reaching structural changes currently taking place under the influence of European austerity policy is **the development of the collective agreement system.**

• This applies in particular to the GIPS states that traditionally have had highly developed sectoral agreement structures and, backed by direct or indirect regulations and general extensions of agreements by government decree, have enjoyed extremely wide coverage, by international comparison, of 80 to 90 per cent.
The EU’s new wage policy interventionism is taking place against the background of an explosive increase in unemployment. The latter is used as Legitimation and Power Resource for Implementing Structural Reforms

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Changes that have already been made or are planned for the near future include:

- the legal extension of opening clauses for enterprise level deviations from branch collective agreements (Italy, Portugal, Spain)
- absolute priority of company agreements over all other collective agreements (Greece, Spain)
- the possibility for deviating company agreements with non-trade union workers’ representations (Greece, Portugal)
- limitation of the validity of collective agreements after expiry (Greece, Spain)
- formal restriction of the general validity of collective agreements (Portugal)
For Klaus Busch et al (2013) the consequences of the EU’s new wage policy interventionism are thus entirely clear.

They lead, on one hand, directly to a wage policy downward spiral, foster deflationary development and thus contribute to consolidating economic stagnation in Europe.

On the other hand, a radical restructuring of collective bargaining systems is taking place in Southern Europe: in a short time historically developed institutions have been destroyed and reshaped in accordance with a neoliberal master plan under the auspices of the Troika.

As a result, centralised collective agreements are being extensively undermined and wage policy is being comprehensively decentralised, which may also result in a significant reduction in collective agreement coverage.
To conclude…
Back to the 3 Questions

• (i) Do the measures constitute »catch-up« reform policy aimed at closing the gap with liberalisation processes in western and eastern Europe?

The liberalisation of collective bargaining systems, the reduction of real wages, the transformation of pension systems and the privatisation of public services in the four Southern European states largely represents ‘catch-up’ development.

But not only that!

In those countries that strongly opposed these neoliberal policies the euro crisis and austerity policies are now breaking down the last bastions of resistance.
Is it possible, generally, to speak of a convergence towards a »liberal« European Social Model in the EU?

- The trend towards ever more radical »liberalisation« of the European Social Model (especially in western and eastern Europe), which could be discerned even before the crisis of 2008/2009, was thus reinforced.

- Austerity policy has now roped even Southern Europe into this general development involving the weakening of the trade unions, the dismantling of the welfare state and the withdrawal of the state from the provision of services of general interest.
(iii) What repercussions can be expected from these changes in Southern Europe for wage, labour market and welfare state policy in the EU? Will the setbacks described above in the realisation of a normative concept of a European Social Model – which could already be observed before the crisis – go even further?

- The social dimension of the European integration process has thus increasingly been sidelined in the EU.

- While collective bargaining systems have been decentralised and liberalised in the GIPS states, pension systems have been transformed from defined-benefit oriented to contribution-oriented systems and their ability to combat old age poverty has been reduced.

- Finally, as a result of intensified privatisation the welfare state has been diminished not only in these states but also in the EU as a whole.
• This is not [simply] a linear process, in which ‘the South’ catches up with the reforms that ‘the West’ and ‘the East’ have often already implemented.

• The weakening of the social flank in Southern Europe in fact has repercussions for western and eastern Europe, putting the trade unions and left-wing parties under further pressure. In the market-states system wage and social dumping processes are thus even more pronounced.

• The ‘liberalisation’ of the European Social Model is intensifying throughout the EU.
and a final thought...
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.

Mazower (2011)
End of presentation

Thank you
Appendix
Table 3: Public and private* debt as % of the GDP, 2007-10

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<th>Net general government debt</th>
<th>Private sector debt*</th>
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<td>2007</td>
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<td>France</td>
<td>60</td>
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<td>Germany</td>
<td>50</td>
<td>58</td>
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<td><strong>Greece</strong></td>
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<td>Ireland</td>
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<td>Italy</td>
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<td>Netherlands</td>
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<td>Portugal</td>
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<td>Spain</td>
<td>27</td>
<td>49</td>
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<td>UK</td>
<td>43</td>
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*Sources: Data for UK from PricewaterhouseCoopers (2010), calculations based on data from ONS Blue Book (July 2010). Data for all other countries from Papadimitriou and Wray (2011).*

**Notes:** *Includes household debt and non-financial corporate debt but excludes financial sector debt. ** UK data for 2009*
Consumer credit growth prior to the crisis - 1


Source: Cofidis, 2007
Outstanding consumer credit as a percentage of the Greek households’ gross disposable income (GDI), 1996-2004

Source: Consumer Credit in Europe in 2006, Le Cadran de Cofidis, Briefing Memo No 26, November 2007
Pension rights – Policies towards re-commodification prior to, and during the crisis (indicative examples)

– Prior to the 2009-10 crisis (2008 reforms):
  – strengthening the links between contributions and pension income
  – increase of statutory retirement age,
  – changes in the calculation formulas of pensions
  – imposition of ‘penalties’ for early retirement (6% pension reduction penalty for each year of earlier retirement).

– After the crisis:
  – stricter eligibility rules,
  – substantial reductions in replacement rates,
  – lower contribution levels for employers,
  – increase of the ‘solidarity tax’ from 3% up to 14% of pension income in excess of €1400,
  – additional tax of 6% up to 10% for pensioners younger than 60.
Employment rights – Policies towards re-commodification prior to, and during the crisis (indicative examples)

– **Prior to the 2009-10 crisis (expansion of partial & precarious employment and implementation of ‘flexible’ work regulations)**
  – increase in precarious jobs [e.g. EU subsidised training programs (e.g. ‘STAGE’ programmes), temporary/part-time employment, self-employed that work on a daily or task contracts] and
  – recruitment agencies that offer rented labour employ increasing numbers of workers

– **After the crisis:**
  – further ‘flexibilization’ of the labour market and strengthening of the rights of employers to ‘hire and fire’.
  – trade unions likely to loose their right to refer to the Conciliation and Arbitration Service
  – employers are not anymore obliged to offer permanent contracts to employees on rolling temporary contracts.
  – in the public sector, the government withdrew the permanent status of public servants
  – substantial reduction in wages and demise of national collective bargaining
Increases in indirect taxation
• Increase in the standard rate of VAT to 23% (up from 19%) on July 2011, for medical services to 13% (up from 9.5%) and for books and newspapers to 6.5% (up from 4%).
• New listings of products that were previously taxed with the medium tax rate (e.g. restaurant, taverns).
• Additional increase applied in excise duties for petrol, gas, tobacco and alcohol.

Increases in direct taxation
• The government reduced the income tax threshold twice, first on May 2010 where it was set at €9000 (from €12000) and in September 2011 when it was further reduced at €5000.

New property tax, irrespective of ability to pay
• The government introduced in September 2011 a new property tax (on top of existing ones), to more than 5 million private houses and commercial properties with the aim to achieve an annual revenue of €2bn. The total tax for each household depends on the size of the property as well as the location but, crucially, is not linked to any means-testing or any ability-to-pay test. This tax hits the core of the main pillar of socio-economic security of Greek families – 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.
Vignette - 1  Natalia Papapetrou, a 36-year-old architect who speaks three languages, never expected to apply for work as a cashier at her local supermarket in Athens. But five months after losing her job as an administrative assistant to a state-run organization, and 18 months after her husband lost his, the responsibility of feeding two children weighed heavily. The couple moved their elder daughter from a private school to a state school, and their parents are helping with mortgage repayments. With virtually no money coming in, finding work has become a pressing concern. “I’m willing to do anything,” said Mrs. Papapetrou, who has applied for dozens of positions in stores and offices, but has yet to get a single offer.

Vignette - 2  -  Anna Stylianou, 29, lives in the northern port of Salonika where unemployment among women is above 20 percent. A qualified nurse unable to find work, she took a part-time job at a cafe in February when her husband’s salary at a construction firm was cut in half. With a total monthly income of €1,200, or $1,750, and rumors of layoffs at the company, the couple’s childbearing plans are on hold. “We can’t have a baby with all this uncertainty,” Ms. Stylianou said.

Vignette - 3 - George Protopapas [...] director of SOS Children's Villages Greece has seen first-hand how the pressure of parenthood is pushing some women to do what for most of them would have been unthinkable before the crisis: give up their child. [...] Last year [2011] demand doubled, with two-thirds of families saying they could not afford to keep their child. 20% of the cases were single-parent families – and, of those, all were single mothers. [...] 

Aged between 25 and 32, the single mothers he has seen have "battled" to be with their children, he says. They are desperate, but responsible. "They extend their financial loans, try to save money, borrow money from relatives … anything to keep their child." The organisation is working with a woman who recently lost both her job and her mother, whose pension, as is standard practice in Greece, had been helping supplement the family income. They are trying to help her, he says, but fear the child will be handed over in September.

Source: Guardian, The (2012) Greek Crisis Hits Women Especially Hard, 19/06/2012
Vignette - 4 - For Titina Pantazi, the 70-year-old chair of the Women's Union of Greece who has lived through her country's civil war and dictatorship, it is a period of intense fear and trepidation that makes her worry for her daughter and for all Greek women. "It's time to go out and fight in order to safeguard the rights we have gained," [She feels that] this is a period with potential for immense damage – both to her country and to its women. But she has faith in the strength of her sisters. "What we in women's organisations are doing is to try to raise the feeling and the sentiment that Greeks have always had in difficult times – of solidarity; that we must not succumb,"[...].

The dual role of the family in Greece

The family in Greece has traditionally been

- the main provider of welfare and protection to its members, *and*
- a key institution in the reproduction of the Greek political economy**

These roles were interlinked. They relied on the ability of the family to consolidate and mobilize resources as

- an owner of property (especially private but also commercial real-estate),
- an employer (usually via a family business)
- a member of the clientelistic political system
- a claimant of social security rights (through its member(s) that were able to secure these rights within the *formal* labour market, and especially through public sector employment).

**Fulfilling these roles had important implications for the gender-related division of labour inside the household that will not be covered in this presentation. Suffice to say that much of the care work of social reproduction relied traditionally on the *domestication* of women - the 'compulsory altruists' according to Symeonidou (1996) - and their unpaid care work.