

## Fiscal Space in the Eurozone: redistribution in Greece and Ireland

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# EA and fiscal space

## Redistribution in Greece and Ireland

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# Puzzle

| Total social expenditure in % of GDP (Source: Eurostat) | % change 1995-2008 |
|---------------------------------------------------------|--------------------|
| Italy                                                   | 14.6               |
| Ireland                                                 | 13.7               |
| Greece                                                  | 19.4               |
| Spain                                                   | 1.9                |
| France                                                  | 1.7                |
| Portugal                                                | 16.4               |
| Netherlands                                             | -8.3               |
| Austria                                                 | -4.5               |
| Finland                                                 | -18.0              |
| Belgium                                                 | 3.0                |
| Germany                                                 | -1.5               |

| Inequality Disposable change (GINI) | % change 1995-2008 (Source: Eurostat) |
|-------------------------------------|---------------------------------------|
| Belgium                             | Stable                                |
| Austria                             | Stable                                |
| Germany                             | Increase                              |
| France                              | Stable                                |
| Finland                             | Increase                              |
| Netherlands                         | Increase                              |
| Portugal                            | Increase                              |
| Italy                               | Decrease                              |
| Spain                               | Decrease                              |
| Greece                              | Decrease                              |
| Ireland                             | Decrease                              |

Predominant  
wisdom

Pre-EA lit:  
EA and  
reforms due  
to hard  
budget  
constrain

Reform  
mechanism :  
Vincolo esterno

Social spending  
increasing or  
decreasing?  
Mainly  
decreasing

After EA:  
No hard budget  
constraints

No reform and  
institutional  
deterioration  
Mechanism: reform  
postponement

Agnostic towards  
social spending and  
inequality

# Analytical framework



# The argument step-by-step

EA: Fiscal space lower cost of public debt, increased revenues

- Necessary but not sufficient condition
- How this fiscal space will be used remains at national hands...
- Increase of social spending
- Is the use of fiscal space tied to a particular reform narrative i.e. institutional deterioration/status quo preservation or modernisation?

▪ Modernisation:

“As fiscal discipline and structural reforms”

OR

“Democratisation around values like equality and social justice”

## Case selection

### Two most different cases: Greece and Ireland

- Different economic performance before the euro
- “Reckless” and “prudent” fiscal managers, respectively, under EA
- Different VoC categories
- Different welfare states
- Governments of different political orientation
- In both cases after EA accession, social spending increased → mainly old age pensions

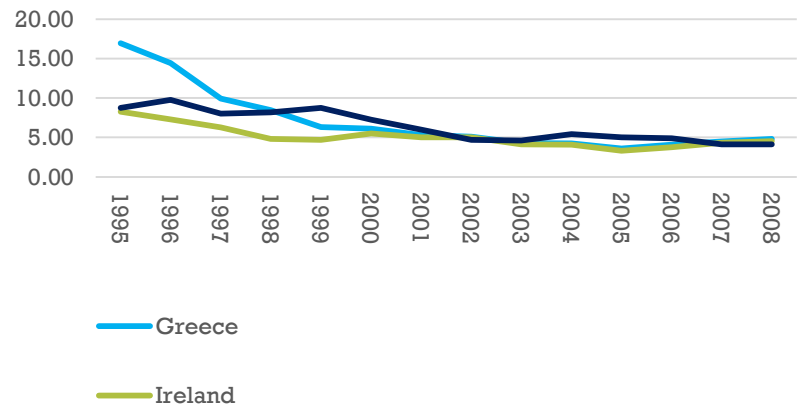
## Why this policy area?

- “Hard case”: highly influence by organised interests
- Highly salient for both countries (political parties and unions)
- Reform efforts started prior to the introduction of the common currency → much debate
- Both countries had poverty rates among pensioners above the EA average (GR spending more than the EA average on pensioners, IR spending less)
- Pension spending increased substantially during the Euroyears

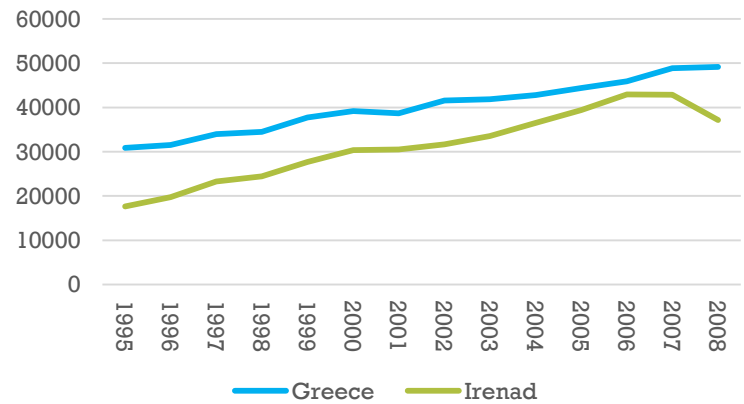


Some graphs on  
fiscal space  
(source: Eurostat)

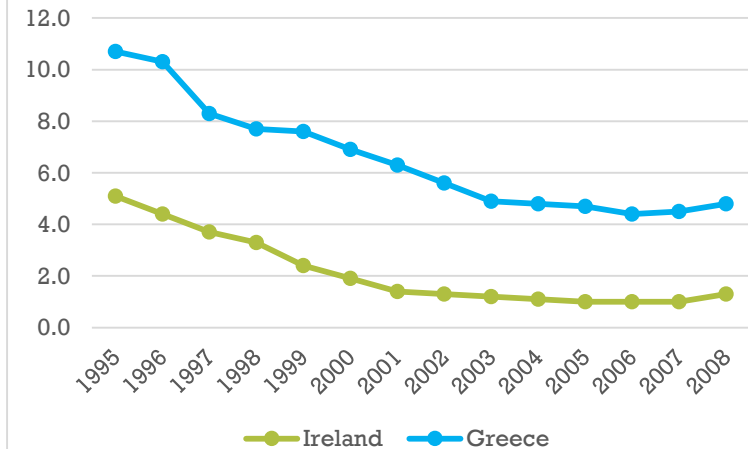
### Bond yields



### Tax revenues in millions of Euros (1995 prices)



### Interest Payable as a percentage of GDP



## The argument in brief

- Amplified market forces which came with the Euro increased room for national fiscal manoeuvre and allowed governments to implement reforms that reduced poverty and inequality among the elderly
- Yet, these domestic political choices around welfare policies remained path dependent

# The pension reforms in GR

- **Government goal:**
  - 1) Attenuation of the generous guarantees for historically privileged occupational groups
  - 2) Improvement of minimum social benefits
- **Modernisation rhetoric** → sustainability and equal provisions

## The pension reforms in GR: Measures and reactions

- **EKAS (1996): Means-tested cash benefit to help pensioners at risk of state poverty**
- **Spraos report (1997) → Fierce opposition**
- **Reform plan (2001) → Strikes**
- **6-months consultation with social partners**

## The pension reforms in GR

- The final law mirrored a compromise between the unions and the government (in lit. the epitomy of non-reform)
- The unions preserved their benefits.
- Yet we also see policies targeted towards groups facing a high risk of poverty and/or social exclusion → poverty levels for pensioners and inequality among the elderly decline after 1998
- The fiscal sustainability of the system remained a problem

## The pension reform in IR

- Rainbow coalition (1996) started the discussion in association with the Pension Board
- New liberal government (1997) continued the debate
- Government goal: The overall reform had as an explicit aim “to ensure adequate provision for retirement income for all”
- Wide political consensus → the liberal coalition government pushed for the modernisation of the pension system and for the substantial reduction of poverty among the elderly

## The pension reform in IR

- **Securing Retirement Income report (1998):**
  1. Ensure adequate provision for retirement income for all
  2. Provision of an adequate total retirement income
  3. More comprehensive policies in order to cover additional parts of the population
- **Government bill (adopted in 2001 with little opposition)**
  1. Establishment of the Personal Retirement Savings Account
  2. Increase of state pensions by 3.7%

# The pension reform in IR

- National Pensions Review by the Pension Board (2005):
  1. Progress towards the goals defined in 1998 still inadequate → More government effort needed
  2. Rising funding costs of the state pension schemes → reform needed



# The pension reform in IR

- **Government bill (adopted in 2007 with little opposition):**
  - 1. Increase on contributory and non-contributory state pensions**
  - 2. Beneficial measures for the spouses and partners of contributory pensioners**
  - 3. Increase on the qualified adult rate**
  - 4. Increase at the weekly pay for non-contributory widows and widowers**

**Caveat: Protracted discussion about the tax expenditure on private pensions**

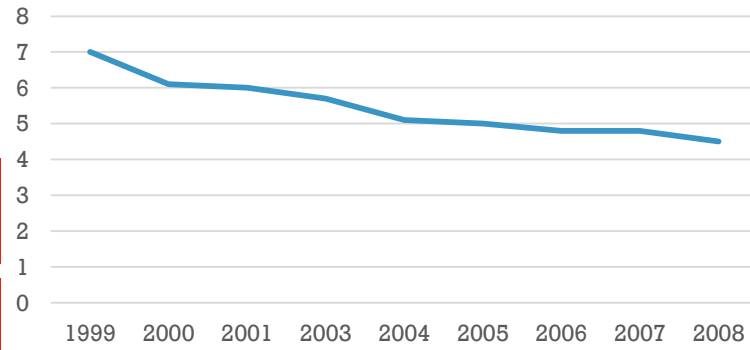
## The pension reform in IR

- The reforms benefited, through increasing state pensions, the poor, low and middle earners and individuals who had no previous coverage
- After 2001, poverty levels fall substantially among pensioners
- Yet, extensive tax reliefs benefited mainly the pensioners at the top quintile

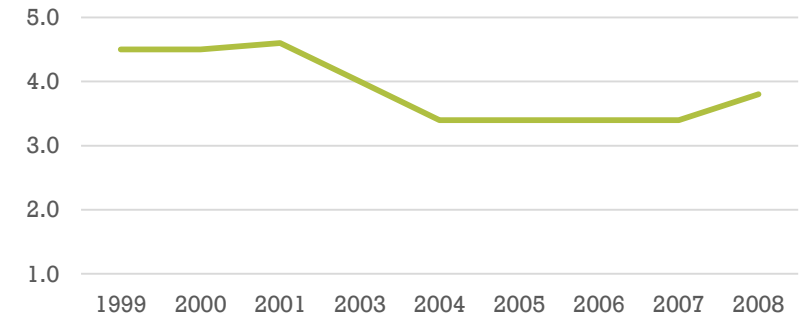
# Some graphs

(source: Eurostat)

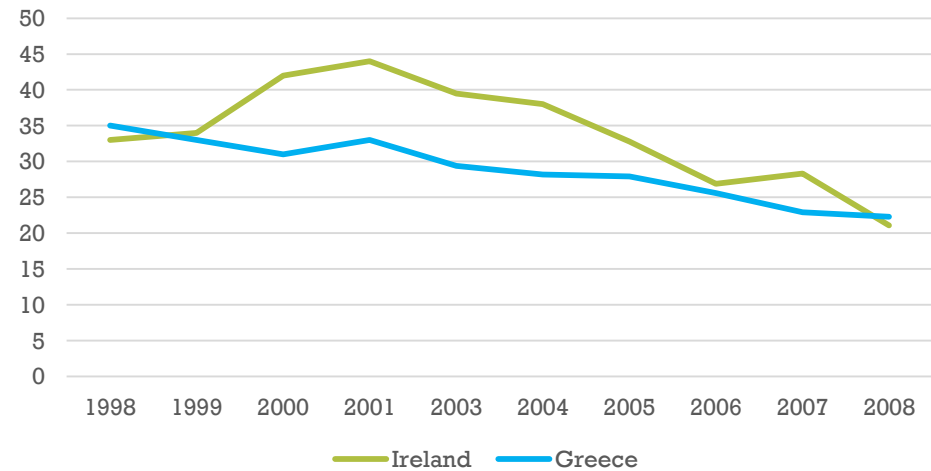
### Greece S80/S20 (over 65)



### Ireland S80/S20 (over 65)



### At risk of poverty (pensioners)



## Conclusions and wider implications

- In both cases, pension reforms in conjunction with newly created fiscal space allowed governments to implement reforms that reduced poverty and inequality among the elderly
- EA and inequality literature: the link is not only via hard budget constraints but also via loose budget constraints /fiscal space
- Literature of reforms: Fiscal space- not only institutional deterioration ( equality instead of efficiency)- still path dependency
- Changing “narratives” about the “periphery”/reform effort

# Path dependencies

|                                                |             |
|------------------------------------------------|-------------|
| <b>Pensioners at risk of poverty</b>           | <b>2008</b> |
| Ireland                                        | 21.1        |
| Greece                                         | 22.3        |
| EA                                             | 18.2        |
| <b>Government spending on old age benefits</b> | <b>2008</b> |
| Ireland                                        | 12.6        |
| Greece                                         | 5.8         |
| EA                                             | 11.4        |



Thank you for coming

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