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Fiscal Space in the Eurozone: redistribution in Greece and Ireland

Angelos Angelou
PhD candidate at the European Institute, LSE

Dr Chrysoula Papalexatou
Hellenic Bank Association Postdoctoral Fellow, Hellenic Observatory, LSE

Chair: Dr Spyros Economides

Hellenic Observatory Deputy Director; Associate Professor of International Relations and European Politics, LSE

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EA and fiscal space

Redistribution in Greece and Ireland

Angelos Angelou

Chryssoula Papalexatou

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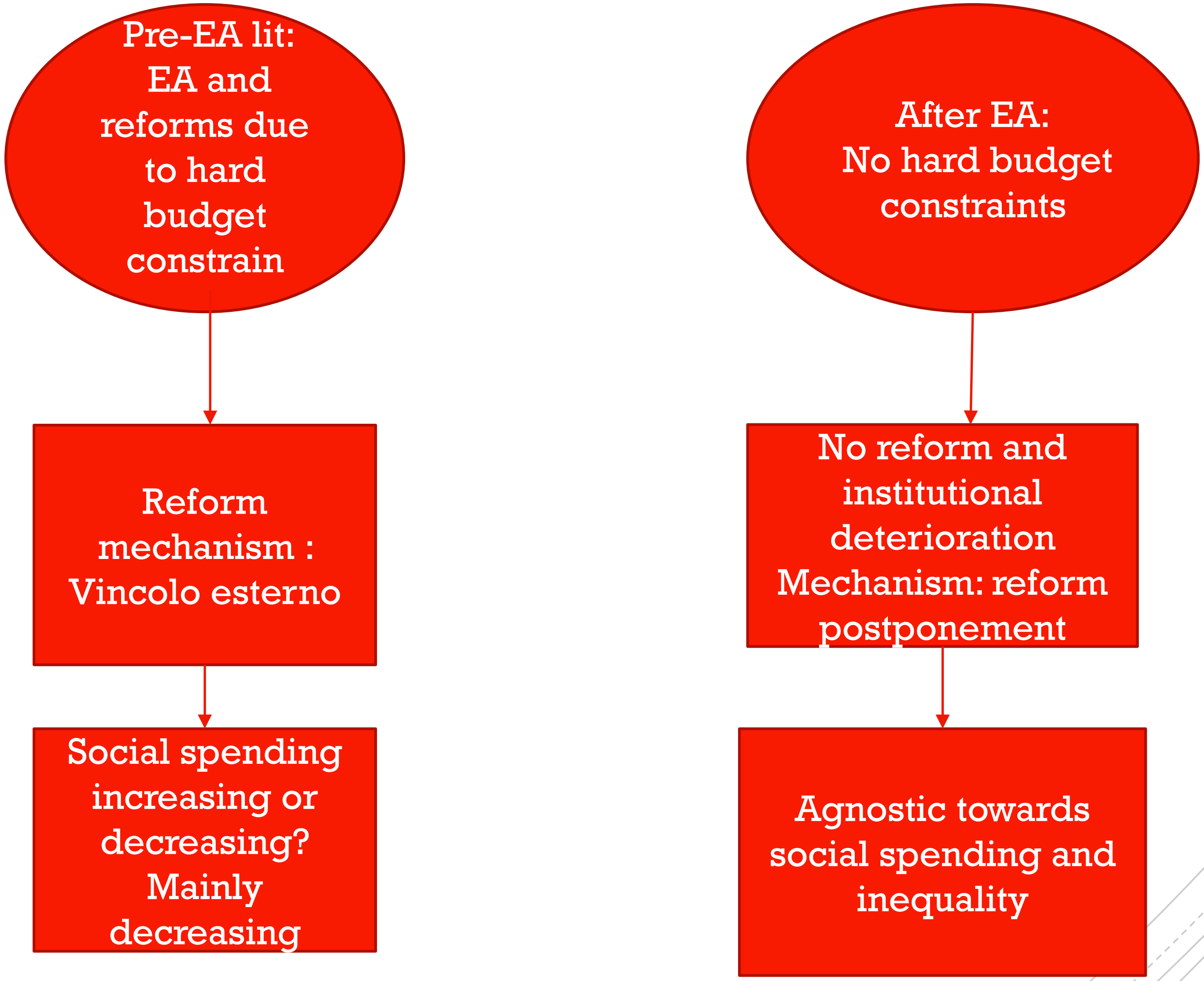
Puzzle

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



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

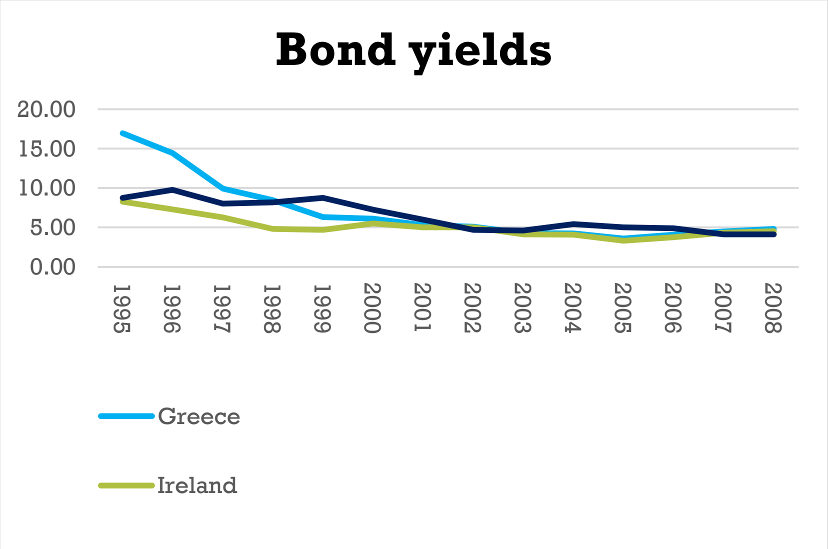
Two most different cases: Greece and Ireland

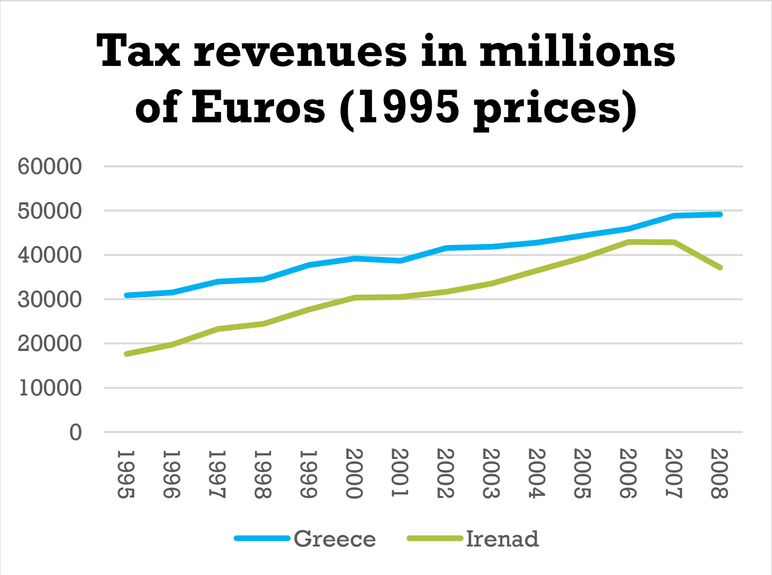
- Different economic performance before the euro
- “Reckless” and “prudent” fiscal managers, respectively, under EA
- Different VoC categories
- Different welfare states
- Governments of different political orientation
- In both cases after EA accession, social spending increased→ mainly old age pensions

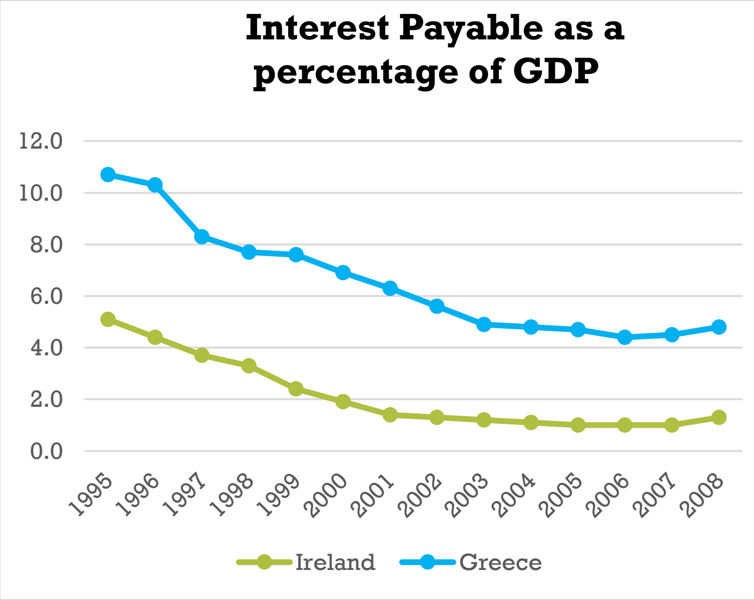
Why this policy area?

- “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)







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):

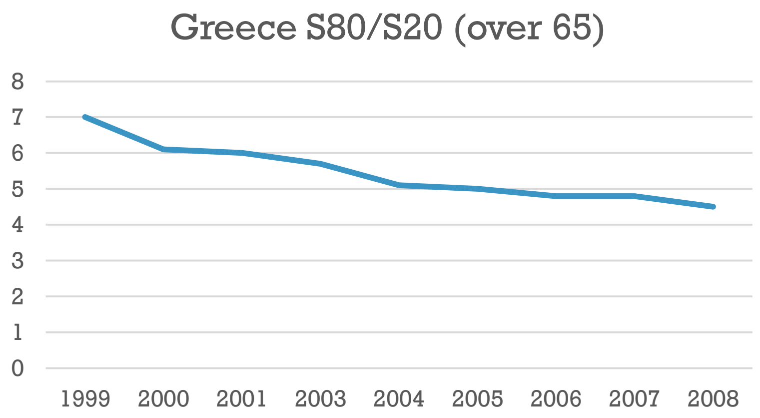
1. Increase on contributory and non-contributory state pensions
2. Beneficial measures for the spouses and partners of contributory pensioners
3. Increase on the qualified adult rate
4. Increase at the weekly pay for non-contributory widows and widowers

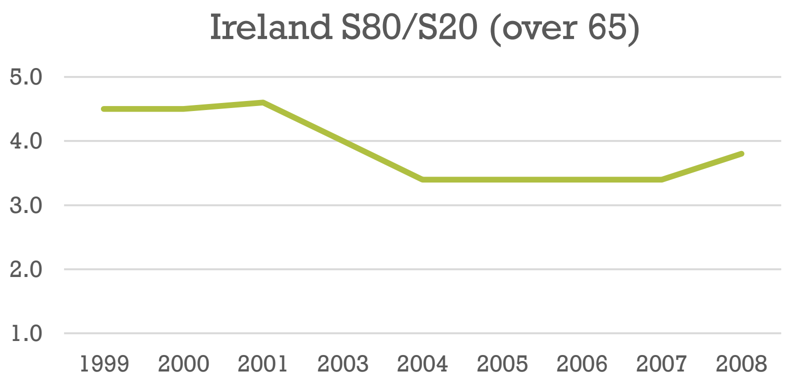
Caveat: Protracted discussion about the tax expenditure on private pensions

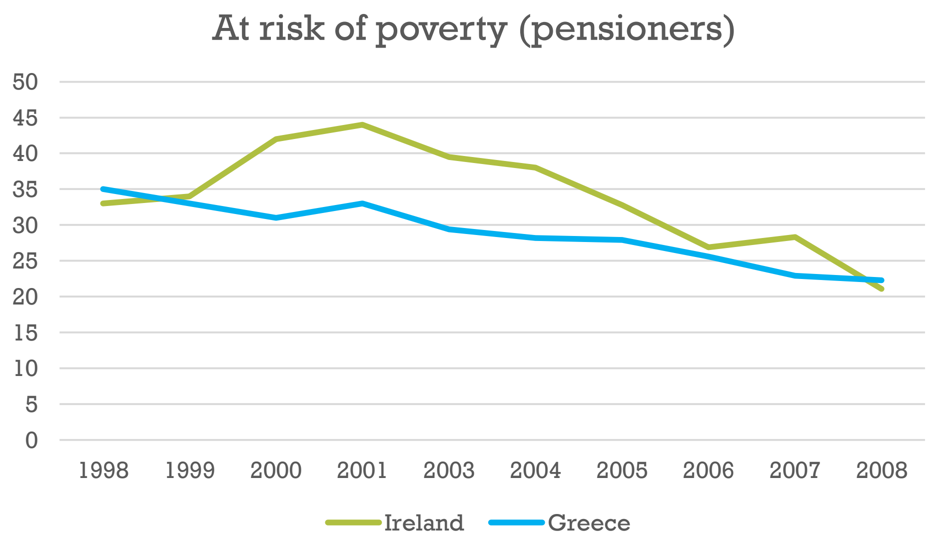
The pension reform in IR

- 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)







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 dependecy
- Changing "narratives" about the "periphery"/reform effort

Path dependencies

Pensioners at risk of poverty	2008
Ireland	21.1
Greece	22.3
EA	18.2
Government spending on old age benefits	2008
Ireland	12.6
Greece	5.8
EA	11.4

Thank you for coming

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