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CROP Poverty Brief / January 2011

Is the EU-IMF "rescue plan" dealing a blow to the Greek welfare state? // Maria Petmesidou

In a previous CROP Poverty Brief (June 2010) Bob Deacon forcefully put forward the argument for a policy shift by international organizations (including the World Bank and the IMF) from a residual social policy targeted to the "poorest of the poor" to a universal welfare provision approach that can help developing countries to "(re)build developmental welfare states". Interestingly, the evidence from the first intervention by the IMF in a euro-zone country (Greece) rather indicates that the IMF hardly changed its role as a key enforcer of austerity undermining welfare rights.

Key points:

- Before the onset of the economic crisis Southern European welfare states were confronted with unmet need, ineffective redistribution and high poverty rates.
- Poverty rates in all four countries have persistently been high; in 2008, in Greece and Spain the poverty rate stood at 20%, while in Italy and Portugal at about 19%.
- Evidence from the first intervention by the IMF in a euro-zone country (Greece) indicates that the IMF has not changed its role as a key enforcer of austerity further undermining welfare rights.
- The main ingredients of the IMF's bail-out recipe include:
  1. reduction of current and future pension incomes and social assistance benefits,
  2. significant cuts in social services,
  3. introduction of a flat, so-called "ticket payment" for health services,
  4. promotion of private provision within the NHS
- The pension reform reduced the replacement rate for the first pillar from 70% of pensionable income to about 42% (for 35 years of work).
- A National Social Cohesion Fund providing social assistance to low-income pensioners, unemployed persons without any support, disabled persons and other vulnerable groups was abolished in 2009.
- Under the IMF's insistence the abolishment of the binding character of collective wage agreements was decided recently.

Compared to North-West Europe, welfare systems in the four South European (SE) countries (Greece, Portugal, Spain and Italy) developed with a considerable time-lag. Yet before they reached maturity, they faced serious spending constraints particularly in the attempt of SE countries to join the European Monetary Union (Guillen & Petmesidou 2008). Even before the onset of the crisis SE welfare states were confronted with extensive unmet need, reflected in ineffective redistribution and high poverty incidence (poverty rates in all four countries have persistently been high; in 2008, in Greece and Spain the poverty rate stood at 20%, while in Italy and Portugal at about 19%).[1] Most importantly, despite the progressive expansion of social expenditure from the mid-1980s in SE countries, their social protection systems remained defective. This is reflected in the low effect of social transfers in reducing poverty (Papatheodorou & Dafermos 2010) and the persistently large number of weakly protected, vulnerable social groups -those employed in the informal economy, the young unqualified persons, the long-term unemployed (particularly unemployed women), old-age people with no rights to social insurance, and (mostly illegal) immigrants. Over the noughties, tackling extensive inequalities, fragmentation in social protection and great gaps in coverage (a trait most pronounced in Greece), in parallel with attempts to enter into new territories of diversified welfare mixes and interventions (under the impact of EU policy orientations, e.g. the Lisbon Agenda) have been major challenges for SE welfare states.

The crisis effects in South Europe

The financial crisis severely hit all four SE countries. It exacerbated their problems of high public indebtedness (par-

ticularly in Greece the public deficit shot up to 15.4% and the public debt to 128% of GDP in 2009) and brought to the fore structural problems in the economy. Escalating borrowing costs thrust public finances into severe crisis, necessitating significant cuts in public spending. Surely, in all four countries fiscal discipline measures and domestic austerity put the brake on any trends of welfare state expansion, and prospects for widening the scope of institutionalized social rights (for instance, to provide entitlement to a universal minimum guaranteed income, to universal care services for the frail and dependent persons etc.) were severely curtailed, even though the crisis exacerbated social needs. Any initiatives towards expanding social rights, recorded in the pre-crisis period, are in serious jeopardy under the drastic austerity measures (as is the case, for instance, with the newly introduced system of social care provision in Spain, planned to be co-funded by the state, the autonomous regions and the beneficiaries). Similarly contraction of public health spending increases privatization, striking a blow to the relatively new NHS structures in SE countries (private spending was about 40% of total health expenditure in Greece and close to 30% in Spain and Portugal in 2008[2]). Across the board reductions in pensions greatly increase the risk, for elderly people, of falling deeper into poverty and becoming highly vulnerable to its effects (the more so as poverty among the elderly was considerably high in these countries even before the onset of the crisis; in both Greece and Spain the poverty rate for the population over 65 years of age was 22% and 28% respectively, while for those over 75 years the corresponding rates stood at 28% and 33%, being even higher among elderly women[3]). Also, rapidly rising unemployment (20% in Spain and 12%, officially, in Greece but, unofficially set close to 18% even by government authorities), and progressive undermining of labour rights do not augur well for the future of social protection.[4] The point at issue is whether shrinking social protection instigated by austerity is irreversible. Although it is too early to pass verdict on this, some evidence from Greece so far gives an indication of where the crisis-induced reforms are heading at.

The intervention of the IMF

In Greece the acute crisis in public finances led to the activation of an EU-IMF bail-out plan accompanied by severe austerity measures, drastic falls in incomes in parallel with significant hikes in indirect taxes that hit low earners harder. In terms of social reform the main ingredients of the IMF's recipe include: the drastic reduction of current and future pension incomes and social assistance benefits (which have been quite low anyway); significant cuts in social services; introduction of a flat, so-called "ticket payment" for health services, promotion of private provision within the NHS and drastic cuts in expenditure by merging (closing down) hospitals.[5]

A Greek riot police officer runs to escape from protestors during clashes in the center of Athens on May 5, 2010 (Picture by Jesse Garcia).

Significant reductions in pensions were effected through the immediate abolition of part of yearly pension income that was provided in the form of "Christmas, "Easter" and "Summer" benefits, and its replacement by a meagre, means-tested social assistance benefit. A special tax on pensions was introduced too, ranging from 3% to 9%, depending on the level of pension income and meant to shift the burden of covering deficits of social insurance organizations to pensioners themselves. The pension reform introduced in the context of the stabilisation plan, and turned into law in mid-2010, significantly reduced the replacement rate for the first pillar from 70% of pensionable income (itself extended to the whole working life), to about 42% (for 35 years of work), or 48% (for 40 years of work). To this will be added a flat (meagre) basic pension funded through general taxation (set at 360 Euros, but the amount may be reduced if economic performance deteriorates).[6] Undoubtedly these conditions will foster privatization trends in social insurance for the well-off social groups and deepen inequality. Drastic cuts in pensions will considerably limit the rather weak redistributive effects of social transfers, particularly as "other social transfers" (apart from pensions), consisting of universal or categorical benefits, are a very feeble component of social expenditure that is further squeezed under the EU-IMF aid programme. For instance, the National Social Cohesion Fund established a few years ago in order to provide social assistance to low-income pensioners, unemployed

persons without any support, disabled persons under the welfare benefit scheme and other vulnerable groups at risk of poverty, was abolished in 2009. A one-off, tax-free benefit targeted to the above vulnerable groups (about 2,500,000 beneficiaries) was decided by the government in late 2009, but was soon discontinued (after the release of the first instalment provision stopped under the EU-IMF bail-out plan, Petmesidou 2010). The Greek Anti-Poverty Network estimates that the national poverty rate has already risen to 25%, while a recent research by the Economics University of Athens shows that one in eleven inhabitants (over 18 years of age) in the Attica region seek help from charities and turn to them for free meals. Mounting job losses and meagre protection of the unemployed (only about 20% of the unemployed get a slim benefit for a period up to 12 months maximum depending on the time worked before unemployment) seriously exacerbate social needs.

Social service provision has persistently been an ailing element of social protection. Some expansionary trends over the last decade were instigated by EU-funding for promoting reconciliation of work and family obligations and active labour market policies. A number of social care and employment service "units" were established (such as nurseries, centres of creative activities for children, day care centres for frail elderly people, home-help for elderly and disabled people, and centres for promotion to employment), albeit in a fragmented way. Persistent reliance on EU resources for operating such services, and precariousness of employment for much of the staff (as hirings are on a temporary basis) makes them easy victims of austerity measures. Cost-containment in health care is also high on the agenda of the EU-IMF plan. Surely, the high deficits persistently incurred by the NHS constitute a predicament that needs to be effectively tackled. So far, however, a creeping privatization in the NHS is evident without any strong indications of cost rationalization of the system. Private health spending is high and public hospital merging and closures are forthcoming. [7]

Last, but not least, the recent decision by the government to relax the application of collective (minimum) wage agreements, under the IMF's strong insistence on dismantling labour rights (as a condition for getting the next bailout instalments), lends support to a reform trajectory with serious negative, and most probably, irreversible effects on social protection.

Sources:

Guillen A. & Petmesidou M. (2008) "The public-private mix in Southern Europe: What changed in the last decade?", in Seeleib-Kaiser M. (ed.) *Welfare State Transformations*. London: Palgrave

Papatheodorou Ch. & Dafermos J. (2010) *Structure and Trends of Economic Inequality and Poverty in Greece and the EU, 1995-2008: Theoretical and Empirical Approaches*. Report of the Observatory on Poverty, Incomes, Inequalities and Social Exclusion. Athens: Institute of Labour & University of Athens (in Greek)

Petmesidou M. (2010) *Annual Report on Greece*. ASISP Report. GVG-EU (accessed at http://www.socialprotection.eu).

Notes:

1) The cut-off point is 60% of the median equivalised income (data accessed at http://epp.eurostat.ec.europa.eu).

2) OECD health data, accessed at http://www.oecd.org

3) Data source as in note 1.

4) As trade unions critically stress, the recent labour reform in Spain "makes firing easier, fails to deal with the problem of temporary contracts and gives companies greater discretion at the cost of collective bargaining" (Newspaper "El Pais", September 11, 2010).

5) Interestingly, even the Financial Times (a journal keen on new-liberal policies) admit the harshness of the terms of EU-IMF bail-out loan to debt-ridden Greece. As boldly put by a journalist who foresees the collapse of the Greek economy, sooner or later, under the impact of the unbearable term of the "rescue-plan": "it is as if they were borrowing from a Mafia loan shark to repay an advance from their grandmother" (electronic version of "Financial Times" (November 20, 2010), accessed at http://tinyurl.com/3a57gxa (requires registration at Financial Times site).

6) A comprehensive review of the recent pension reform is outside the scope of this brief.

7) Newspaper "Eleftherotypia" November 18, 2010.

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