Greece – A Year in Crisis

Examining the Social and Political Impact of an Unprecedented Austerity Programme

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- Greece has taken significant steps towards getting its public finances back on track. But the efforts of the government have placed a heavy burden on most Greeks.
- The social impact of the crisis is seen through a record unemployment rate, the closure of businesses, and an increasing number of people facing social exclusion.
- Whereas the Greek society has reacted with considerable maturity, there is a growing estrangement between society and the political system represented by the two major parties PASOK and Nea Dimokratia.
- To sustain support for new measures, three issues must be tackled: Burden sharing and fairness, the Greek public sector, and the unobjective political debate.

Just over a year ago, the European Union and the International Monetary Fund came together to create a 110-billion-euro financial rescue package for Greece, which thus became the first ever Eurozone member to be bailed out. This provided financial support to a country that was teetering on the brink of bankruptcy and political support to a government that faced a mountain of economic problems. Thirteen months later, however, serious questions are being asked about whether the social costs of the economic formula Greece has had to follow are too high and whether the EU–IMF loan memorandum adequately addresses the country's particular structural weaknesses.

Furthermore, the crisis has led to Greeks being portrayed by some European media and politicians as lazy tax dodgers who have well-paid jobs in the public sector that allow them to retire in their 50s. This focus on the more extreme aspects of Greek society is unnecessary and counterproductive at a time when Greeks are facing grave problems, such as an economy in its third year of recession, an unemployment rate at its highest for more than a decade, tax rates and social security contributions that are among the highest in Europe and constant speculation about whether their country will restructure, default or even return to the drachma. This uncertainty has been compounded by the recent political uncertainty created by failed attempts to achieve consensus between the government and opposition parties, culminating in Prime Minister George Papandreou conducting a Cabinet reshuffle on 16 June after reportedly having offered to resign to pave the way for a government of national unity.

1. A Year of Austerity

The past 13 months have seen the Greek government make a major effort to restore order to the public finances. In 2010, Greece reduced its public deficit by five per cent of GDP, which the Organization for Economic Cooperation and Development (OECD) said was the largest such reduction in a single year by any of its members in the past 25 years.

This was achieved by reducing public spending by nine billion euros and increasing revenues by another four billion euros. It has been accompanied by initiatives to streamline Greece's public sector, to reform the pension system, to encourage economic growth by liberalising some sectors of the economy, to reduce the bureaucracy faced by foreign and domestic investors and to set out a blueprint for the privatisation of 50 billion euros worth of state assets by 2015. Such far-reaching economic reforms at such a rapid pace have never been implemented in Greece before.

	% of GDP	€ billions
Public deficit reduction 2009–10*	5	12
Public spending	**3.7**	**9**
Salary and pension cuts	1.2	2.8
Reduction in defence spending	0.9	2
Operational costs	0.7	2
Public investments	0.4	1
Social transfers	0.3	0.4
Other expenses	0.3	0.8
Extra revenues	**1.8**	**4**
Indirect taxes	1.3	3
Capital transfers	0.6	1
Social security contributions	0.4	1

* Figures provided by Greek Finance Ministry

The Greek government has found it particularly difficult to tackle the structural aspects of the country's economic problems for a number of reasons that will be examined later in this paper. As a result, the weight of the fiscal reform programme has fallen almost exclusively on Greek taxpayers. For instance, one-third of the savings in the public sector in 2010 were achieved by reducing wages, pensions and social transfers. Roughly three-quarters of the increase in revenues last year came as a result of rises in indirect taxes and social security contributions.

In early June, the government announced a new package of austerity measures in a bid to save an extra 6.5 billion euros this year and almost 30 billion euros by 2015. This will be achieved by a reduction in the number of employees in the public sector (by 2015, 150,000 civil servants will go), further cuts in defence spending (two billion euros was slashed from the budget in 2010) and more taxation, the brunt of which will be borne by the country's middle class.

2. Impact on Society

Unemployment

The austerity measures are having a serious impact on Greek society. The clearest evidence of this is that 230,000 people have lost their jobs since last year. The unemployment rate in March reached 16.2 per cent – the highest since Greece joined the Eurozone.

Figures compiled by the Hellenic Statistics Authority (ELSTAT) show that the unemployment rate was as high as 42.5 per cent for the 15–24 age group and 22.6 per cent for those aged 25 to 34.

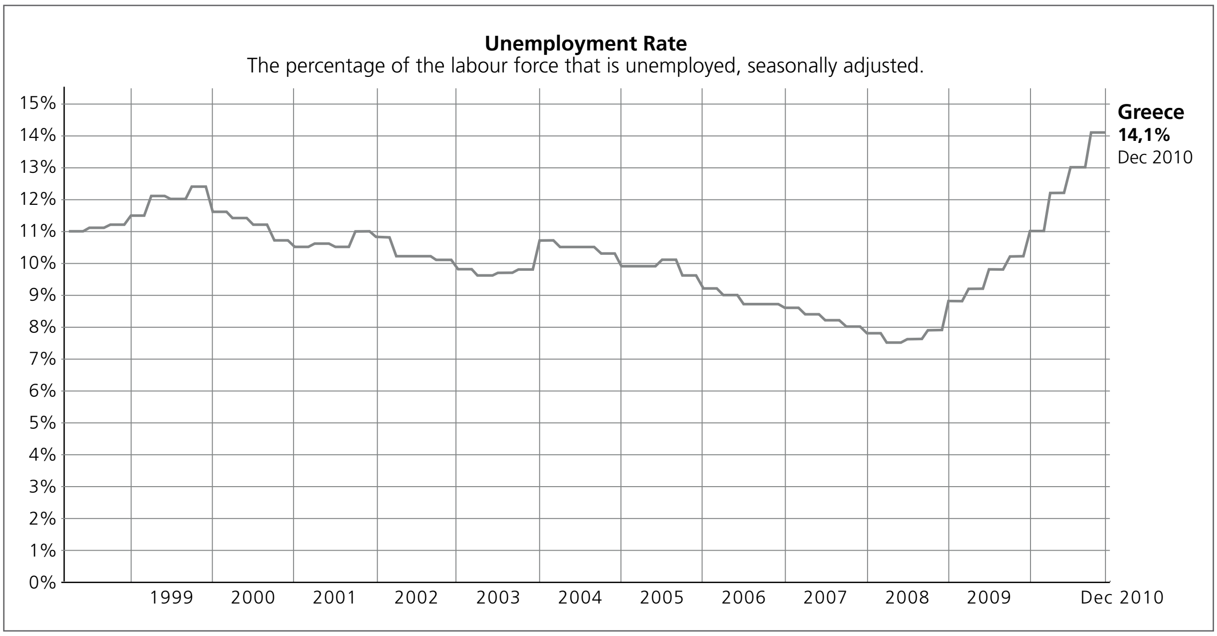
Such high levels of unemployment present two distinct problems for Greece. First, it means that an increasing number of people are being driven to financial ruin because the Greek social security system pays unemployment benefit only for the first 12 months. Of the 811,000 people that are unemployed at the moment, only 280,000 receive state benefits, which are less than 500 euros a month.

A second issue is that Greece has no formal system for helping either young people to enter the job market or middle-aged people who have lost their jobs to retrain for other positions.

Therefore, Greece faces the real possibility that some people will join the ranks of the long-term unemployed while others will choose to leave the country. The Labour Institute run by the country's two main unions (GSEE and ADEDY) estimates there are already five per cent long-term unemployed not included in the current statistics. It expects the official unemployment rate to reach almost 20 per cent next year, meaning that the »real« rate will be 25 per cent.

The director of the Labour Institute, Savvas Robolis, points out that in 1961, when Greeks started emigrating in their thousands, unemployment was at roughly 25 per cent. »Unemployment is going to be the Greek economy's biggest problem this decade«, said Robolis on 9 June.

All the indications are that an increasing number of young Greeks are considering leaving the country to find work, or have already done so. According to a large survey of high school graduates by Kapa Research last August, seven out of 10 said they are considering working abroad.



Source: Eurostat

Closing Businesses

The number of people who have lost their jobs over the past year is an indication of the poor state of the business and retail sectors in Greece, which are being hit severely by the rise in taxes, declining disposable income, lack of liquidity and vanishing consumer confidence.

Unlike many other European economies, Greece relies heavily on private consumption. In fact, it accounts for more than 70 per cent of economic output and the austerity measures taken over the past year have hit it hard.

Consumption fell 8.6 per cent to 39.7 billion euros in the last quarter of 2010, according to ELSTAT, which means that households reduced their spending by 1.6 billion euros compared to a year earlier.

»Consumption is the Greek economy's driving force; production lags behind«, said Napoleon Maravegias, a professor of political science and public administration, on 29 May. »Therefore, a reduction in consumption brings about a serious recession.«

Greek businesses are resorting to either sacking people or reducing their wages. In many cases, private sector workers have had their wages cut by between 10 and 20 per cent. Meanwhile, civil servants have had their salaries slashed by 20 to 30 per cent and pensioners have experienced similar cuts to their monthly retirement payments.

Given that taxes have also increased substantially since last year, Greeks are spending much less. Retail trade decreased by 12 per cent in 2010 and some 65,000 stores are estimated to have closed down.

Another effect of wage cuts has been to put further strain on Greece's antiquated social security system. The Labour Institute estimates that a one per cent reduction in wages means that Greece's main social security fund, IKA, loses 115 million euros in annual contributions.

Social Exclusion

This is particularly significant when it comes to the issue of social care in Greece, which already suffers from low funding and a lack of organization. With an increasing number of people either being left without jobs or having to get by on very low salaries, the demand for some kind of social support is growing. Invariably, people have to rely on non-governmental organizations (NGOs) for assistance.

The *New York Times* reported on 15 May that social workers and municipal officials in Athens found that there has been a 25 per cent increase in homelessness. At the main canteen in Athens, 3,500 people a day come for food and clothing, up from about 100 people a day when it first opened 10 years ago.

The average age of those who seek help is now 47, down from 60 two years ago, which indicates that many of the people now in need of assistance have either lost their jobs or businesses since the crisis began.

However, in the current economic climate, many of the NGOs that provide the social care that the government fails to provide are threatened with closure due to dwindling funds. Meanwhile, the cuts in public expenditure are also having an effect on some of the most vulnerable citizens. The government announced at the beginning of June that it was going to reduce by 50 per cent state subsidies for disabled people to buy equipment, including wheelchairs and prosthetic limbs.

3. Greek Society's Reaction

Given the widespread impact of the crisis and the austerity measures, it is no surprise that Greeks disagree with the way their government, the EU and the IMF have handled this unprecedented situation.

An opinion poll by Public Issue published in the *Kathimerini* newspaper on 12 June indicated that 87 per cent of those questioned believe that Greece is heading in the wrong direction and a similar percentage said they are unhappy with the quality of their lives. Greeks have generally expressed their dissatisfaction in a mature way.

The movement of the so-called »Indignants« has seen thousands of Greeks gather in the main squares of Athens, Thessaloniki and other cities every night since 25 May. Although the protests do have a populist element to them, such as people chanting against the EU–IMF loan memorandum, they have been impressively peaceful and non-partisan.

This is a significant departure for Greece, which is a country familiar with public protests instigated by political parties or labour unions. In the case of the »Indignants«, however, there has been no such involvement and those taking part have strongly resisted attempts by both left-wing and right-wing elements to capitalise on the protests and use them as a recruiting tool. This non-partisan aspect means that these protests, which have attracted more than 100,000 people on some days, have a wide appeal and support.

This apparent breaking of the chains with the country's political parties is a watershed moment for Greece because the existing parties – particularly Nea Dimokratia and PASOK, which have held power exclusively since the fall of the military dictatorship in 1974 – are seen as a root cause of Greece's problems. People have identified the parties' patron–client relationship with the electorate and business interests, which saw the public sector become bloated, inefficient and corrupt and the private sector held back by bureaucracy and stubborn unions, as perhaps the most significant factor in the undermining of Greece during the past four decades.

The second trend that indicates political maturity is the overwhelming rejection of populist ideology or the idea that there is an easy way out of Greece's current problems. For instance, another Public Issue poll published on 22 May indicated that 66 per cent of Greeks are against a return to the drachma. Despite scepticism about the EU's role in tackling the Greek crisis, 58 per cent of Greeks still believe that being part of the euro is good for the country. When the euro came into circulation in 2001, the figure was 72 per cent.

The rejection of a simple solution to the current crisis is also evident in the failure of the main centre-right opposition party, Nea Dimokratia, to gain any traction in the opinion polls despite the fact that for more than a year it has been vehemently opposed to the EU–IMF plan and has made two separate attempts to launch alternative schemes that included widespread tax cuts. Although the opinion poll of 12 May indicated that the ruling PASOK party had fallen four per cent behind Nea Dimokratia, the conservatives only gathered 31 per cent support: this is 2.5 per cent less than the party won at the 2009 general elections, which was its worst ever showing in a national vote. There have been marginal gains for the third-placed Communist Party (KKE), the right-wing nationalist Popular Orthodox Rally (LAOS) and the Coalition of the Radical Left (SYRIZA). However, their somewhat extreme positions on issues ranging from economic policy to immigration mean that it would be difficult for either PASOK or Nea Dimokratia to work with them. Two new smaller parties – Democratic Left, made up of more moderate leftists, and Democratic Alliance, a centrist grouping – have benefited from the dissatisfaction with the existing political system. They are polling at around the three per cent threshold that would lead to them gaining seats in a general election.

Despite the relatively measured political reaction to the crisis, it is clear that Greek society is approaching the limit of what it can take. The round of austerity measures announced by the government in June appears to have been the tipping point. PASOK's ratings fell by five per cent in 30 days and the approval rating of Prime Minister George Papandreou dropped by an equally notable eight per cent.

As things stand, most polls show that no party has enough support to win an outright majority at a general election. Greece has a brief and unproductive history of coalition governments, so the rejection of the current political system has added an extra element of uncertainty to the country's future. This was underlined by the failure of Papandreou and Nea Dimokratia leader Antonis Samaras to agree on a common policy platform on 16 June, when the prime minister sought to create a government of national unity. The deal collapsed and left Greece's political scene strongly polarised.

4. What Next?

No More Taxes

There is increasing pressure on the Greek government, the EU and the IMF to review the austerity programme. One area that must be examined is taxation. Greece has the third-highest VAT rate in the EU, the third-highest social security contributions and the second-highest duty on petrol. The price of petrol in Greece has virtually doubled in the space of two years, whereas it took a decade for this to happen in the UK.

The latest measure of imposing an extra tax of between one and four per cent on income has been particularly unpopular, as has the decision to raise VAT for restaurants and cafes.

The tax hikes are coming at a time when Greeks' jobs and salaries are under severe threat and there is a growing sense of unfairness about who is paying for the crisis. This is to a large extent because the government has failed to stamp out tax evasion.

Contrary to popular belief, roughly two out of three Greeks pay their taxes: civil servants or private sector employees whose tax and social security contributions are deducted at source. The rest of the workforce is made up of self-employed professionals, among whom tax evasion is relatively high, which means that tax revenues in Greece are roughly five per cent of GDP below the EU average. The government has yet to get this problem under control.

Furthermore, it has been reported that Greeks transferred close to 40 billion euros to foreign banks last year, adding to the feeling of injustice among taxpayers who believe the government is doing too little to track down tax evaders and make them pay. The Finance Ministry plans to raise three billion euros in revenues this year just from tackling tax evasion and said it is working with authorities in Switzerland and other countries to obtain further details about people who have transferred their money abroad.

One of the reasons the government has not yet been able to tackle tax evasion is not necessarily a lack of political will but the weakness of the state. It simply does not have the specialised manpower, the tools and the know-how to make noticeable progress.

A More Efficient State

One of the major failings of the EU–IMF memorandum is that it did not take into account Greece's dysfunctional public sector, which acts as an obstacle to reforms.

For example, tax offices are overwhelmed, town planning offices are one of the greatest sources of corruption in the country, the judicial system is slow and complicated (the country's highest administrative court, the Council of State, has a backlog of more than 30,000 cases), hospitals do not have computerised records of purchases, legislation for setting up a business is unnecessarily complicated, the performance of civil servants has never been assessed and there is little »esprit de corps« within ministries and the broader civil service as each change of government or minister has led to top officials being replaced.

The failure to tackle this problem has an economic impact: for instance, Greece was entitled to 4.2 billion euros in EU funding between 2007 and 2013 from the European Social Fund to support programmes to promote employment and social inclusion but so far it has claimed only 18.5 per cent of this. The main reason for this is that the public sector is too inefficient to absorb this funding.

But beyond the cost of these failings, there is a social dimension: again, Greek taxpayers feel they are paying a high price and getting very little in return.

Public education is a good example of this. In a report at the end of May, the European Commission-funded Network of Experts in the Social Sciences of Education and Training (NESSE) indicated that Greek families that send their children to state schools also spend 952 million euros a year on private tutoring. This outlay is equal to 20 per cent of the government's annual spending on education. To put it into perspective, NESSE's report indicated that in Germany, which has a population roughly eight times larger than Greece, only between 900 million and 1.5 billion euros are spent on tutoring each year.

Therefore, it is necessary for Greek society that some kind of plan is introduced not only to make the public sector cheaper and smaller but to also make it more efficient and responsive to people's needs. If the government, the EU and the IMF were able to set out how this could happen as part of a vision for Greece going forward, it would help substantially to keep the public on board with regard to the other measures.

Reversing the Stereotypes

One of the reforms the government has embarked on is the privatisation of state-owned assets. At the beginning of June, it agreed to sell another 10 per cent of OTE Telecoms to Deutsche Telekom. Contrary to the impression given by some reports, there is not widespread resistance to such sales. In fact, recent opinion polls show that the majority of Greeks support privatisations, particularly of state-owned enterprises, such as the Hellenic Railways Organization (OSE), if they are a drain on public finances. There is, however, concern about Greece selling under pressure and, therefore, not at the best price or to the bidder that is in the public's best interests.

The opposition from the trade unions, with the exception of the Public Power Corporation, which has a militant workers' group, has also been fairly mild. The trade unions once exercised significant influence over governments due to the political links between the two, but this has diminished significantly over the past few years, particularly since the crisis began. Their tactic of organising strikes is not having an impact on the decision-making process and the fact that people are organising their own, much larger, protests means their authority has been considerably undermined. An examination of privatisations in Greece in recent years, such as Olympic Airlines, OTE Telecoms and the Piraeus cargo terminal, shows that whenever governments have displayed the political will necessary to see the process through, the unions have not been an obstacle.

The image of all-powerful unions holding up the current reform process is one of several clichés about Greece that have hampered proper debate within Europe, damaged the morale of Greeks and given rise to nationalistic tendencies in some countries.

It is a source of frustration in Greece that the international media and some European politicians seize on some aspects of Greek society and present them as the general rule. These include the impression that Greeks are lazy, they all evade their taxes, most of the population has comfortable public sector jobs, they retire too early and take too many holidays.

In fact, all of these are misrepresentations:

- According to 2011 Eurostat figures, Greeks work an average of 42.1 hours a week, which is the highest in the EU and six hours more than their German counterparts.

- At least two-thirds of Greeks pay their taxes unfailingly.

- Less than a quarter of Greeks – and soon 150,000 fewer – are employed in the public sector where the average salary is being reduced to below 1,500 euros.

- According to Eurostat, the minimum retirement age in Greece last year was 61.4. In Germany, it was 62. The pension reform bill voted through the German Parliament in 2007 aims to raise the minimum retirement age to 63 by 2029. The pension law passed in Greece last year will raise the retirement age to 63.5 by 2015.

- A study by Mercer Human Resource Consulting found that an employee in Greece with 10 years' service will have a total of 37 days' leave each year (12 of them public holidays), while their colleagues in Germany will receive 33 days off (13 of them public holidays).

The fact that these stereotypes have become part of the public debate, either through the tabloid media, such as Germany's Bild-Zeitung, or through populist parties such as the True Finns and the Dutch PVV (Freedom Party), is damaging the efforts to find a proper solution to Greece's problems because it feeds sensationalism in the lender countries and antagonism in Greece. It is, therefore, important that a sense of reality is reintroduced to the process of tackling the Greek crisis if both the European and the Greek public are to keep supporting the efforts.

5. Conclusion

Greece has taken some significant steps towards getting its public finances back on track but clearly much more is needed. The fact that the country is in a deep recession and that this effort is based almost exclusively on reducing public spending and increasing revenues through greater indirect taxation has placed a very heavy burden on most Greeks.

The social impact of the crisis is reflected in the record unemployment rate, the closure of shops and businesses, and an increasing number of people facing social exclusion.

Greek citizens have reacted to these testing times with considerable maturity. Rather than turn to violence or populism, they have favoured peaceful protest aimed at the country's failed political system. They largely remain committed to the euro and do not believe there are any easy solutions to the country's problems. However, the shift in opinion means that Greece's political future seems uncertain.

As the government embarks on a new round of austerity measures, it is clear that an effort will have to be made to keep the majority of the public on board. Greece and its partners will have to pay particular attention to introducing a sense of burden sharing and fairness with regard to taxation; presenting a coherent vision of how the public sector can be reformed to become more modern and efficient and not just cheaper and smaller; and dispelling some of the stereotypes that are unfairly damaging Greece's image and feeding scepticism domestically and across Europe.

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