The welfare state in Greece

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The Greek welfare state is at a critical point. Its late development, the influence of both social democratic and liberal traditions and the lack of a coherent structure, the fiscal austerity inherited from the period of the integration of the country in the EMU and established afterwards, increased demands from the unemployed, the poor and an aging population, chronic demands for higher public education and public health spending, the annoying realities of intense income inequalities and high poverty rates have created a difficult but interesting situation for the analysis of the prospects and limits of social policy in a capitalist economy. For the moment they have turned the direction of the still emerging (and in some areas already retrenching) welfare state towards a marginalist, liberal cash- benefit oriented model that tends to the needs of selected groups officially stamped as the "really needy" and neglecting any social policy measures which could possibly promote solidarity and social citizenship.

What is the welfare state?

The growth of what is usually called the welfare state is one of the characteristic features of modern capitalist economies. However, it is difficult to define it precisely, and it has come to mean different things for different people in different countries. Depending on the author, and the particular theoretical field (orthodox economics, political economy, political science, sociology) it is treated in the literature or in public debate and political discussions as

a) a set of policies and arrangements (at a minimum concerned with social insurance and social welfare) which mark the functions/responsibilities of the modern state,

b) an institution which shapes individual attitudes and behaviour, it influences work effort and savings and the way the labor market functions and therefore affects production conditions, productivity growth and economic performance,

c) an entire socioeconomic system, a variant of capitalism ("welfare capitalism") or a stage between capitalism and socialism.

What caused the development/growth of the welfare state? Left attitudes on the welfare state:

It could be argued that there is currently almost unqualified acceptance of the institutional arrangements related to welfare state activity in Left circles. However up until the mid to late 1970s most people in the Left (especially the marxist tradition in the political economy literature) used to view typical welfare state arrangements **negatively** or at best with suspicion and regard it either as a:

-Bismarck's authoritarian construct for the legitimization of the system and the incorporation of the working class,

-Beveridge/social democratic conception for "social engineering" with the purpose of alleviating intense class conflict and the explosiveness of acute social problems,

-a necessary by-product of the industrialization/proletarianization process in advanced capitalism, of the changing requirements for the reproduction of labor power, as well as a result of demographic developments
-a system exercising tax exploitation against the working class, the flip-side and necessary complement of the "warfare state" for the legitimization of the system (O'Connor, 1973),
-a "so-called welfare state" that could not possibly be structured around the interests of the working class (Shaikh, 1984);
-an institution regulating and replenishing the reserve army of labor (and wage pressure, inflation, etc) especially in periods like the current one when "flexibility" and "employability" of labour acquire priority. Long-term unemployed and discouraged workers are not useful for capital as they do not exert downward pressure on wages. Thus, "workfare" policies which swell the ranks of the reserve army help discipline labor (especially at the lower end of wages). The more the reserve army is "employable" its deflationary effect in holding down wages will be heightened.
-an institution based on the interests of male industrial/production workers excluding women and certain social strata and minorities.
-A compromise (involving social classes and the state) and a response to what went on before (mostly the Great Depression experience). This compromise has been eroded as one of its poles (the working class and the socialist camp) has lost power. The welfare state thus remains "a great contradiction" within advanced capitalism.

But there were also **positive views** as well, especially around the end of the "golden age" period of postwar growth which regarded the growth of the welfare state as:
-a product of the social and political pressure by leftist parties and labor unions creating a redistributive vehicle in favour of the income and standard of living of the working class,
-a major institution playing a crucial role in determining the incomes of the majority of the population and has permanently and irreversibly transformed the nature of advanced capitalist economies (Therborn, 1984, 1986)
-the most important part of the strategy for the transformation of capitalism into socialism (passing from political democracy and social democracy to economic democracy through the expansion of the welfare state in a particular universalistic, solidaristic direction in the manner of Scandinavian social democracy, Esping-Andersen (1984, 1987. 1990), Korpi (1984), Stephens (1979)

And as things have become worse for labour due to the attack by capital and the state since the late 1970s and early 1980s, it has been regarded as:

-a functional requirement for the smooth and successful operation of the capitalist economy.
-welfare state is not "so-called" any more. Some leftists even try to show that it is helpful/consistent with economic efficiency.
-a necessary institution for income maintenance of the workers and the poor which needs to be defended against neo-liberal attacks. There is fear that there will be a convergence of welfare states through a race to the bottom even though it has not occurred yet to a significant extent. Instead there is a turn from universalism to individualism and the emergence and dominance of a "third way" of social policy which has as a "chief goal to integrate rather than to segregate the poor. The policies

are targeted at relatively small groups, the assumption being that social problems are restricted to small but intransigent groups" MacGregor, (1999, p.109).

Understanding as clearly as possible the nature, the effects and the possible limits of the welfare state is of paramount importance because in the debate about its future course, its effects on the economy and the society, and the responses on the efforts for curtailing or restructuring it, our position has to be based on our broader vision about the prospects regarding the transition to a socialist economy and society as well as on our critique of the most adverse aspects of the present socioeconomic system.

Welfare state effects:

Economic aspects/effects:
The prevalent view in the mainstream literature emphasizes the following mostly negative effects:
-disincentives to work either from high taxation or "welfare dependency", therefore negative effects on labor supply and labor market functioning, increase in the unemployment rate by lengthening job search,
-the social security system lowers private savings, hence (in the savings-investment nexus) it lowers investment and economic growth,
-negative effects on public finances which in the current era of "globalisation" (intensified internationalization of capital) result in outflows of financial capital and problems for the real economy as well,
-positive effects on the demand side but negative effects on the supply side from low private savings and low work effort ("There is a risk that the welfare state will destroy its own economic foundations. That risk is today a reality in several countries" Lindbeck, 1995, p. 9) .
-alleviation of income inequality and (extreme) poverty which in some versions may have positive effects on labor productivity and economic growth

Sociological effects/aspects:
-creates or improves social cohesion,
-avoids marginalisation of large segments of the population but creates "welfare dependency" problems with negative effects on labor supply
-discourages or eliminates anti-social behavior, strengthens family and community ties.

Political aspects:
-welfare capitalism as a distinct system (variant of capitalism), the development of welfare state (in its Scandinavian social democratic form) creates a vehicle suitable for the transition to socialism.

Mainstream (not necessarily neoliberals) economists have long argued the welfare state has become a drag on growth leading the way for an attack and a serious curtailment of its range. They have been more successful and influential where the welfare state had advanced the least (mostly in the US, but also in the UK) but also in Europe lately. Their arguments have been criticized on theoretical and mostly empirical grounds by theorists like Korpi (2000), Atkinson, and Maddison.

"It is difficult to reach strong conclusions on the influence of the welfare state on economic development because the evidence does not warrant them. Strong judgments on the question are influenced mainly by ideological positions, or predictions about what might happen in the future" (Maddison, 1984).
More recently, Sandmo (1995) and Atkinson (1999) have reiterated this point based on the experience of the fifteen years which have intervened.

From a radical/marxist point of view, Shaikh (2003) has commented that the mainstream arguments regarding the effects of the welfare state:
(Welfare) state growth ---→ public deficits ↑---→ growth slowdown
do not hold since the period of healthy economic growth coincided with welfare state expansion and there were public surpluses and negative (small) net social wage for labor. Later, as
growth slowed down ----→ unemployment rate ↑, net social wage ↑, public deficit ↑
hence the correlation between public deficits and positive net social wage for labor that were both consequences of the (independently caused) slowdown in growth.

Thus, underlying the attack on the welfare state was the faltering of the long post-war boom; Whatever public deficits exist(ed) were a result of that slowdown and they were not caused by the subsidization of the income of labor (see, Shaikh, 2003). However, since the response to the economic crisis took the form of redistribution in favour of capital, the welfare state was attacked, and checked in its growth in order to save resources and place them at the discretion of capital in order to facilitate the process of accumulation.

Historical evolution of the welfare state in Greece

The Greek welfare state is a "late" welfare state which started to develop beyond its embryonic stage only a few years after the fall of the military dictatorship in the late 1970s – early 1980s. That was the time of the first neoliberal attacks on the welfare state in Europe and the US since it was regarded as one of the fundamental causes for the stagflationary experience of the period.

Petmesidou (1996) provides a fairly accurate picture of the development of the welfare state in Greece but this study stops at c.1993 and gives the impression that the system is collapsing and some irreversible regressive reforms and drastic cuts were occurring in the beginning of the 1990s. The study misses the relative increase in social expenditures that has occurred since then, but makes the (still valid) crucial point that social citizenship (universality, social solidarity) had not developed sufficiently in Greek society at the time the welfare state crisis erupted.

Possible reasons for the late development of the Greek welfare state:
-Even in the 1970s it was not long since the early phases of intense capital accumulation in the country. Greece in the 1950s and 1960s was in an early stage in the process of accumulation of capital,
-relatively low percentage of wage and salary earners in the economically active population, large segments of self-employed agricultural workers relying on family and own production for their reproduction,
-defeat of the Left in the civil war

-state controlled labor unions
- emigration as a way consciously used by the government in order to solve problems of employment, low unemployment, low share of wage labor in total labor force,
-"Hegemony" by suppression of dominated classes not by incorporation/legitimization
-demographic profile
-strong family role as in all other south European countries

It is quite telling that there is almost a complete absence of studies (also due to lack of sufficient statistical data) measuring income inequalitiy and poverty (with Karageorgas (1973), Karageorgas (1977) probably being the first in this direction). There is virtually no reliable estimate of inequality and poverty for the whole country before 1974.

In addition, it should be noted that the first steps towards establishing the pillars of a welfare state attempted by the Centre governments of the 1960s were violently interrupted by the period of the military dictatorship which neglected social spending and related social policy measures. In addition the first years after the fall of the military dictatorship placed the burden of increased defense expenditures (due to the conflict with Turkey over Cyprus) on the state budget leaving small room for increases in social spending.

It is interesting to note in table 1 below the different trajectories in economic growth and in social policy measures (and expenditures) which Greece and the EU have experienced since the early 1980s. It is obvious that the experiment of creating a welfare state in Greece started in a context of unfavorable economic conditions, nationally and internationally, which explains its problematic development since then.

Table 1
GDP growth and social security transfers as a percentage of GDP, Greece and EU15.

	1960-1973	1973-1979	1979-1989	1989-1997	
		GDP growth (%)			
Greece	7.7	3.7	1.8	1.5	
EU 15	4.7	2.5	2.2	1.7	
	GDP	**Per**	**capita (%)**		
Greece	7.1	2.6	1.2	1.0	
EU15	4.0	2.1	2.0	1.3	
	Social	**Security**	**Transfers /**	**GDP***	
Greece	7.1	8.1	13.5	16.9	
EU15	11.4	15.2	17.3	20.3	

*Social security transfers consist of social security benefits for sickness, old age, family allowances, etc., social assistance grants and unfunded employee welfare benefits paid by general government.
Source: OECD, Historical Statistics, 1999.

As we will see below, if we adopt a somewhat different definition of social security expenditures, there has been a process of convergence in terms of social protection expenditures as a percentage of GDP, but Greece is still seriously lagging behind other EU countries in terms of other social indicators like equality of income and fighting poverty situations for large segments of the population.

Description of the current state and recent developments in the social situation:

The Greek welfare state as it has developed in the past two decades (in an unplanned, spontaneous way) shares certain elements and typical characteristics with all four welfare state models/regimes of Esping-Andersen's and Ferrera's typology (Esping-Andersen, 1990, Ferrera, 1996).

First, it is marginalist, in its arrangements, selective, non-universal and for the most part provides low levels for most types of social benefits ("low social protection", high poverty rates, intense inequalities, absence of national basic pension schemes or guaranteed minimum income for the population are characteristics that pertain to the liberal welfare regime).

Secondly, it is corporatist/actuarial (and the government is increasingly trying to transform it in this direction) as far as social insurance (especially pensions) is concerned with some generous isolated cases (though mostly overstated in numerical significance and applying probably only to some cases for employees/pensioners in public enterprises) and the majority of pensions stuck at low levels.

Thirdly, ironically, even though the welfare state in Greece has been developed almost exclusively by center and social democratic governments it is social democratic only in the forcefulness (in the sense of rapid expansion of public expenditures but with no coherent plan and vision) with which it developed in the 1980s.

Fourthly, it resembles the "southern" model as a synthesis of the above (also with regard to its universal but insufficient and expensive health care system). Its clientelistic features have to do mostly with public sector jobs (in exchange for political support) instead of the provision of welfare benefits.

Finally, its redistributive effect vis-à-vis the working class is minimal (virtually zero) and very similar to that of the US welfare state.

Public attitudes towards the welfare state:
Public opinion polls place unemployment, poverty and social exclusion at the top of the list of people's major concerns/worries and certainly not "welfare excesses", and "welfare dependency", which are totally absent from such lists.

Not only the opposition parties of the Left but also the government are now in favor of expanding the welfare state instead of rolling it back. The government in particular very often uses in its rhetoric arguments and promises for social protection, social coherence, and a "strong society" achieved through social policy.

The major opposition party, the right-wing New Democracy does not deny that more social protection is needed (it actually fares much better than the social democrats among the unemployed, pensioners and farmers in public opinion polls) but it is hesitant to propose an expansion of social programs and social spending (especially since there was explicit opposition to this prospect by employers' organizations, in the fall of 2003). Instead, it focuses on the efficiency of social spending and points out that the poverty rate does not change by much (the poverty rate falls from 22% to 21%) after social transfers. However this is mostly due to the fact that those social transfers referred to, do not include pensions, which contribute in producing one of the lowest poverty rates in the EU (22% in Greece compared to 26% for the EU-15 average in 1999). The above statistic more than anything else implies that non-pension social benefits (around 50% of the total recently in Greece and 45% in the EU) are not effective in reducing poverty because they are not high enough.

PASOK shares in part ND' s approach in the sense that it has abandoned all universalistic ambitions in the direction of social policy and tries to focus on the "really needy" for social protection persons or families. In fact both parties explicitly regard the family and not the individual as the object/unit of social policy.

In Greek society up to now, despite the persistently high rate of unemployment it is not the unemployed as individuals who are stigmatized and blamed for their situation. Instead there is a strong effort (but largely unsuccessful) to alleviate this problem by training and other active labor market policy measures, which are now taking the form of subsidizing firms in order to hire unemployed people for some time.

Since there is no generosity in benefits (regarding mainly basic pension, minimum wage, level and duration of unemployment benefit) there has been no "welfare state backlash" against recipients. The latter attitude is evident only as far as the "waste" of administrative costs are concerned.

Using a revised definition, **Social protection expenditure as a percentage of GDP (ESSPROS)** in Greece now approaches the EU15 average (26.4% in Greece compared to 27.3% for EU 15 in 2000, with this difference being five percentage points in 1991, and the catching up being mostly a result of the relative stagnation in EU since this ratio changed from 26.4% in 1991 to 27.3% in 2000, and it actually fell from 28.8% in 1993). However, social expenditure per capita in PPS remains the third lowest in EU15 being around two thirds of the EU average.
Figure 1 below shows total social spending (from the Social Budget) as a percentage of GDP as well as social benefits received by wage and salary earners only as a percentage of GDP (old series and revised data) for the 1960-1995 period. The two series move together and the two episodes of increased social spending and welfare state buildup in the early 1960s and the 1980s are quite evident.

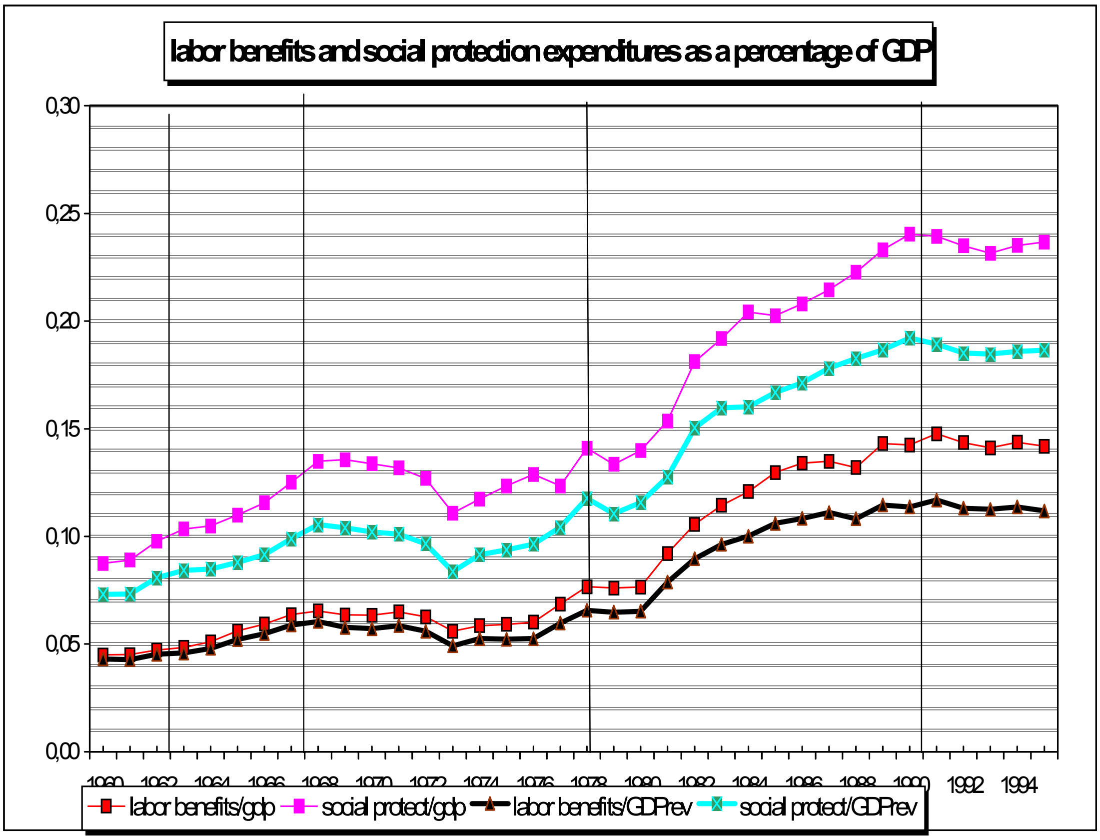

Figure 1: labor benefits as a percentage of GDP and total social spending as a percentage of GDP

In trying to overcome the difficulties that stem from the discontinuities in the data[1] in table 2 below, we observe how the different measures of social spending as a percentage of GDP have behaved in the 1990s. Spending defined according to ESSPROS has increased while spending as defined in the annual editions of the Social Budget has remained mostly constant during the decade.

[1] There are two definitions of social spending, one in the Social Budget and one (giving higher figures) according to ESSPROS. There are also two definitions of GDP, one that goes until 1995 (old series) and one from 1960 until 2000 with generally higher figures (according to ESA).

Table 2
Social spending/GDP , Greece and EU15

YEAR	Social protection spending/GDP	Social protection spending/GDP revised	Social protection spending/GDP revised (ESSPROS)	Social protection spending/GDP EU15 (ESSPROS)
1990	24.0%	19.2%	23.2%	25.5%
1991	23.9%	18.9%	21.8%	26.4%
1992	23.5%	18.5%	21.5%	
1993	23.1%	18.5%	22.2%	28.8%
1994	23.5%	18.6%	22.3%	
1995	23.7%	18.7%	22.6%	
1996		19.4%	23.1%	28.4%
1997		19.5%	23.6%	28.2%
1998			23.7%	27.7%
1999			24.6%(25.4%)	27.6%
2000			25.5%(26.4%)	27.3%

In Atkinson (1999) the following break up is proposed in order to decompose the changes in social spending.

$$\frac{SocialSecurityBenefits}{GDP} = \frac{averagebenefit}{averagewage} \cdot \frac{averagewage}{GDPperwor\ker} \cdot \frac{recipients}{wor\ker s} =$$

= Replacement rate x wage share x dependency ratio

The first term reflects the generosity of the system the second term the share of GDP which goes to labor and the third term the developments regarding demography and unemployment (recipients = active laborers + unemployed + (wage and salary) pensioners)

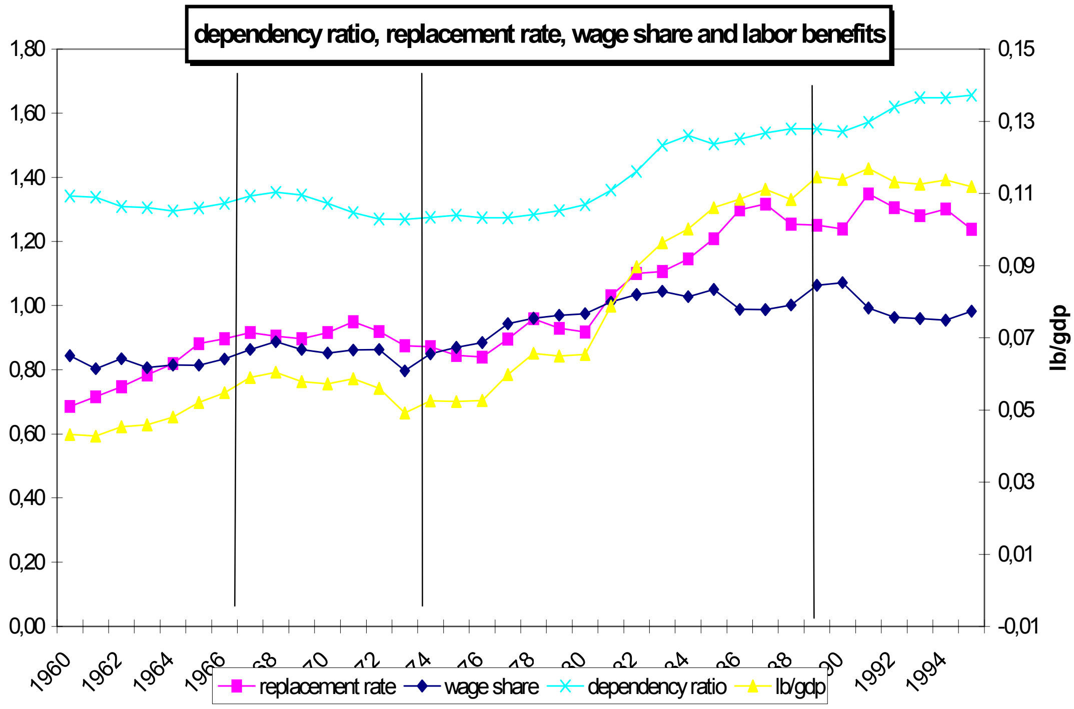

Figure 2: dependency ratio replacement rate wage share and labor benefits as a percentage of GDP

It is evident from figure 2 that both in the early 1960s and in the 1980s it was the increases in the replacement rate that caused most of the increase in the ratio of labor benefits to GDP. Also we observe that the increase in the dependency ratio continued to increase in the 1990s initiating the neoliberal attacks of the time against labor wages and its welfare benefits.

Another way to look at the generosity of the system is to look in figure 3 below where we observe the development of the ratio of the unemployment benefit relative to the minimum wage and the average wage in the economy.

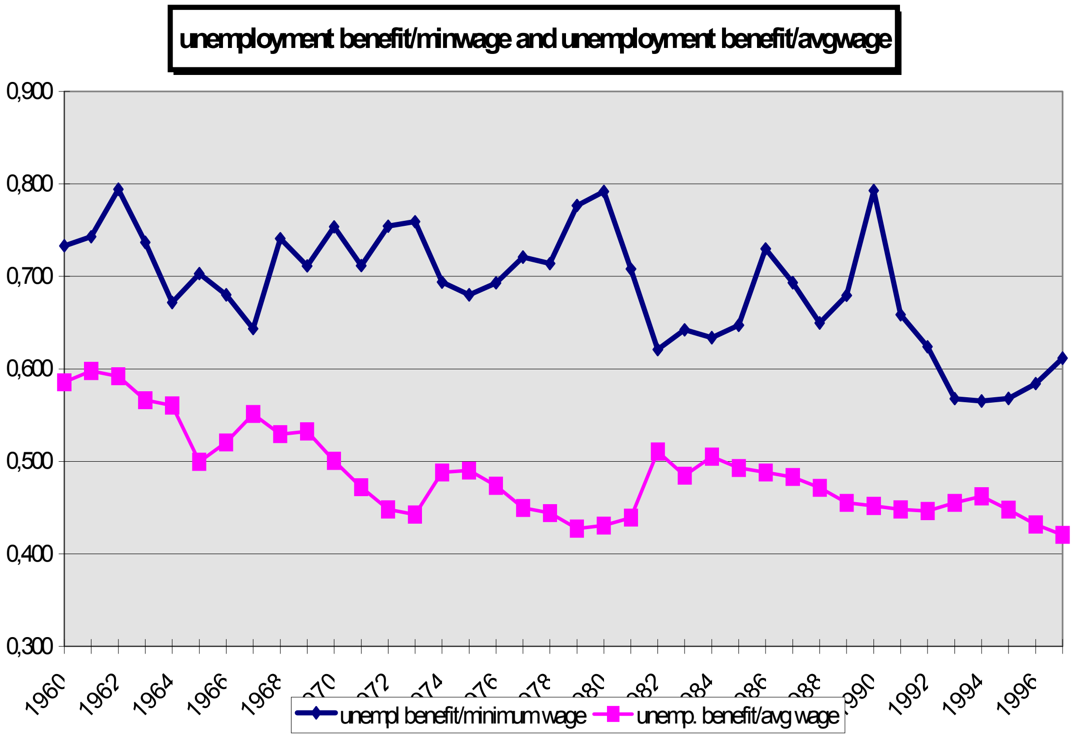

Figure 3: Unemployment benefit as a share of the minimum wage and unemployment benefit as a share of the average wage, 1960-1997.

As figure 3 shows unemployment benefits as a percentage of the average wage follows a clear downward trend for almost all the postwar period. On the other hand unemployment benefit as a percentage of the minimum wage is more or less constant until 1990 and declines in the early part of 1990s then reversing this trend from 1994 until 1997. Even though economists focus on unemployment insurance as a major factor of labor market functioning, expenditures for unemployment benefits represent quite small fractions of total public and social spending.

We can also look at the relationship between welfare state development as expressed either by rising social protection expenditures and/or by the behaviour of the net fiscal position of the working class and the (private) savings rate.

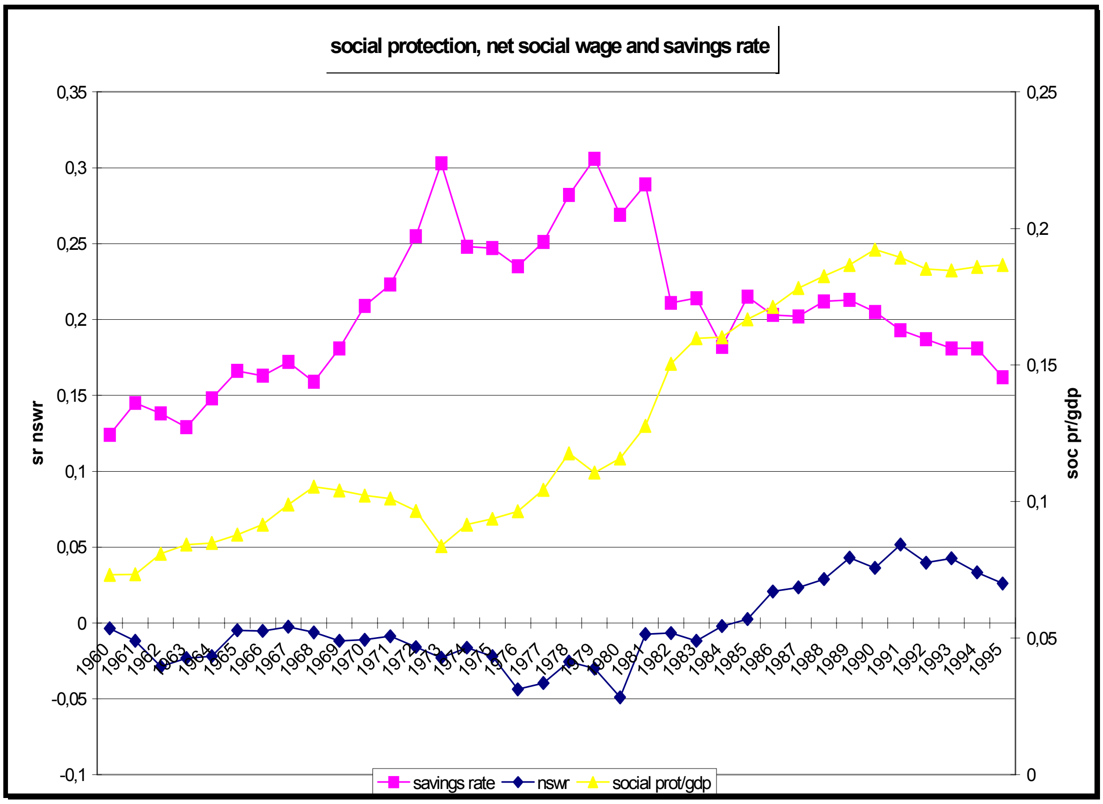

Figure 4: welfare state effort and private savings rate

At first sight the fall in the private savings rate (for both households and firms) did begin to fall with the development and maturation of the welfare state but this may have been a result of the fall in profitability and the subsequent fall in growth rates, which resulted in lower incomes and lower savings.

Finally we should note that benefits derived from the state for the working class have remained cash-oriented especially after the 1970s when the welfare state developed. As figure 5 shows the "decommodification effect" of the growth of the welfare state was low in the early stages of the welfare state and diminished steadily over time as welfare policy placed emphasis on monetary transfers rather than on collective consumption services provided by the state. The latter have not surpassed the level of 10% of wages and salaries, which remain by far the predominant source of net income for labor.

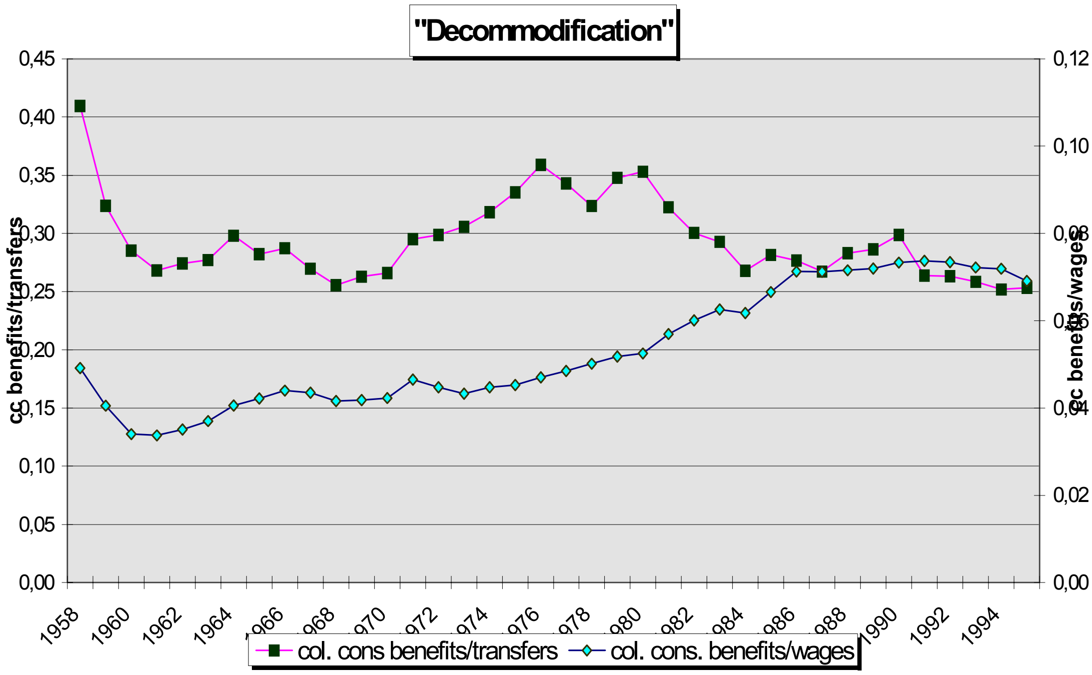

Figure 5: Structure of labor benefits and collective consumtion benefits as a share of wages.

Employment-Unemployment

Greece is second from below (next to Spain) in terms of the employment rate with 55.4% in 2001 compared to 64% for the EU15 and 71.7% in Sweden, 76.2% in Denmark and 68.1% in Finland as a way of comparing the Greek situation with the social democratic model which openly encourages labor force participation and (mainly) public sector employment.
The same applies to the unemployment rate which stood at 10.5% (7% for men and 15.6% for women and 5.4% for long-term unemployment) in 2001 compared to 7.4% (6.4% for men and 8.5% for women and 3.2% for long-term unemployment) for EU15.

Clinton's 1996 Personal Responsibility and Work Opportunity Reconciliation Act affected Labor in Britain which turned in this direction (with New Labour concerned not about equality of outcome but equality of opportunity placing emphasis on economic growth instead of redistribution) but this "welfare reform" or "welfare to workfare" switch is not relevant for the situation in Greece regarding either public assistance and/or unemployment benefits.
It could be safely argued that public pressure falls on the part of government to create job positions and not on the unemployed to accept job offers. The few cases of plant/firm closings have been taken seriously, not shrugged off as inevitable outcomes of a new and flexible economy. Of course there are calls for labor market flexibility, new production patterns, greater reliance on knowledge and education, employability, no job for life all as requirements for increased competitiveness in the new world

economic environment. The situation now is not characteristic of what has been described as “Eurosclerosis”. There exists at the same time high unemployment and inadequate social protection for the unemployed or the discouraged workers.

Also, the weak and undeveloped welfare state (especially at the time when the unemployment rate was rising) did not help in achieving flexibility and economic adjustment in a short period of time and high unemployment has persisted for some time now. This contradicts the finding in orthodox economic literature that the degree of persistence of unemployment depends significantly and positively on the benefit duration variable, but not on the replacement rate, Layard, Nickell, and Jackman (1991). There are differences in the institutional structure of unemployment benefits in different countries but certainly there is no unlimited duration as it is assumed in the economics literature and in some cases there exist very strict eligibility requirements regarding (even recent) contribution conditions, efforts to search for new work, availability for any new job offer, income of other household members, reasons for losing the previous job (check MISSOC for specific conditions, similarities and differences among member countries).

The public institution handling unemployment insurance and benefits (OAED) was founded very late, in 1954 and it is the first time in its history that faces situations with high and persistent unemployment.

In Greece (as opposed to Germany for example where there were cuts recently in this field) the direction is more towards extending coverage in terms both of eligibility requirements and benefit duration (MISSOC shows no changes for Greece between 1995 and 2000).

Overall, it could be argued that (due to the inadequate protection before that period) Greece is one of the few cases (the others mostly in continental Europe) where when unemployment rose in the 1990s, benefit levels and duration as well as eligibility were not reduced. UK cut drastically unemployment benefits and Germany has done so recently. Austria, Belgium, Finland and Netherlands did so before that.

However, as mentioned before unemployment benefits are a very small fraction of the overall social budget and the same applies for most of the other non-pension benefits like maternity, family, housing, recreational benefits that are low in level and limited in coverage.

Income Inequality-Poverty

The trend of income inequality and the poverty rate: After a great decline in income inequality between 1974 and 1982 (which occurred mostly in the last year of this period) inequality had remained remarkably constant at least until 1994. The poverty rate has followed a similar trend but its absolute level (even though its meaning is not clearly comprehended in relevant discussions) is regarded as unacceptably high by public opinion.

Again, despite the increases in social spending that we mentioned in previous sections, income inequality has remained quite high by international standards and poverty rates (even though what is measured is again income dispersion and not fulfillment of absolute needs) are high and persistent.

In table 3 the situation in inequality and poverty in Greece and EU15 is depicted and again we observe that Greece is second from the bottom in 1997.

Table 3
Degree of inequality in the personal income distribution and poverty rate in EU countries, 1997

Countries	Poorest fifth	Second fifth	Third fifth	Fourth fifth	Richest fifth	S80/ S20	Gini	Poverty Rate 1999
Denmark	11	15	19	23	32	3.0	0.21	11%
Sweden	11	16	19	23	33	3.1	0.22	9%
Finland	11	15	18	22	34	3.2	0.23	11%
Austria	9	14	18	23	35	3.7	0.26	12%
Netherlands	9	14	18	23	36	3.9	0.27	11%
Luxembourg	9	14	17	23	37	4.0	0.28	13%
Germany	9	14	18	22	37	4.3	0.28	11%
France	8	13	18	23	38	4.5	0.29	15%
Italy	7	13	18	24	38	5.5	0.31	18%
Ireland	8	12	16	23	41	5.1	0.33	18%
UK	7	13	17	23	40	5.8	0.33	19%
Belgium	8	13	16	21	42	5.5	0.34	13%
Spain	6	12	16	23	42	6.5	0.35	19%
Greece	6	12	17	23	42	6.7	0.35	21%
Portugal	6	11	16	22	45	7.3	0.38	21%
EU-15	**8**	**13**	**17**	**23**	**38**	**5.1**	**0.30**	**15%**

Source: European social statistics: income, poverty and social exclusion, 2nd report, Eurostat, 2002.

In order to see how this degree of inequality is produced we can look at the different elements (especially the elements of the state budget) which determine the final distribution of income. In table 4 below we observe the progressives or regressivenes of direct and indirect taxation in 1994. As the government has declared (and has done so until very recently), state revenues will be based less and less on direct personal income taxes and this development will most likely increase income inequality.

Table 4
Direct and indirect taxation, per capita income distribution, 1994

Income group	Direct taxes	Disposable Personal Income	Net indirect taxes	Gross indirect taxes
1st	0.49%	2.27%	2.00%	2.99%
2nd	1.79%	4.01%	3.62%	4.87%
3do	3.12%	5.10%	5.03%	6.24%
4th	4.15%	6.23%	6.51%	7.62%
5th	5.61%	7.38%	7.80%	8.58%
6th	7.04%	8.63%	9.22%	9.75%
7th	8.81%	10.17%	10.96%	11.08%
8th	11.86%	12.30%	13.87%	13.13%
9th	17.01%	15.60%	17.01%	15.39%
10th	40.12%	28.30%	23.98%	20.36%

Total	100.0%	100.0%	100.0%	100.0%

*Direct taxes = Personal income taxes + (employees) social security contributions
Source: EHCP, KEPE

One way of looking at the overall redistributive effect of the state is to look at the market distribution of income and compare it with other distributions which are formed after the effect of the main categories of the state budget like direct taxes (personal income taxes and social security contributions), indirect taxes (before and after subsidies), various transfers to households (pensions, unemployment, sickness benefits, etc.) and (ideally, but their redistributive effect has not been included here) public consumption expenditures (health, education, etc.) which provide benefits to the population as a whole.

Table 5
Distributions of household per capita income and state redistributive effect, Greece, 1994

Income groups	Gross **market** income (1)	**Net** market income (2)	Total **gross** income (3)	Total **disposable** income (4)	Total **net** income (5)	Total **final** income (6)	Total change (7) = (6) - (1)
1o	0.0%	0.0%	2.1%	2.3%	2.1%	2.3%	+2.3%
2o	1.6%	1.7%	3.8%	4.0%	3.8%	4.1%	+2.5%
3o	3.9%	4.1%	4.9%	5.1%	4.8%	5.1%	+1.2%
4o	5.4%	5.7%	6.0%	6.2%	5.9%	6.2%	+0.8%
5o	6.9%	7.1%	7.2%	7.4%	7.1%	7.3%	+0.4%
6o	8.5%	8.7%	8.5%	8.6%	8.3%	8.5%	----
7o	10.3%	10.5%	10.0%	10.2%	9.9%	10.0%	-0.3%
8o	12.9%	13.1%	12.2%	12.3%	12.1%	12.0%	-0.9%
9o	17.1%	17.0%	15.8%	15.6%	15.7%	15.4%	-1.7%
10o	33.5%	32.2%	29.6%	28.3%	30.4%	29.0%	-4.5%
Σύνολο	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Gini	**0.472 (0.482)**	**0.458 (0.468)**	**0.382 (0.391)**	**0.364 (0.373)**	**0.388**	**0.367**	**-22.2%**

1. = market income (wages and salaries, interest, profits, rent, self-employment income) + own consumption + family supplements
2. = market income - direct taxes (on personal income) - employees social security contributions
3. = gross market income + government transfers to households
4. = total gross income – direct taxes (on personal income) - employees' social security contributions
5. = total disposable income - gross indirect taxes
6. = total disposable income - net indirect taxes (= gross indirect taxes - subsidies).

As a general comment we could observe that the substantial size of the state budget (which is close to fifty percent of the Gross Domestic Product in the year examined) does not appear to have a sizable redistributive effect, as only 7.5% of the total income generated in the market is redistributed from the richer half to the poorer half. The same also applies for the different constituent elements of the state budget except perhaps from public transfers (mostly due to the methodological way we look at the issue)[2] which seem to have a significantly progressive redistributive effect. Therefore, the rapid growth of the role of the state in economic activity during the postwar period does not seem to have been accompanied by similar growth in its redistributive role/effect in one or the other direction. This is due to the fact that expansion of social programs and spending implies/requires a similar expansion in the tax base and therefore in personal taxation and social insurance contributions.

In tables 6 and 7 below by comparing the degree of inequality in Greece with other OECD countries in the same time period of early to mid-1990s we get a more accurate picture in an international context.

The situation in Greece regarding income inequality was quite close to that in the US in the mid-1990s. The US economy has been notorious for the inequality inherent in its economy and it has moved in the last years in an even more inegalitarian direction as table 6 shows below.

Table 6
Distribution of personal disposable money income in Greece and USA

	Greece (1994)		USA* unadjusted income	
	unadjusted	per capita	1995	2000
Poorest quintile	4.0%	5.9%	3.7%	3.6%
Second quintile	9.9%	10.9%	9.1%	8.9%
Middle quintile	15.8%	15.7%	15.2%	14.9%
Fourth quintile	23.6%	22.2%	23.3%	23.0%
Richest quintile	46.5%	45.4%	48.7%	49.7%
total	100%	100%	100.0%	100.0%
Gini coefficient	**0.426**	**0.373**	**0.450**	**0.460**

*U.S. Department of Commerce

Table 7
Degree of inequality in the distribution of household equivalent disposable income in the 1990s, selected countries.

Country	Gini coefficient (per equivalent adult)
Finland, 1991	0.223
Sweden, 1992	0.229
Belgium, 1992	0.230
Norway, 1995	0.242
Denmark, 1992	0.239
Netherlands, 1991	0.249
Italy, 1991	0.255
Taiwan, 1995	0.277
Germany, 1994	0.300
Canada, 1994	0.287

[2] Compare this piece of information with the evaluation of the (redistributive) efficiency of social transfers by certain commentators (and the ND party) on social policy.

Spain, 1990	0.306
France, 1989	0.324
Japan, 1992	0.315
UK, 1995	0.346
USA, 1994	0.368
Greece, 1994	0.354

Source: Gottschalk and Smeeding (2000), Center of Planning and Economic Research, Athens, Greece.

The crucial point to be made here is that Greece at least as far as inequality and social protection is concerned is very close to the US situation (without sharing the alleged dynamism of the US economy). In fact as the table above shows it is not only EU15 countries (except Portugal) that have a more egalitarian income distribution than Greece but almost all other OECD countries exhibit less inequality than Greece except from the US.

Any curtailment in (net) social protection expenditures (and especially pensions) would probably place Greece at the most inegalitarian position in the list of the advanced economies in the world.

Finally, we should note that as neoliberal ideology is advancing structural causes of poverty and inequality are not addressed by the would be reformers of the welfare state and even by some of its supporters. The most recent developments in income inequality and poverty rate even though fragmented and not settled yet suggest that **wage inequality** was increasing in the 1990s for both men and women and in 1999 it was greater than what it was in 1974, the increase in low-paid service jobs probably being responsible for this development.

There is no specific anti-poverty policy as such, with quantified targets (even in the recently announced program by the government for economic convergence with EU by 2008 and public spending on education as a percentage of GDP remains the lowest in the EU (around 3.6% in 2000 compared to a 5% for the EU15 average).

Reform attempts:

In recent studies of cross-country welfare spending Taylor-Gooby (2002) and Castles (2001) have pointed out that when placing emphasis on social spending it appears that resilience and adjustment of the welfare state and catching up still is going on but emphasis on particular areas (and especially on pensions) shows that some important and sometimes radical changes are happening in the interior of the system. The same reasoning probably applies for Greece, as increases in social spending as a fraction of GDP have coincided with attempts to reform in a less generous way the social security and the health care systems.

A social security reform in 1992 by the right wing government, an attempt for a radical restructuring in 2001 which failed due to the wide mobilization of public and private sector unions (controlled by social democrats) and a milder version in 2002 by the social democratic government were the major incidents in the last decade towards reforming existing welfare arrangements. (Their inherent logic was mainly redistributive against the income/share of labor in a broad sense including active

laborers and future pensioners and they stemmed from a concern over public finances at a time when fiscal austerity had to be imposed on the way for integrating Greece in the EMU). It affected in an adverse way all persons insured after 1993. More specifically, the replacement rate for a full pension was reduced to 60% of pensionable income from 80% of pensionable income and the legal retirement age for women was raised from 60 to 65 years old for persons insured after 1992.
Also the legal retirement age for early pensions was raised for both full and reduced pensions. Moreover, supplements for spouses were eliminated and the supplements for children were reduced (except for the income supplement for the third child which was raised from 10% to 12% of the pension).
Contributions for social insurance were increased from 20% to 30% of the total wage (introducing and/or increasing state participation in the social insurance contributions) and wage and salary ceilings were removed for pensions as well as for unemployment insurance, and family allowances.

Health care system restructuring involves mostly efforts to curtail spending by hospitals and increase users fees by recipients again out of concern for deficits in the system.

Labour market measures try to promote part-time employment which has not expanded yet (lowest in EU) and it was recently introduced in the public sector in order to alleviate the (low) employment and (high) unemployment problem. It is evident that they are tuned with the "employability" concerns of capital and the state in the current era and they are targeted mostly towards the maintenance of an "employable" reserve army able to strongly affect labor market bargaining exerting downward pressure on wages.

General points (to be developed):
Economists' arguments against the welfare state: social security (pay as you go) lowers private saving and therefore (unless public saving increases sufficiently) in the long-run reduces investment and economic growth. Also social protection in the labor market (in the form of high unemployment benefits spending on active labor market policies, and collective bargaining) causes (increases) unemployment, lengthens job search, lowers participation in the labor force, reduces the tax base.

Low participation in labor force as a result of "welfare dependency" has not been an issue (this is also an indirect way of assessing the maturity of the welfare state)

Equality / efficiency (growth) trade-off is only present in the sense of the deterioration of public finances due to social spending and the (presumed) negative influence of public deficits on economic growth. The accidental/conjunctural high growth rates since the mid-1990s which may not have solved the low employment (56.9% in Greece, 64.2% in EU-15) – high unemployment rate problem but they have temporarily postponed any discussions on public spending induced equality/efficiency trade-offs.

We could reasonably argue that there is no serious social safety net in Greece which could be attacked. It is still being constructed. Pensions seem to be the weakest link and the first target in reform attempts.

Since there exists no other general assistance scheme after the expiration of the period of unemployment benefits (12 months maximum and three months at a reduced rate after that) it cannot (has not) be argued that the structure of unemployment insurance in Greece discourages return to work.

There is no statutory minimum pension or **basic pension** as in Scandinavian countries. **Guaranteed minimum income** or **basic income** first proposed by PASOK deputies then rediscovered by the ND party but it does not find approval.

Low level of unemployment benefit and limited duration. Recent attention on the long term unemployed and the new entrants in the labor market in order to maintain "employability".

Missing from public discussion on the welfare state in Greece:
slogans/attitudes : "welfare abuse" - work absenteeism - "welfare dependency" and "welfare trap" - transition from "welfare to workfare"

welfare benefits: universal child benefits - national basic pension - guaranteed minimum income - marginalized underclass living on "public assistance"

arguments: low (private) savings -→ low investment and growth
high unemployment benefits --→ high unemployment rate
equality - efficiency trade off

observed argument: public (social) spending -→ deficits --→ less growth

Therborn (1984): Irreversibility of the welfare state in advanced capitalism. The argument has been (at least partly) verified.

The political economy of "calls to roll back the welfare state": endogenous economists or what determines who attacks the welfare state?

The limits of the welfare state may be similar to the limits of the system itself. Within a context of slow or zero growth its logic may not be defensible within the logic of capital unless labor and the poor sections of the population are willing to accept lower standards of living.
Should we place so much (strategic) emphasis on an "institution" that seems to depend so much on economic growth? Can we afford to argue that it is simply a matter of choice if others argue that maintenance of welfare state arrangements is not feasible?

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