MANOS MATSAGANIS

WELFARE POLICIES IN GREECE SINCE THE EARLY 1980S

nº 148
Dezembro 1999

MANOS MATSAGANIS
Temporary lecturer, Department of Economics, University of Thessaly, Volos GR-38221, Greece.

WELFARE POLICIES IN GREECE SINCE THE EARLY 1980s**

Introduction

Until recently, social welfare in southern Europe was commonly held to "lag behind" compared to the north of Europe: in the characteristic terminology of Leibfried (1993), it was thought to be "rudimentary". Greece, though rarely if ever included in a systematic comparative analysis, was considered to fit this description quite well. Was it not, after all, the least prosperous of European Union members, the most "southern" of south European countries?

More recent research, starting from the pioneering work of Ferrera (1996), showed this to be the product of a misreading of southern welfare's distinct nature, pointing out that certain welfare schemes (notably pensions), far from being "rudimentary", stand out for their generosity in the entire continent. If anything, the problem with welfare arrangements in south Europe is not that they are in any sense "behind" as a whole, but that they suffer from serious imbalances, giving rise to inequities and inefficiencies.

In this respect, Greece certainly appears to be a case in point. As a closer examination of social policy developments in the 1980s and 1990s reveals, Greece's social protection system has converged to a remarkable degree with the rest of Europe in *quantitative* terms, although it retains various particularities, many of which are in a certain sense typically "southern".

** Parts of the paper were drawn from a study co-authored with Ana Guillén on social policy and social dumping in Southern Europe that is to be published in a forthcoming issue of the Journal of European Social Policy. The author would like to thank Ana Guillén, Panos Tsakloglou, Dimitri Sotiropoulos and Blanca Ananiadi for useful comments on various versions of the paper. It is obvious that responsibility for remaining errors, as well as for the analysis and interpretation of the evidence presented in the paper, lies solely with the author.

In the next section we attempt to support our claim of quantitative convergence with an overview of developments in aggregate social expenditure. This is followed by a brief account of the major reforms in the area of social policy since the early 1980s. The narrative then turns to the question of the driving forces behind social policy reforms in the last two decades. In the final section we bring together the main findings in order to draw conclusions on the future of welfare in Greece.

Social expenditure

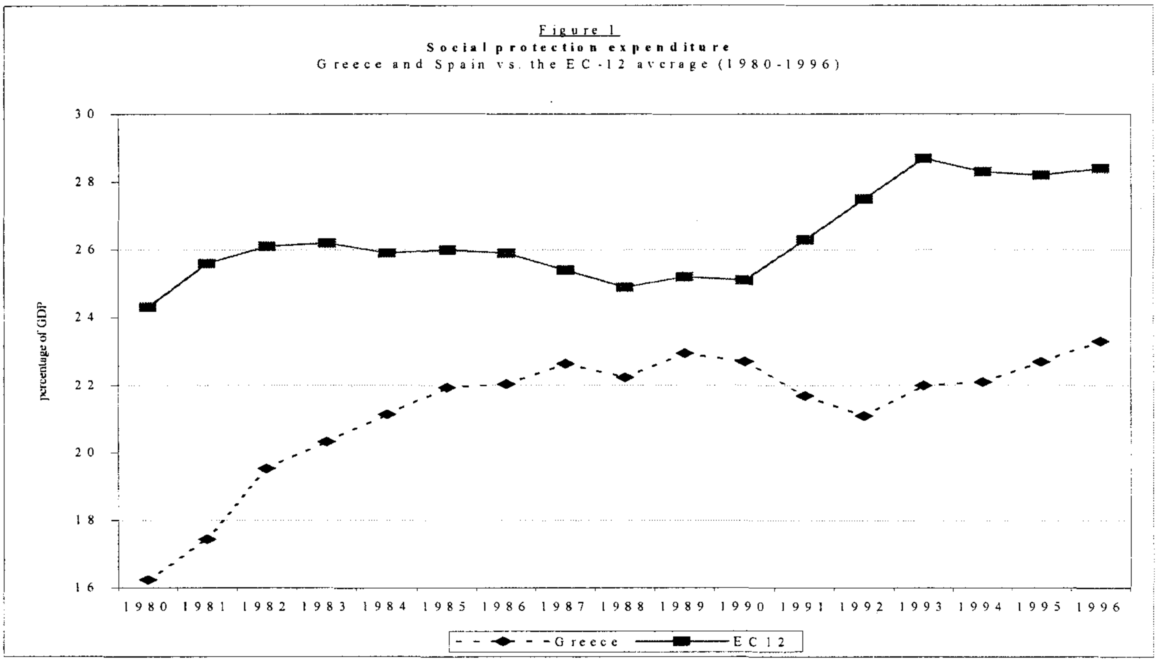
The issue of Greece's recent convergence or otherwise with the rest of Europe in terms of social welfare can be explored in many complementary ways, one of which is by looking at aggregate social protection statistics. The analysis in this section relies on Eurostat data compiled under the ESSPROS ('**E**uropean **S**ystem of integrated **S**ocial **PRO**tection **S**tatistics) methodology[1].

Greece entered the 1980s spending on social protection just over 16% of GDP, compared to over 24% for the "EC-12", the group of twelve countries that at that time were already or were shortly to become members of the European Community[2]. The steep increase in 1980--82 and the steady expansion in 1982-87 had by the end of that decade raised social expenditure in Greece to around 23%, only 2% or so below the European average. In the early 1990s Greece began to move away again as social spending fell below 22% of GDP, while in the European Community as a whole it continued to rise reaching almost 29% in 1993. Therafter, the social expenditure gap once more started to narrow: against a EC-12 average of 28% of GDP, Greece spent 23% in 1996 (last year for which full data are

[1] Social protection statistics often come up against problems of definitions and comparability. Briefly, ESSPROS excludes education expenditure from its definition of social protection, except for vocational training aimed to persons who are either unemployed or at risk of losing their job. On the other hand, ESSPROS includes not only government and social insurance schemes, but also employer-provided benefits provided they are collectively available to employees and unrelated to the nature of the job (e.g. a health centre that operates within a hazardous work environment to monitor exposure to risks would be considered part of the work process rather than social protection as such). Comparability is pursued by asking national authorities to collect data in accordance with the ESSPROS methodology. For more information, see the ESSPROS Manual (Eurostat ,1996a).

[2] As a matter of fact, the European Community had in 1980 only nine members: France, Germany, Italy, Belgium, the Netherlands, Luxembourg, Denmark, Britain and Ireland. Greece became a member in 1981, joined four years later by Spain and Portugal.

available). Moreover, provisional data for 1998 show that social spending in Greece has risen further to over 24% of GDP – an all time high[3].(Figure 1)



While social spending statistics seem to suggest that Greece has in recent years been catching up with the rest of Europe, some caution in interpreting these figures is necessary. Indeed, it should be remembered that the aggregate level of expenditure on various social protection programmes is no more than an indicator of a country's "welfare effort". Although important, examination of total expenditure alone is unhelpful if the issue of interest is the level of social protection enjoyed by the beneficiaries "on the ground". In that respect, a more complete analysis should assess the country's "welfare effort" in terms of what might be termed the "social effectiveness" of social protection programmes.

The concept of "social effectiveness" is not easily defined, as different social programmes have different aims, or multiple ones at the same time. For instance, health services aim to fight illness and promote health; employment services aim to fight unemployment and

[3] These figures are partly derived from the final report of the "Working Party for the Estimation of Social Protection Expenditure in Greece" set up by the National Statistical Service of Greece, of which the author was a member. The estimates have been incorporated into official publications (e.g. Eurostat, 1999). Since the Working Party was concerned with the period from 1990 onwards, the figures reported here for the 1980s are estimated on the basis of the "average correction factor" of previous underestimates (e.g. Eurostat, 1996b).

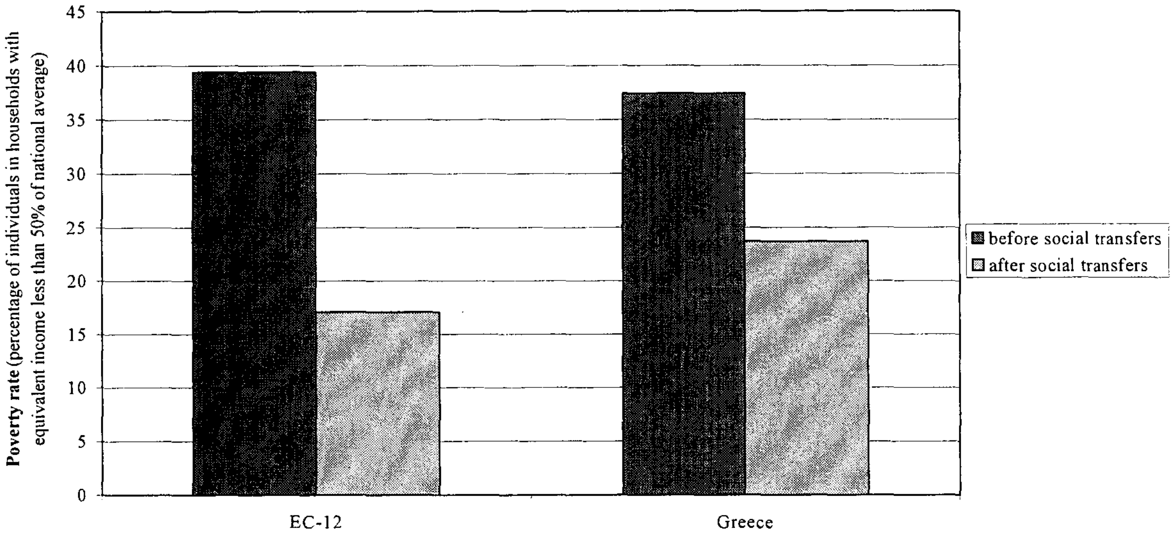
promote employment; social services aim to provide assistance to various client groups and help them integrate better in society; etc. The same goes for social benefits: for example, sickness or maternity benefits aim to provide temporary income replacement; pension programmes attempt to promote saving and guarantee adequate income at retirement; social assistance benefits aim to ensure that sufficient resources are available to those who might otherwise be at risk of extreme poverty; and so on.

In view of the above, it is difficult to reduce the various aims of social protection programmes to a single measure. Nevertheless, it cannot be denied that fighting poverty is, or ought to be, one of the most fundamental aims of a country's social protection system as a whole. On this count, Greece fares very unfavourably in comparison to almost every other European country. The impact of social transfers in Europe has been analysed on the basis of data from the "European Community Household Panel" (ECHP), a common survey of family incomes in the twelve countries of the EC from 1993 onwards.

The data show that in terms of poverty reduction the impact of social transfers in Greece was much lower than it was in the then European Community countries as a whole, lower in fact than in every single country except Portugal (Heady *et al.*,1999) Clearly, the picture that emerges from the data is disconcerting as regards the effectiveness of social transfers in Greece. As Figure 2 shows, *in the absence of transfers* poverty would have been lower in Greece than in Europe as a whole. However, the opposite is true *after transfers*, as the relative position of Greece in terms of poverty compared to the European Community as a whole is reversed. (Figure 2)

Figure 2

Impact of social transfers in terms of poverty reduction (1993)



Source: European Community Household Panel [reported in European Commission 1998]

This paradox (a high and rising level of social spending on one hand with a low effectiveness of social transfers on the other) can only be explained by reference to the outdated structure of the country's social protection system in general, and the obsolete nature of certain key programmes in particular. The full analysis that the issue deserves surely goes well beyond the scope of this paper. Nevertheless, the following characteristics of Greece's social protection system could be briefly mentioned.

Firstly, the social welfare system in Greece places very heavy emphasis on contributory, social insurance cash benefits (above all pensions), with little provision for non-insurable social risks such as poverty and social exclusion, while social services still remain at a very early stage of development.

On the other hand, a clientelistic mediation of access to resources is evident in the welfare privileges of "protected categories" (civil servants, nationalised industry employees, workers in finance and insurance services, the liberal professions and some others); in the distribution of state support to social insurance schemes, in the exception of some of these schemes from "retrenchment" legislation; in the allocation of public contracts to private suppliers; in the proliferation of invalidity pensions; as well as in a multitude of other, less conspicuous examples of unlawfully or unfairly preferential treatment of individuals or whole categories.

Thirdly, Greek welfare is characterised by a fragmented and polarised income maintenance system that manifests itself in various ways: generous retirement benefits for the "protected categories", but modest benefits for the rest plus a very low social pension for those with insufficient contributions; meagre child benefits for most families, but high family allowances for state employees plus a bewildering variety of special arrangements favouring families with four children or more; unemployment benefits handed out for a short period, leaving ineligible for benefit the long-term unemployed or those who have not yet worked; a perforated social assistance net with no minimum income scheme.

Finally, the national health service that has been in operation since 1983, is universal in theory, but has failed in practice to replace social insurance, coexists with a very large private sector (with whom it often develops improper relationships), suffers from inefficiency and corruption, and registers very low percentages of patient satisfaction.

As the perceptive reader will have noticed, this is a rather familiar list which might have been lifted almost *verbatim* from Ferrera's earlier mentioned study of the south European model of welfare (Ferrera,1996). In fact, Greece not only appears to be a typical case of this model, but also one set to retain its characteristics longer than other members of this "family of nations"; this is a point to which the paper returns later.

So far the paper sketches a picture of "distorted growth": while in the last two decades Greece's welfare state has grown considerably in quantitative terms, at the same time it has retained (if not exacerbated) many of the traits which have always characterised it, while also developing others. This is not, of course, to say that the institutional structure of Greece's social protection system has remained unaltered: on the contrary, the era that began with the electoral victory of the socialists in the 1981 general election ushered in significant reforms and counter-reforms. To these now attention turns.

Policy developments[4]

The first socialist government in Greece's modern history took office amidst the excitement and expectation that had accompanied PASOK's meteoric rise to the landslide victory of 1981, from the rather modest 13% of votes it had won just seven years earlier in the 1974 general election[5]. The huge parliamentary majority earned by the socialist party's strong performance at the polls (48% of the vote) enabled the new government to enact its radical manifesto pledges designed to improve immediately the living standards of low-income groups.

The main policy instrument the new government used to achieve such an improvement was the statutory minimum wage, which it raised by a staggering 40%. This did not merely improve the incomes of many low-paid workers (and others further up the income scale through adjustment of earnings differentials); it also had significant knock-on effects on social insurance minimum pensions and other benefits, which were all indexed to the minimum wage.

The rise in social insurance minimum pensions was followed by a 100% increase in the (inferior) value of the flat-rate non-contributory pension paid to farmers and other agricultural workers, as these groups were not covered by a social insurance scheme of their own. Moreover, eligibility for an agricultural pension (previously confined to male heads of household) was extended to old women living in rural areas who could prove some connection with agriculture. The two changes effectively quadrupled the social transfer incomes of a rather common household type in Greece: the elderly couple living in a rural area. Moreover, the social assistance pension was introduced in 1982, targeted to elderly people with insufficient social insurance contributions and inadequate incomes. The

[4] The English-language literature on modern Greek society and politics is quite extensive. For an account of political developments in the 1980s, see Lyrintzis (1987) and Clogg (1993). For analysis of more recent events, see Pridham and Verney (1991) and Spourdalakis (1996). For a discussion of social policy issues in particular, see Petmesidou (1996), Venieris (1997) and Matsaganis (1998 and 2000). For a theoretical perspective on democratic consolidation in southern Europe, see Gunther *et al.*(1995).

[5] The 1974 election was called very soon after the restoration of democracy. PASOK had been founded in the short period from the fall of the military dictatorship to the general election.

social pension was set equal to the flat-rate non-contributory agricultural pension, but was paid to claimants aged 68 and over (the age limit was later reduced to 65, same as for agricultural pensions).

Perhaps the most ambitious of all social reforms brought about by the first PASOK government was the creation of a National Health Service in 1983. The reform allowed the mass recruitment of doctors on dramatically improved salaries, and initiated an ambitious programme of building hospitals and health centres. Nevertheless, while the 1983 act rationalized the *provision* of health services by the public sector, this was not followed by a similar restructuring of health services *finance*. There existed plans providing for the abolition of social health insurance (as had been the case when Italy's *Servizio Sanitario Nazionale* was founded five years earlier), or at least for a reduction of inequalities between sickness funds through the creation of a "Single Health Agency". In the event, both were frustrated on the face of bitter opposition from the "protected categories" who feared that the benefits provided by their better-endowed funds would be downgraded to the average level of provision[6].

More reforms followed. Family legislation was revised in 1983, ending the inequality of man and woman in the face of the law. Open-care centres, initiated by the previous government, were given new prominence in a bid to reduce old people's social isolation and dependence, and were eventually handed over to local government in 1984. Social assistance disability benefits were extended to new categories of claimants. The option of a second contributory pension was offered to recipients of the flat-rate basic agricultural pension, to supplement the low benefit the latter provided. As the life of the parliament created by the 1981 general election came to an end, the socialists could claim with some justification that their policies had altered the size and scope of Greece's welfare state beyond recognition.

Nevertheless, economic realities could not be escaped: the expansionary fiscal policies increased the budget deficit, the new spending power of lower income groups (unmatched by equivalent rises in productivity) fuelled inflation and pushed the country's balance of payments further in the red. Within a year from the general election of 1985, which the socialists won albeit with a reduced majority, a "stabilisation programme" was put into effect. The new national economy minister Constantine Simitis, a social democrat often at odds with PASOK's populist leader Andreas Papandreou, was charged with the task of the programme's firm implementation. The new policies of austerity produced immediate results: within two years inflation fell from 23.1% to 13.5%, but the price that had to be paid included spending cuts that did not entirely spare social expenditure, plus a wage freeze that reduced real earnings back to their 1981 level.

In 1988, with a general election looming, the successful but unpopular stabilisation programme was suddenly abandoned. Under a new national economy minister, fiscal and monetary policies were relaxed once again. While the socialists fought, not often convincingly, against allegations of corruption at the highest level, their social policies seemed to reinforce the clientelistic aspects of Greece's welfare state, as the proliferation of invalidity pensions appeared to indicate.

Although the socialists were defeated in the June 1989 general election, the conservatives were not strong enough to win an absolute majority of seats in parliament: a coalition government was formed, bringing together left and centre-right, with the twin aim of controlling public finances and bringing corruption suspects to trial. Neither aim was successfully pursued: the former prime minister himself, Andreas Papandreou, was acquitted for lack of evidence amidst accusations of corruption and counter-accusations of a politically-motivated plot to "destroy the socialist party". A fresh election was called for November, but it too proved inconclusive. This time a national unity government was formed under Xenophon Zolotas, an economist of international reputation, again with a limited mandate to control public finances and to call a new general election soon.

Election fatigue was ended in April 1990 when the conservatives returned to power, though their majority of a single parliamentary seat did not augur well for the stability of the

[6] This "corporatist-particularistic" spirit was expressed in no uncertain terms during the parliamentary debate on the bill by the Speaker himself, a leading figure in the socialist party: speaking as "an ordinary MP", he

government they formed. Nevertheless, the new government embarked on a macroeconomic programme aimed to reduce public expenditure and, in particular, to curtail the soaring deficit of the pensions system which accounted for about 50% of the overall budget deficit.

A far-reaching package of reform was announced but was withdrawn when a strike-wave almost plunged the country into chaos. Subsequent legislation was considerably watered down: while it left largely untouched the privileges the "protected categories" held so dear, it effectively made IKA – the largest social insurance organisation where most low-income workers belong – the main target. The strategy paid off: the General Confederation of Greek Workers, dominated by the unions of banking employees and workers in nationalised industries, opposed the bill with markedly less determination. A new pension law was approved the year after, mainly concerning loopholes and abuses of the system, followed by yet another in 1992, the third in a period of only two years.

The effects of the 1992 law were probably the most incisive of recent pension legislation. Having learned the lesson of 1990, the conservatives sought to avoid direct confrontation with the trade unions, sparing their members most of the pain of adjustment and placing the burden instead on the proverbial future generations of workers. The reform did introduce higher contributions and lower replacement rates (60% vs. 80%), as well as a universal retirement age of 65 for both men and women. Nonetheless, the new rules affected only new entrants to the labour market, starting from 1 January 1993. Those already active faced a rise in contributions and a gradual elimination of retirement age differentials between IKA and the "special funds" (of civil servants, workers of nationalised industries and banking employees), to take full effect for the cohort retiring in 2007.

The effect of the 1990-92 pension reforms is shown most clearly in Table 1, which presents rates of social insurance contributions for private sector workers before and after the reforms. As the table shows, social contributions as a proportion of before-tax earnings were increased by 7.6 percentage points for standard occupations, by 9.6 percentage points

threatened to lead the "justified rebellion" of banking employees, whose union he had led in the past.

for "hard and arduous" occupations[7], and by 10.6 percentage points for "extremely hard occupations". (Table 1)

Table 1

Non-wage labour costs for private sector workers in Greece

	'normal' occupations	'hard and arduous' occupations	'extremely hard' occupations
before 30.9.1990	35.6	39.2	43.1
1.10.1990 to 31.12.1992	38.6	42.2	46.1
from 1.1.1993	43.2	48.8	53.7

Note: Figures are sum of employee and employer contributions, expressed as percentage of salary. Contribution rates as apply to the general social insurance scheme (IKA) for pension and health insurance. For workers who entered the labour market after 1 January 1993, there is a matching state contribution equal to 13.8% of salary (10% for pension plus 3.8% for health insurance). The figures in Table 1 include compulsory contributions collected by IKA on behalf of the Organisation of Manpower Employment (OAEΔ) and the Workers' Housing Organisation (OEK), in return of unemployment and housing benefits respectively.

Beyond pensions, the conservative government took little interest in social policy. It should be mentioned, however, that new family benefits were introduced for families with three children or more – a "pronatalist" policy inspired by widespread fears that the fall in fertility threatened the very survival of the nation. Moreover, in a bid to soften the effect of actual or planned privatisations, the duration of unemployment benefit was extended to twelve months (it had been extended from six to nine months by the Zolotas government in 1990). On health policy, the conservative government tried to shift the balance of hospital finance from the Treasury back to social insurance, by raising sharply (after almost a decade-long freeze) the "per diem" rate paid by sickness funds for the hospitalisation of their members.

In 1993, a split within the ruling conservative party, ostensibly provoked by disagreements over the proposed privatisation of the state-owned telecommunications company[8], wiped

[7] It ought to be mentioned here that the category "hard and arduous" occupations has gradually come to include such "dangerous" occupations as airline ground personnel, television presenters and hairdressers. This is another evidence of the "clientelistic-particularistic" nature of Greece's social protection system.

out the government's fragile majority and made an early election inevitable. PASOK returned to power once again, winning the October general election with a comfortable parliamentary majority.

Although the socialists had obstinately opposed pension reform when in opposition, and had pledged to reverse it as soon as they returned to power, nothing of the sort actually happened. A new reform of unclear nature was announced for the future, to take place only after a consensus among social partners had been reached through "social dialogue".

In January 1996 PASOK's founder Andreas Papandreou resigned his position as prime minister, though not as party leader, because of ill-health; his long-standing rival Constantine Simitis won three crucial electoral contests in quick succession: first the parliamentary party ballot to become prime minister, then the party conference vote in June (shortly after Papandreou's death) to become PASOK' leader, and finally the early general election in September to become prime minister for a full term with a renewed mandate.

Under the new leadership, the socialist government made EMU membership its overriding aim. However, the prime minister was keen to stress his belief in a "cohesive society" and his interest in social measures that could compensate for the adverse effects of fiscal stabilisation. In an early move, the government introduced in August 1996 a new income-tested pension supplement that enabled it to escape a pledge to restore the link of minimum pensions to the minimum wage (at the parity of 1 monthly minimum pension = 20 daily minimum wages), made when the socialists were in opposition. The new benefit was targeted to those with genuinely low incomes, while the uniform rise and minimum wage indexation demanded by trade unions would also favour those pensioners who drew two (or more) minimum pensions from various schemes, as well as those with independent incomes from property or even work. The emphasis on new notions of targeting and selectivity also manifested itself in the income-testing of the rather generous benefits paid to large families, and in similar restrictions placed on some rather marginal benefits such as the disabled persons' travel card.

[8] In reality the split was caused by a former foreign minister's determination to found a new party in order to capitalise on the nationalist credentials he had earned during his disastrous handling of the Macedonian

Other social policy measures of the new socialist government included health legislation (not yet fully implemented) providing, among other things, for a family doctor scheme and professional hospital management. On the other hand, a contributory pension scheme was created for those working in agriculture, designed gradually to replace the low flat-rate non-contributory pensions currently paid out, and to raise agricultural pensions to a level comparable to that of other social insurance pension schemes[9]. Moreover, there were recent policy changes in the hitherto neglected area of personal social services: the "home help" programme was successfully piloted and further extended, while a National Social Care Organisation was founded to unify and better co-ordinate the disparate initiatives taken in this field.

On a final note, it is worth mentioning last year's legislation that allowed illegal migrant workers to apply for a work permit and register with a social insurance organisation. The overwhelming response of potential beneficiaries to this measure was such that it far exceeded the authorities' ability to handle applications. Interestingly, as a result of the "emergence" of illegal employment to the surface, social insurance organisations expected to receive a revenue boost from the influx of new members – at least in the short run, before the new entrants' pension and other welfare entitlements mature.

Social policy developments in the last two decades, along with the main political events of the same period, are summarized in Table 2.

controversy.

[9] Meanwhile, the flat-rate non-contributory pension paid to those retiring from agriculture was repeatedly increased, so that its real value in January 2000 was 50% higher than it had been in January 1995.

Table 2 Major political and social policy developments in Greece (1981-1998)

1981-1989: Socialist governments	
1981 Greece becomes member of the European Community. Socialist party wins October general election in a landslide. Papandreou becomes prime minister. 1985 Socialists win June election. Papandreou confirmed as prime minister. 1986 Simitis becomes national economy minister and introduces stabilisation programme to control budget deficit and reduce inflation. Average real wages fall to their 1980 level. 1988 Simitis replaced as national economy minister. Fiscal and monetary policies relaxed. 1989 Socialist party loses June general election amidst allegations of corruption.	1982 Minimum wage increased by 40%. Social insurance minimum pensions, indexed to minimum wage, go up accordingly. Agricultural non-contributory pensions doubled and eligibility extended to female peasants. Social pension for uninsured elderly introduced. 1983 National Health Service founded. New family legislation introduced. 1984 Old people's "open care centres" handed over to local government.
1989-1990: Coalition governments	
1989 Left and conservatives form coalition government with the pledge to bring corruption suspects to trial and call another election. Conservative MP Tzannetakis becomes prime minister. November general election proves inconclusive. The respected economist Zolotas forms "national unity government" and attempts to control public finances (with little success).	1990 Duration of unemployment benefit extended from 6 to 9 months.
1990-1993: Conservative government	
1990 Conservative party wins April election with a majority of one parliamentary seat. Mitsotakis becomes prime minister. 1993 Conservatives lose majority over bill to privatise telecommunications company.	1990 Two pension laws limit entitlements. Duration of unemployment benefit extended from 9 to 12 months. 1992 Third pension law in two years introduces higher contributions and lower benefits for workers entering the labour market after 1993. Cash benefits for large families introduced.
1993 to present date: Socialist governments	
1993 Socialists win October election and return to power. Papandreou is prime minister again. 1996 Papandreou resigns due to ill health. Parliamentary party elects Simitis as prime minister. Simitis calls and wins general election. Greece's entry to EMU officially espoused as the government's overriding aim.	1996 Income-tested supplement to lowest social insurance pensions introduced. 1997 "Social dialogue" for the reform of social insurance. Family benefits subjected to income tests. New contributory agricultural pension gradually to replace current flat-rate pension. Health law introduces professional management of hospitals. 1998 Legalisation of migrant workers launched. "Mini-reform" of social insurance enacted. Pilot "home help" programme extended. National Social Care Organisation founded.

Driving forces

The last two decades have been a period of considerable change, not merely for Greece's welfare state but for the country itself. On reflection, perhaps the most significant aspect of the socialists' landslide victory in the general election of 1981 was that it proved Greece could be a "normal" country for the first time in its recent history, leaving behind a turbulent past featuring among others a devastating civil war in the late 1940s and a military dictatorship in 1967-1974.

In fact, the unprecedented expansion of welfare spending in the 1980s can be better understood against this historical background: the socialist governments' expansionary measures described earlier in the paper were more than anything else a response to the expectations nurtured by large sections of the population in decades of politically-motivated discrimination. Greece's accession to the European Community in 1980, widely considered to offer a guarantee of political stability, also appeared to justify popular demands for levels of income and social protection comparable to those enjoyed by other Europeans.

On the eve of the party's resounding victory at the 1981 general election the socialist manifesto contained a bewildering array of promises: steep salary increases and even steeper pension rises, agricultural pensions for women, a National Health Service, social services for the elderly and so on (PASOK,1981). That manifesto promices ("commitments" is rather too strong a word for a piece of paper destined to oblivion soon after the election) were so generous is hardly surprising in itself. What is quite amazing, in retrospect, is that many of these promises were actually honoured, if not always in full, at the very least in a form that allowed PASOK to claim it had done so at the next election.

Although it soon became clear that the expansionary policies of the 1980s were bound to require corrective measures sometime in the future, the socialists were able to claim, quite convincingly so, that their social policies were more generous and comprehensive than anything that had gone on before. In a familiar manner, this became a key claim that not only helped socialists win more elections but also painted their conservative opponents as threats to the "achievements" brought about by the socialist governments.

In such a politicised context, it was no wonder that "the primacy of the political" asserted itself with a vengeance while economic realities were wished away. The decision e.g. to raise the value of the (admittedly very low) agricultural pension by 100%, and then to raise minimum wage and minimum pensions by 40%, may have been poor economics but was certainly clever politics – at least in the short run. The socialist governments of the 1980s took pride in the fact that they were able to dedicate massive amounts of money to many ambitious, if not always successful, welfare programmes, and to do so in an adverse economic climate (e.g. Parliament Proceedings, 1985).

When ignoring the economy became no longer possible, fiscal stabilisation became the order of the day, pursued reluctantly by the socialists and somewhat more decidedly by the conservatives. Nevertheless, welfare reform (whether in its original bolder version or in the watered-down form actually enacted) was always presented as a move motivated by a wish to restore social insurance accounts to financial health. That rare example of the Conservative government's "retrenchment" policies, pension reform in the early 1990s, was primarily motivated by the need to cut social insurance deficits by, among other things, raising social contributions (Parliament Proceedings,1990b,1992). As a result, the combined and somewhat paradoxical effect of both welfare reforms and counter-reforms was not to reduce but to *increase* labour costs. The pressing need to cut the country's "twin deficit" as a requirement for entry to EMU made the governments in the 1990s seemingly oblivious or indifferent to the adverse effects on competitiveness the social dumping thesis suggests.

In fact, the fundamental assumption that standards of social protection in Greece ought at some ill-defined point in the future to converge with those prevailing in the rest of Europe was never seriously challenged. The social reforms and welfare expansion of the 1980s did not polarise the social policy debate between those who defended the welfare state and those who wished to roll it back: on the contrary, there appeared to be a consensus among all political parties and shades of opinion that high standards of social protection was a legitimate aspiration shared by all. Even at its fiercest, as on the occasion of the pension reforms in the early 1990s, the political debate on social policy was focused on the clearly narrower points of managing more efficiently, reducing deficits by "curbing excesses", allowing a role to private provision and the like.

It is a reflection of this consensus that in his official statement on the government's programme for the legislature following the general election of 1990, which returned the conservatives to power, Prime Minister Constantine Mitsotakis was able to declare:

> "It is a fundamental obligation of the state to secure for all citizens a high level of health care, social services and social security [...]. We have a duty to create an effective system of social protection" (Parliament Proceedings, 1990a, p. 21)

While the conservative premier made no secret of the new government's intention to tackle the thorny issue of pension deficits ("Social insurance is on the verge of bankruptcy"), he was on the other hand keen to take a fair-minded attitude towards the National Health Service, the socialists' "jewel on the crown", which by that time was already in difficulty:

> "On health care in particular, our policy aims to the abolition of inequalities between centre and the periphery, to a high standard of service provision, and to the creation of a true health system for all citizens. Our government will not reverse good policies, but it will take decisive steps to improve health services that have declined." (Parliament Proceedings, 1990a: p. 21)

When a second generation of socialist governments, led by Constantine Simitis, took office in 1996, the consensus was reinforced. At the same time, the first Budget Report presented by the new government contained a significant statement of principles:

> "A modern and effective welfare state is a key aim of this Budget. [...] Our policy rejects the notion that social protection cannot be expanded because resources are unavailable. Resources will never be adequate when allocated across the board, with no planning, no evaluation of their effectiveness. We adopt the policy of targeted intervention, of efficiency savings and of reinforcement of social protection. This way we increase social benefit without increasing the overall financial cost." (Budget Report,1996: pp. 22-23)

The point was reiterated on various other occasions: far from being a negation of socialist values, reforms were necessary to make the welfare state more efficient and therefore more effective, a crucial instrument in the government's aim to combine "development" (through entry to EMU) with "social cohesion". The idea of the welfare state as an investment device was expressed with more clarity in the Prime Minister's opening remarks at the parliamentary debate on poverty held in April 1998:

> "[I]t is the government's position that social policy is an essential element in our strategy for development. [...] Social protection is a means to support the process of development, not the reward of its successful outcome. [...] The social safety net is not an accessory, an optional extra. It is a precondition for our common progress, for better living conditions for all." (Parliament Proceedings ,1998: p. 7545)

Although the emphasis has shifted from the expansionary drive to "catch up with Europe" of the early 1980s to the "qualitative development" of the late 1990s, there still seems to be no place for a strategy of driving down social standards to reduce employers' costs, i.e. of social dumping. In fact, the link between competitiveness and social spending is not part of the political discourse, at least for the time being. Social spending is viewed either as an unsuitable candidate for serious "cuts", or as a precious investment tool (at least potentially), that promotes rather than hinders economic development. So widespread is the unwillingness to face the possibility that e.g. social contributions are now so high that may act as a deterrent to job creation, that the government is actually shying away from measures that elsewhere in the EU are seen as rather uncontroversial.

Nowhere is this more evident than in the "National Employment Plan" submitted by the Greek government to the European Commission in May 1999. The Greek entry to EC Guideline 14[10] is as follows:

> "No measure was introduced under this guideline in 1998 owing to the Greek government's reservations about the efficacy of reducing the tax burden in promoting employment and owing also to its reservations about the impact of such measures on the fiscal planning of the state and the social security agencies. In 1999 [...] the Greek government has decided to submit for legislative approval a [pilot] measure to reduce tax on the profits of private businesses by an amount

[10] Guideline 14 reads: "The member states will [...], where appropriate, set a target for gradually reducing the fiscal pressure on labour and non-wage labour costs, in particular on relatively unskilled and low-paid labour, without jeopardising the recovery of public finances or the financial equilibrium of social security schemes".

> equal to 50% of the employer's contributions paid for newly recruited employees." (Ministry of Labour and Social Affairs,1999: p. 34)

At the same time, recommendations (mostly by the European Commission) to reduce non-wage costs in an attempt to combat unemployment through labour market measures are also resisted by trade unions. The trade unions counter that labour costs are so low that cannot possibly constitute a serious barrier to job creation, while the reduction in social contributions would hit social insurance revenues and therefore cause a fall in social spending (General Confederation of Greek Workers,1999)[11].

On the whole, while the Simitis government has left behind the rather disastrous "borrow-and-spend" policies of Andreas Papandreou in the 1980s, it shows no inclination to abandon the "European model". If anything, it wishes to move Greece closer to the family of nations who have managed to achieve both high levels of prosperity and high standards of social protection (Parliament Proceedings,1996a, 1996b). A new term has been coined: "social convergence", an echo (and intended complement) to "economic convergence", Greece's effort to meet the criteria for entry to the EMU. As a PASOK leaflet proudly declared in the run up to the European Parliament election of June 1999:

> "The Greek government's strategy is the adequate funding of social policies and the increased effectiveness in the provision of social protection [...] Our aim is the participation of Greek citizens to the European social model on equal terms: the achievement of social convergence." (PASOK,1999: p. 2)

Still, a long distance separates such elegant statements of principle from the rather mundane reality of a welfare state that is at once inefficient and inequitable, out of balance and out of date, originally designed for a society that no longer exists.

---

[11] Nevertheless, it can hardly be denied that social insurance rules do penalise small and medium sized enterprises, which account for the bulk of the labour force in Greece. The adverse effects of social insurance rules manifest themselves not just through high contributions, but through time-consuming dealings with the bureaucracy of social insurance organisations, as well as through the high costs imposed on employers by labour legislation in the case of such events as sickness, pregnancy and redundancy. Here is a classic example of regulation which was designed to protect workers, but in effect reduces the employment opportunities of those it seeks to protect – and, above all, the "under-protected" categories of women and the young who register the highest rates of unemployment.

As for the promised "social dialogue" on the future of social insurance, though it ceremoniously began in 1997 it yielded little more than a "mini-reform" package (enacted in 1998), that had as a main objective the fight against contribution evasion. Unwilling to start yet another confrontation with the trade unions (and lacking a clear vision as to the nature of changes it wished to see), the government decided that tackling the larger issues of pension reform could be left for later, after EMU entry has been achieved and certainly earlier on in the electoral cycle.

At the end of the 1990s, Greece's welfare state looks strikingly different in comparison to twenty years ago. Social protection expenditure not only accounts for a much larger piece of a larger pie, but the scope of the various programmes that make it up is greater than ever before. Yet, the general mood is not one of confidence but rather one of unease: though the unsuitability of current arrangements has been recognised for a long time, and the necessity (or, at least, the inevitability) of change has come to be accepted by broad sections of public opinion, building a constituency for reform has proved elusive. As a result, political determination to achieve change has faltered and short-term calculations of "political cost" appear to have prevailed.

Although the prospect of radical reform (e.g. of pensions) and the embitterment it seems bound to cause strikes terror at the hearts of most politicians irrespective of colour, the issues raised by welfare reform in a certain sense affect most profoundly the left-of-centre with which more than 60% of public opinion appear to identify. The conception of reform as an opportunity to redress inequities, not just to balance budgets, is at present no more than a minority view. As long as this remains the case, the debate on welfare reform seems deadlocked between those who fight for the preservation of the *status quo* but are unable to defend it morally, and those who offer a version of change which fails to persuade a suspicious electorate.

Conclusions

Whether as an ideal to which Greece aspired or as a set of restrictive conditions necessary for entry to EMU, on no account did the contradictory effects of Europe on Greece's welfare state include either "retrenchment" or inducement of social dumping temptations, as some northern European commentators (e.g. Leibfried,1993) feared or predicted of southern European welfare states. On the contrary, in the last two decades the welfare state has expanded considerably, while such "retrenchment" as it has taken place was aimed not to enhancing the competitiveness of the national economy, but to cutting social insurance deficits by *raising* social contributions.

In any case, the "retrenchment" thesis is unnecessarily limiting, in our view. Indeed, there comes a time when a cutback is fully justified from the point of view of equity if aimed at curtailing unsustainable privilege, and if savings in one policy area are used to expand other areas of the welfare state. This, after all, seems to be the strategy of most south European governments in the late nineties, especially (though not exclusively) by those of a left-of-centre orientation.

As the century draws to a close, it seems that the expansionary thrust of "welfare state building" has all but been exhausted. Greece's welfare state may have not yet fully converged with those prevailing in the continent's northern countries, but the gap that separated them in the past has closed considerably. Further social convergence seems contingent on economic convergence. In any case, the challenges facing Greece's welfare state on the eve of the new century are of a more "qualitative" nature: the construction of a set of welfare institutions in tune with a changing society and sensitive to its needs.

The transition from today's often antiquated institutions to those of a modern welfare state will be neither automatic nor painless. On the contrary, as the debate on pension reform illustrates, it is bound to give rise to bitter "distribution struggles". In view of that, the ultimate test for any reform from the point of view of the principles underpinning the welfare state and the European social model cannot be the simple binomial of "expansion" vs. "retrenchment": in a welfare state still beset by inequalities between "insiders" and "outsiders" and by imbalances between "overprotected" and "underprotected" social risks, reform is not (or, at least, not necessarily) a threat to glorious past achievements but becomes an opportunity to promote social justice and a more inclusive society. Whether this will turn out to be the case is, of course, another story altogether.

References

Budget Report (1996) *Report on the Budget of the year 1997 by the Minister of the National Economy and Finance Y. Papantoniou*. Athens: Ministry of Finance.

Clogg R. (1993) *Greece 1981-89: the populist decade*. London: Macmillan.

Dyson K. and Featherstone K. (1996) "Italy and the 'vincolo esterno': empowering the technocrats, transforming the state". *South European Society and Politics 1* (2): 272-299.

European Commission (1998) *Social Protection in Europe*. Luxembourg: Office for the Official Publications of the European Communities.

Eurostat (1996a) *ESSPROS Manual*. Luxembourg: Office for Official Publications of the European Community.

Eurostat (1996b) *Social protection expenditure and receipts 1980-94*. Luxembourg: Office for Official Publications of the European Community.

Eurostat (1999) *Social protection expenditure and receipts: European Union, Iceland and Norway (data 1980-96)*. Luxembourg: Office for Official Publications of the European Community.

Ferrera M. (1996) "The 'southern model' of welfare in social Europe". *Journal of European Social Policy 6* (1): 17-37.

General Confederation of Greek Workers (1999) "The National Employment Plan and the GCGW proposals". *Enimerossi* Monthly Newsletter 50-51. Athens: Labour Institute.

Gunther R., Diamandouros N.P. and Puhle H.-J. (1995) *The politics of democratic consolidation: southern Europe in comparative perspective*. Baltimore: John Hopkins University Press.

Heady C., Mitrakos T. and Tsakloglou P. (1999) *The distribution impact of social transfers in the EU: evidence from the ECHP*. Department of European and International Economic Studies Discussion Paper 99-04. Athens University of Economics and Business.

Leibfried S. (1993) "Towards a European welfare state?". In: C. Jones (ed.) *New perspectives on the welfare state in Europe*. London: Routledge.

Lyrintzis C. (1987) "The power of populism: the Greek case". *European Journal of Social Research* 15 (6): 667-686.

Matsaganis M. (1998) "From the North Sea to the Mediterranean? Constraints to health reform in Greece". *International Journal of Health Services* 28 (2): 333-348

Matsaganis M. (2000) "Social *assistance in southern Europe: the case of Greece revisited". Journal of European Social Policy* (forthcoming).

Ministry of Labour and Social Affairs (1999) *National Employment Plan 1999*. Athens.

Parliament Proceedings (1985) *Presentation of the Government's programme by Prime Minister A. Papandreou* (22 June) 22-32. Athens: House of Parliament.

Parliament Proceedings (1990a) *Presentation of the Government's programme by Prime Minister C. Mitsotakis* (24 April) 14-25. Athens: House of Parliament.

Parliament Proceedings (1990b) *Debate on pension reform (law 1902)* (24 September) 2476-2668. Athens: House of Parliament.

Parliament Proceedings (1992) *Debate on pension reform (law 2084)* (8 September) 1057-1297. Athens: House of Parliament.

Parliament Proceedings (1996a) *Presentation of the Government's programme by Prime Minister C. Simitis (*29 January) 3086-3093. Athens: House of Parliament.

Parliament Proceedings (1996b) *Presentation of the Government's programme by Prime Minister C. Simitis and debate* (10-11 October) 22-67. Athens: House of Parliament.

Parliament Proceedings (1998) *Debate initiated by the Chairman of the Left Coalition N. Constantopoulos on unemployment, poverty, social exclusion and social policy* (28 April) 7545-7596. Athens: House of Parliament.

PASOK (1981) *Contract with the people*. Athens: PASOK.

PASOK (1999) *Social protection in Greece yesterday and today*. Athens: PASOK.

Petmesidou M. (1996) "Social protection in Greece: a brief glimpse of a welfare state". *Social Policy and Administration* 30 (4): 324-347.

Pridham G. and Verney S. (1991) "The coalitions of 1989-90 in Greece: inter-party relations and democratic consolidation". *West European Politics* 14 (4): 42-69.

Spourdalakis M. (1996) "PASOK's second chance". *Mediterranean Politics 1* (3) 320-336.

Venieris D.N. (1997) "Dimensions of social policy in Greece". In: M. Rhodes (ed.) *Southern European welfare states*. London: Frank Cass.