

The impact of social and fiscal policies

Addressing extreme poverty in Greece (2010-2015)

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Outline

- The policy context
- Our research
- Summing up

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- The policy context
 - Our research
 - Summing up

The Greek crisis

- ❖ The Greek crisis erupted in late 2009, following a prolonged period of persistent fiscal and external imbalances at home, and in the context of the global financial crisis abroad
- ❖ Greece entered into a bailout agreement with the EU, the ECB and the IMF (May 2010), in return for massive spending cuts and tax hikes, and a programme of structural reforms
- ❖ The bailout agreement has (so far) enabled Greece to remain part of the Euro area - at the cost of a severe recession, widespread misery, and political instability

The social impact

- ❖ Compared to pre-crisis levels, GDP has fallen by 26%, the number of employed workers by 21%, and median wages in private firms by 18%
- ❖ Unemployed stands at 25% (having peaked at 28%), the proportion of households making ends meet with great difficulty at 38%, anchored poverty at 48%, the S80/S20 income ratio at 6.5
- ❖ In contrast, relative poverty and the Gini index have risen only slightly

The core business of the welfare state

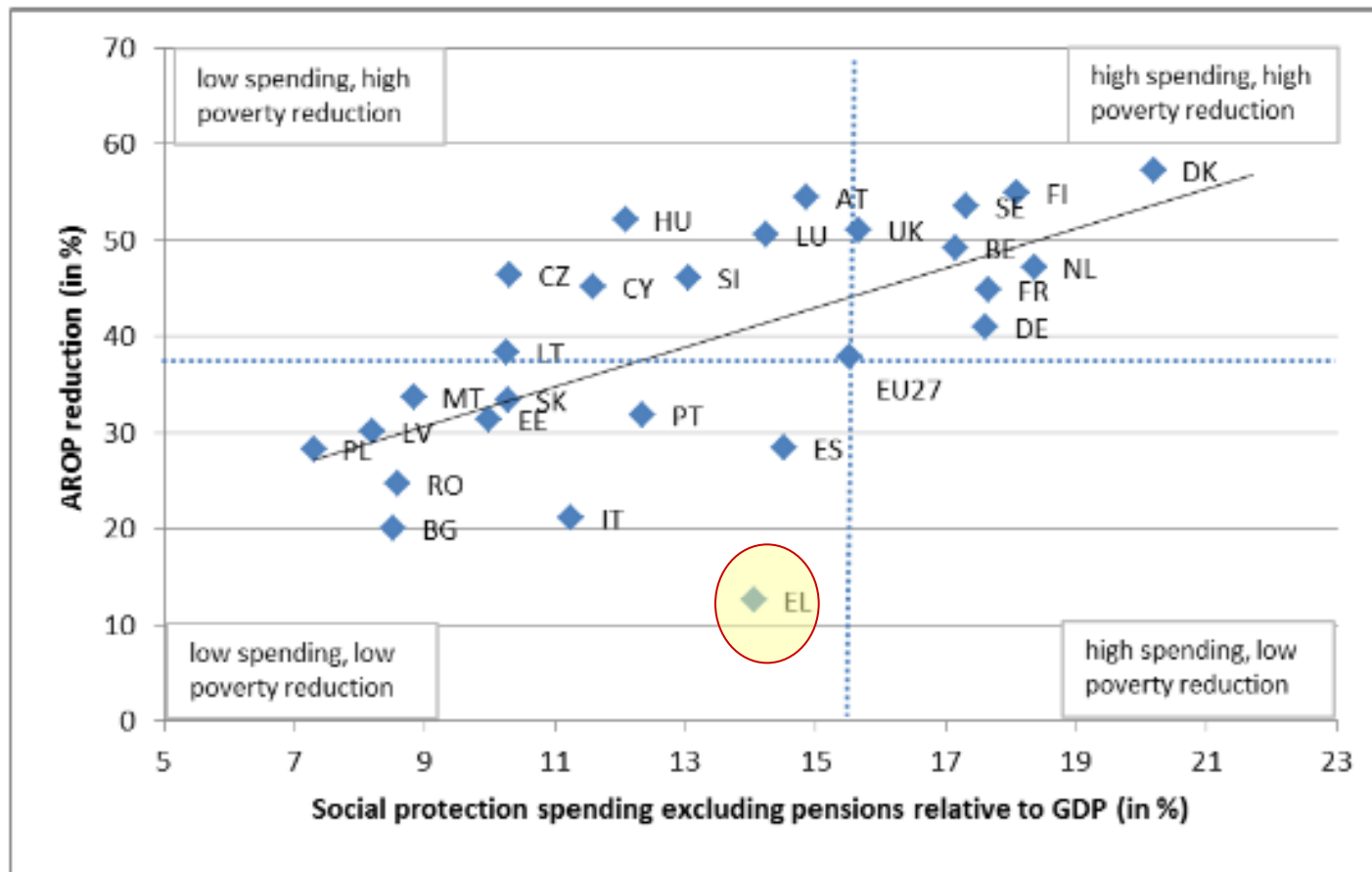
- ❖ In principle, a well-designed system of social protection should be able to mitigate the social effects of an economic crisis
- ❑ *“These are precisely the kinds of emergencies that welfare state programmes and institutions are designed to deal with, so that when a financial crisis turns up we have routine mechanisms [...] for coping with its consequences. Long lines of the unemployed caused by economic crises are the core business of the welfare state”*
- *Source: Castles F.G. (2010) ‘Black swans and elephants on the move: the impact of emergencies on the welfare state’. Journal of European Social Policy*
- ❖ Quite likely, the enormity of the Greek crisis might have put to a severe test *any* welfare state, even the most robust
- ❖ But the specific configuration of the Greek welfare state (strongly supported by political and social actors) made it unfit for the challenge

Greek welfare (-2010)

- ❖ Pre-crisis
- ❖ Disappointing social effectiveness ...
 - ❑ gross inefficiencies in core programmes (pensions and health) remained
 - ❑ income support and social care to the poor and other vulnerable groups neglected
 - ❑ serious gaps in the social safety net (no guaranteed minimum income)
- ❖ ... in spite of rapidly increasing social expenditure
 - ❑ faster than GDP
 - ❑ faster than the EU average

Anti-poverty effectiveness

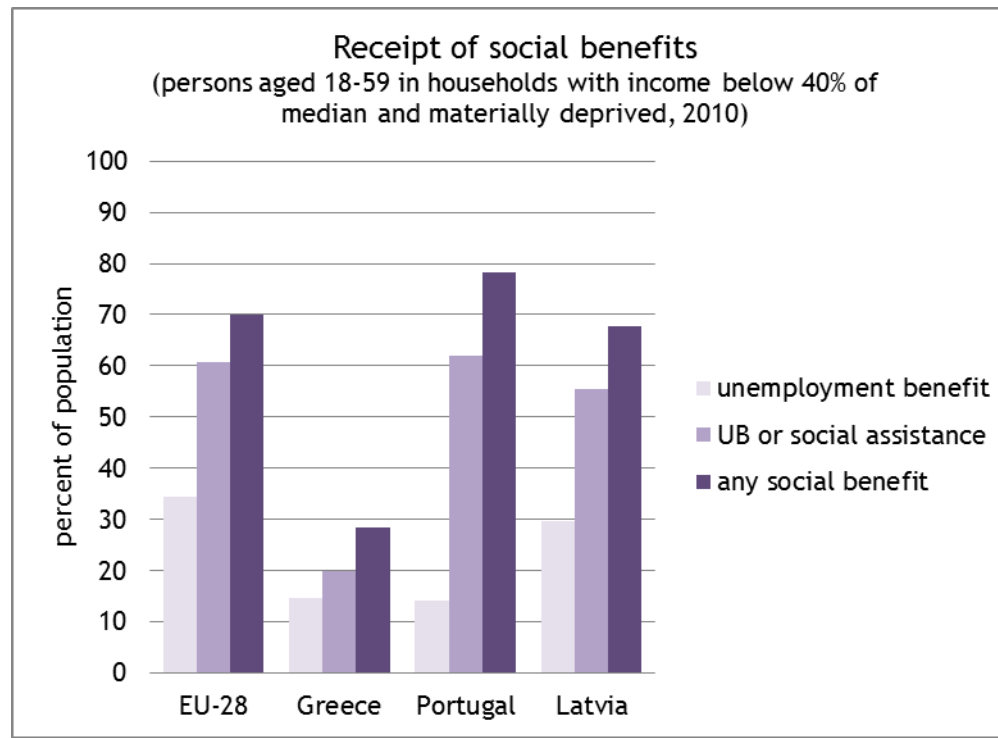
Relationship between social protection spending (excluding pensions, relative to GDP) and relative reduction in the share of population (aged 0-64) at risk of poverty (as a percentage) (2010)



Source: ESSPROS and EU-SILC.

Benefit coverage

- ❖ In Greece, most people in extreme poverty were *not* in receipt of income support



Source: Matsaganis M., Ozdemir E. & Ward T. (2013) *The coverage rate of social benefits. Research Note 9/2013. Social Situation Observatory, European Commission.*

Greek welfare (2010-2013)

- ❖ Post-crisis
- ❖ The welfare state failed to act as an ‘automatic stabiliser’
 - ❑ as the deep recession increased the demand for social protection ...
 - ❑ ... the austerity reduced its supply
- ❖ The political economy of austerity prevented the reallocation of social spending that was needed to soften the impact of the crisis on the most vulnerable
 - ❑ the poor
 - ❑ the unemployed
 - ❑ (and their families)

Greek welfare (2013-2014)

- ❑ The austerity programmes entailed massive fiscal consolidation, especially in the context of the 2013-2014 Spending Review
 - ❑ 5% of GDP in 2013 and 2.25% in 2014

- ❑ Social protection was identified as a key source of savings
 - ❑ cuts in social spending: 45% of total savings
 - ❑ increases in social contributions: another 5%

- ❑ Nonetheless, some (limited) scope was left for policies to strengthen the social safety net

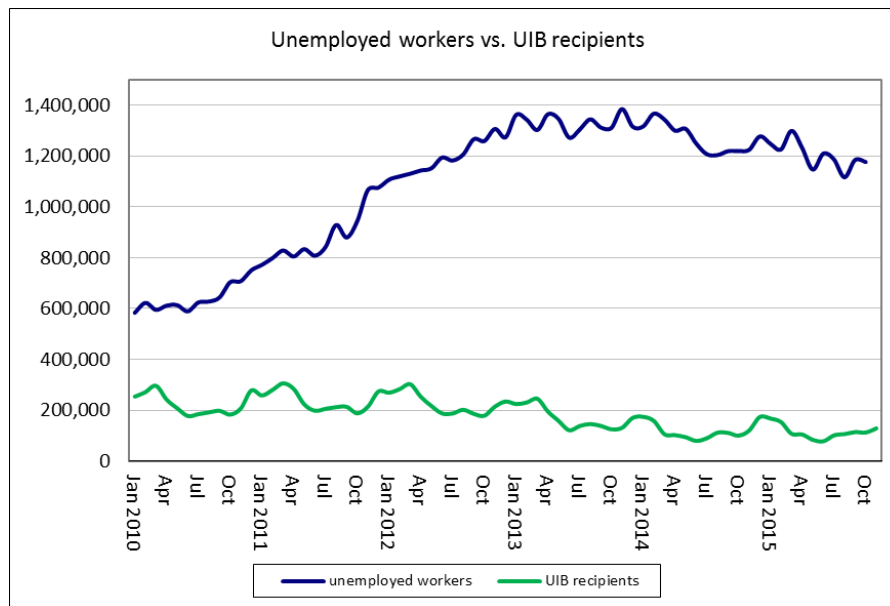
- ❑ (Ratio of contractionary vs. expansionary measures in fiscal terms: approx. 4:1)

Expansionary policies (2013-2014)

- ❑ Policies to strengthen the social safety net
 - ❑ unemployment assistance
 - ✓ eligibility conditions broadened in 2012/2014
 - ✓ a new scheme for the (formerly) self-employed introduced in 2013
 - ❑ minimum income pilot
 - ✓ was to start 1 January 2014 / launched in November 2014 / lasted 6 months
 - ✓ 13 municipalities participated (5.6% of the country's total population)
 - ✓ cash transfer *via* fiscal system / no social workers involved / no activation
 - ❑ child benefits
 - ✓ comprehensive means-tested scheme introduced in 2013
- *social dividend*
 - ✓ *paid as a lump sum in 2014*

Unemployment benefit receipt (2010-2015)

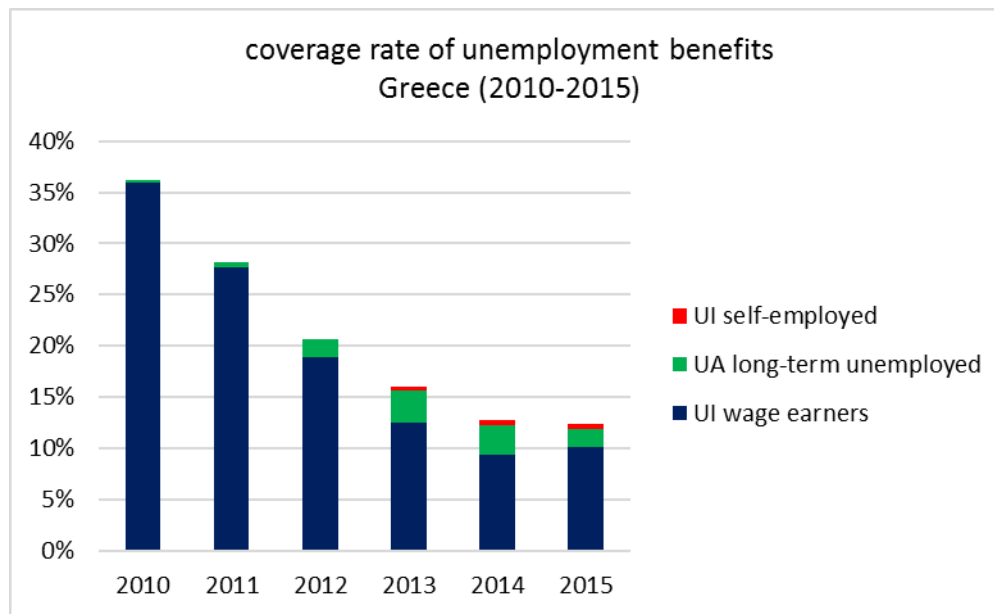
- ❖ Meanwhile, eligibility rules for unemployment insurance benefit for wage earners (the main income support scheme in the event of job loss) were tightened.
- ❖ As a result, while the number of unemployed workers sky-rocketed, the number of UI benefit recipients not only failed to keep pace but actually *fell*



Source: ElStat and OAEA (Public Employment Service)

Unemployment benefit coverage rate (2010-2015)

- ❖ The coverage rate of *all* unemployment benefits ...
- ✓ (*UI for wage earners + UA for the long-term unemployed and UI for the self-employed*)
- ❖ ... fell from 36.2% in 2010 to 12.4% in 2015



Source: *ElStat and OAEA (Public Employment Service)*

Single child benefit (2013-)

- ❑ Until recently, the majority of families received little or no support, even when they lived in poverty. In contrast, child benefits for larger families, and family allowances for core workers, were rather generous. From January 2013, a non-categorical single child benefit has been introduced on a means-tested basis in place of large family benefits and child tax credits
- ❑ Unlike most of the programmes it replaced, single child benefit is available from the first child, and for a larger age group (up to 18; or up to 23 if in college; or irrespective of age if disabled)
- ❑ The new benefit, even though welcome, is quite modest: it pays from €13 to €40 per month to families with one child, and from €82 to €245 per month for families with three children
- ❑ The number of recipients is approx. 750,000 families (i.e. 53% of all households with at least one child under 25 years)
- ❑ Spending on the scheme reached 0.33% of GDP in 2013 (in gross terms)

Social dividend (2014)

- ❑ In 2014, after six consecutive years in recession, the Greek economy registered a small positive growth (GDP up by +0.7%).
- ❑ In view of that, the then (centre-right/centre-left coalition) government decided to pay a one-off lump-sum 'social dividend' to low-income groups to (partially) compensate them for their losses during the crisis and austerity.
- ❑ The social dividend was worth €500 for a single person or €833 for a couple with two children (€647 per receiving household on average).
- ❑ The number of recipients was over 690,000 households (16% of all households).
- ❑ Spending on the scheme amounted to 0.25% of GDP in 2014.
- ❑ In 2015 the scheme was discontinued.

Dealing with the 'humanitarian crisis' (2015-)

- ❑ The anti-austerity radical left/nationalist right coalition that emerged victorious from the 2015 general election(s) had made a lot of political capital by railing against the (allegedly) Troika-engineered 'humanitarian crisis'
- ❑ But those who might have been led to expect that strengthening social safety nets would now be high priority were in for disappointment
- ❑ The new government's anti-poverty measures were less ambitious even relative to those introduced under the previous government
 - ❑ energy subsidy (max. €40 pcm)
 - ❑ rent benefit (worth €160 pcm for a couple with two kids, paid directly to landlords)
 - ❑ food card (voucher to purchase food, worth €160 pcm for a couple with two kids)

Dealing with the 'humanitarian crisis' (cont'd)

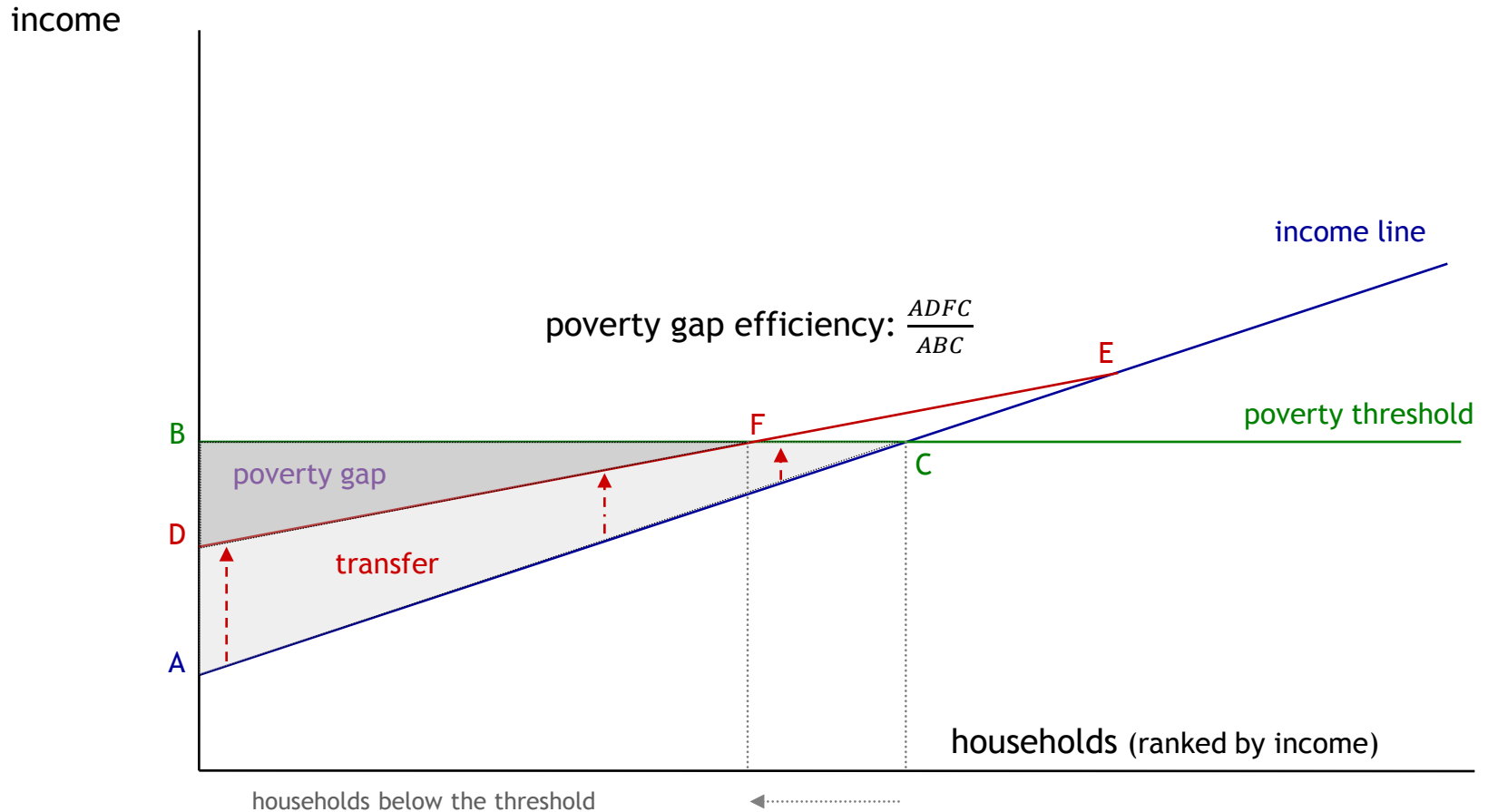
- ❑ The total resources set aside for the government's three new measures amounted to €200m in all (0.11% of GDP)
- ❑ Actual spending turned out to be just below €130m (0.07% of GDP)
 - including the projected cost of 2015 entitlements paid in 2016
- ❑ Food card accounted for the lion's share (€114m)
- ❑ The previous government's discretionary measures - which had been rightly criticized as inadequate - had amounted to more:
 - €654m (0.36% of GDP) in 2013
 - €1,135m (0.64% of GDP) in 2014
- ❑ Furthermore, other anti-poverty policies were neglected
 - ✓ No action to improve the coverage of unemployment benefits
 - ✓ No enthusiasm for a guaranteed minimum income (though this may change)

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- The policy context
 - **Our research**
 - Summing up

Assessing three emblematic policies

- ❖ We have assessed the effectiveness of three ‘flagship’ policies ...
 - ❑ single child benefit (2013)
 - ❑ social dividend (2014)
 - ❑ food card (2015)
- ❖ ... in reducing extreme poverty
- ✓ using the European tax-benefit model EUROMOD
- ✓ in terms of Beckerman’s poverty gap efficiency

Beckerman's poverty gap efficiency



Source: Beckerman W. (1979) 'Impact of income-maintenance payments on poverty in Britain, 1975'. *Economic Journal*.

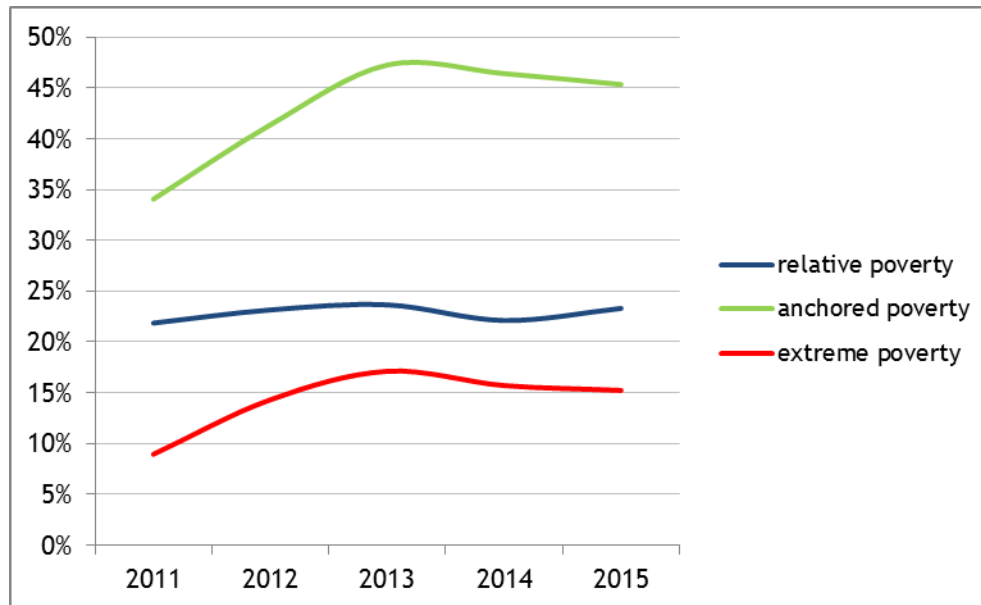
Three poverty indicators

- ❖ Baseline poverty indicators in 2011-2015 were estimated in terms of three different thresholds using EUROMOD
 - ❑ The standard poverty rate shows the proportion of the population with a net equivalent disposable income below 60% of median.
 - *2015 threshold: €824 per month for a couple with two children*
 - ❑ The second indicator 'anchors' the poverty line at 60% of the 2009 median, adjusted for inflation.
 - *2015 threshold: €1,271 per month for a couple with two children*
 - ❑ The third indicator measures the proportion of population who are unable to purchase the cheapest basket of goods consistent with dignified living without dissaving, borrowing, or getting into debt.
 - *2015 threshold: €640 per month for a couple with two children living in Athens, in owner-occupied housing*

Source: EUROMOD version G2.76 (with labour market adjustments)

Poverty rates

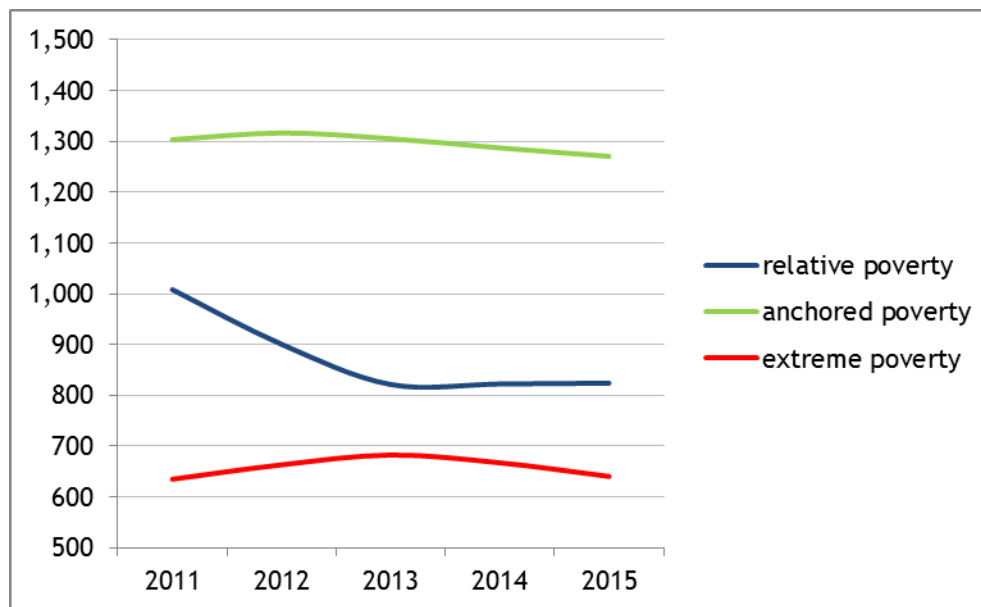
- ❖ In 2015, estimated headcount rates stood at:
 - 23.2% (relative poverty)
 - 45.3% (anchored threshold)
 - 15.0% (extreme poverty)



Source: EUROMOD version G2.76 (with labour market adjustments)

Focus on extreme poverty

- ❑ Arguably more relevant for policy (?)
- ❑ The extreme poverty threshold has recently converged to the relative poverty threshold ...
 - 50% of median income in 2013



Poverty thresholds (€ pcm)
Source: EUROMOD version G2.76 (with labour market adjustments)

Focus on extreme poverty (cont'd)

- ... in spite of the fact that our basket of goods is *very Spartan*.
- ❖ The 'social participation budget' for food alone ('healthy diet & kitchen equipment') estimated under the *EU reference budgets* project for a couple with two children in Athens was €915 per month (67% of median in 2015).
 - HBS data show that in Greece poor families with children spent 52.5% of their income on food (in 2012)

Focus on extreme poverty (cont'd)

- ... in spite of the fact that our basket of goods is *very Spartan*.
- ❖ Health care is *not* part of the basket of basic goods. Health services assumed to be free at the point of use (at least for the poor). We know this is not true:
 - HBS data show that in Greece the poor spent 8.3% of their income on health (in 2012)
 - Eurostat data show that 13.9% of respondents in the bottom income quintile reported unmet need for medical examinations because 'too expensive' (in 2013)

Baseline extreme poverty rates (2013-2015)

baseline	extreme poverty rates		
	2013	2014	2015
all	17,1%	15,7%	15,0%
gender			
men	17,7%	16,3%	15,7%
women	16,5%	15,2%	14,4%
age			
0-15	21,0%	18,5%	17,6%
16-29	27,2%	25,5%	24,4%
30-44	18,8%	17,2%	16,3%
45-64	17,9%	17,2%	16,5%
65+	3,5%	2,7%	2,7%
households whose head is			
unemployed	75,2%	71,2%	70,8%
employee (public sector or banking)	0,7%	0,6%	0,7%
employee (private sector excl. banking)	14,5%	12,5%	12,2%
liberal profession	5,2%	5,2%	4,9%
own account worker	25,1%	23,8%	22,7%
farmer	22,1%	17,8%	18,1%
pensioner	4,5%	4,1%	3,8%
inactive, student, other	48,1%	47,2%	43,8%

Source: EUROMOD version G2.76 (with labour market adjustments)

Effect on extreme poverty rate

		effect on extreme poverty rate		
		child benefit	social dividend	food card
baseline	actual	2013 17,1%	2014 15,7%	2015 15,0%
	counterfactual	17,9%	16,8%	15,2%
all		percentage point difference		
		-0,8	-1,1	-0,2
gender				
	men	-0,9	-1,2	-0,2
	women	-0,7	-1,0	-0,2
age				
	0-15	-1,9	-1,7	-0,4
	16-29	-0,8	-1,2	-0,2
	30-44	-1,1	-1,3	-0,2
	45-64	-0,4	-1,0	-0,2
	65+	0,1	-0,3	0,0
households whose head is				
	unemployed	-0,4	-2,9	0,0
	employee (public sector or banking)	-0,5	-0,1	0,0
	employee (private sector excl. banking)	-1,4	-1,3	0,0
	liberal profession	0,0	0,0	0,0
	own account worker	-1,9	-1,2	-1,4
	farmer	-2,3	-2,9	-0,2
	pensioner	0,1	-0,6	0,0
	inactive, student, other	-0,4	-0,3	0,1

Source: EUROMOD version G2.76 (with labour market adjustments)

Effect on extreme poverty gap

		effect on extreme poverty gap		
		child benefit	social dividend	food card
baseline	actual	2013	2014	2015
	counterfactual	51,1%	50,8%	48,6%
		53,1%	52,2%	52,5%
all		proportional change		
		-8,0%	-9,1%	-8,7%
gender				
	men	-8,2%	-9,2%	-8,7%
	women	-7,8%	-8,9%	-8,6%
age				
	0-15	-17,5%	-10,5%	-13,5%
	16-29	-4,5%	-7,4%	-8,7%
	30-44	-10,6%	-10,4%	-8,3%
	45-64	-3,2%	-8,2%	-6,7%
	65+	0,9%	-14,4%	-4,5%
households whose head is				
	unemployed	-5,1%	-6,8%	-9,8%
	employee (public sector or banking)	-16,5%	-14,2%	0,0%
	employee (private sector excl. banking)	-12,0%	-11,4%	-9,3%
	liberal profession	-21,1%	-5,3%	0,0%
	own account worker	-11,0%	-11,9%	-9,7%
	farmer	-17,3%	-16,3%	-3,6%
	pensioner	-3,2%	-15,4%	-3,3%
	inactive, student, other	-6,4%	-8,1%	-3,3%

Source: EUROMOD version G2.76 (with labour market adjustments)

Budgetary effects

	effect on fiscal costs		
	child benefit	social dividend	food card
gross			
€ million	638	503	188
% of GDP	0,36%	0,28%	0,11%
net			
€ million	10	503	188
% of GDP	0,01%	0,28%	0,11%

Note: Net costs of child benefit take into account spending on third child benefit, lifetime pension for mothers of many-children and birth grant abolished when the single child benefit was introduced (in 2013)

EUROMOD version G2.76 (with labour market adjustments)

Overview

- ❑ How did the three ‘flagship’ anti-poverty policies fare?

- ❑ Single child benefit (2013)
 - ❖ extreme poverty rate reduced by 0.8 pp. (overall); 1.9 (children)
 - ❖ poverty gap efficiency: 8.0% (overall); 17.5% (children)
 - ❖ cost: 0.33% of GDP (gross)
 - ❖ net cost (relative to previous array of family benefits and tax relief): negligible

- ❑ Social dividend (2014)
 - ❖ extreme poverty rate reduced by 1.1 pp. (overall); 1.7 (children)
 - ❖ poverty gap efficiency: 9.1% (overall); 10.5% (children)
 - ❖ cost: 0.25% of GDP

- ❑ Food card (2015)
 - ❖ extreme poverty rate reduced by 0.2 pp. (overall); 0.4 (children)
 - ❖ poverty gap efficiency: 8.7% (overall); 13.5% (children)
 - ❖ cost: 0.07% of GDP

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 - **Summing up**

Taking stock

- ❑ Anti-poverty policy in Greece remains extremely low profile - which is rather impressive for a country having just experienced such a dramatic increase in poverty
- ❑ Policies to strengthen the social safety net *were* introduced (sometimes on the insistence of the country's lenders), but they were mostly 'too little too late'
- ❑ The three 'flagship' policies assessed (even though welcome) made only a small difference to extreme poverty in Greece - which remains *very* high
- ❑ Large protection gaps still evident
 - too few unemployed workers receive income support (even when they are very poor)
 - Greece still lacks a social assistance scheme of last resort (GMI-type or equivalent)