The State of Welfare in Greece: a call for courageous structural reforms

Yiannis Korkovelos *argues that a strategy of containing welfare costs regardless of the social costs has proven to be a difficult balancing act. While Greece has been getting to grips with its public finances, developments in healthcare and pensions have exposed a critical need for genuine structural reform*

Four years on from the March 2010 bailout package, Greek society has experienced several major events – ranging from the positive return to the markets, the stay in the euro and the failure of the "grexit" scenario, the successful performance by the national football team in the Brazil World Cup, the arrest of one of the country's most wanted terrorists Nikos Maziotis, to the abhorrent establishment of far-right populist Golden Dawn party as the third biggest political voice.

I am not going to address any of these events… Instead, I will assess changes arising from the bailout in two areas which matter to present and future generations of Greeks: healthcare and pensions.

My view is that adopting cost-containment policies in order to deal with unaddressed legacies of incomplete reforms over the last thirty years, while at the same time protecting the weakest, has proven to be difficult. By highlighting the ambivalent relationship between the crisis and the country's welfare system, the aim of this article is to argue that cost containment without significant structural reforms cannot address welfare problems.

My argument is organised into three parts. In the first, I examine changes to the pensions and health care system. The second part looks at the impact of these on Greece's public finances and the third gauges their impact on poverty and inequality.

Overall, I argue that Greece's main concern for the near future is whether the political elites, trade unions, entrepreneurs and the electorate will adopt a mentality of consensus for needed, but hopefully, much fairer cost-containment policies accompanied this time with courageous structural reforms.

The welfare changes:

Pension system

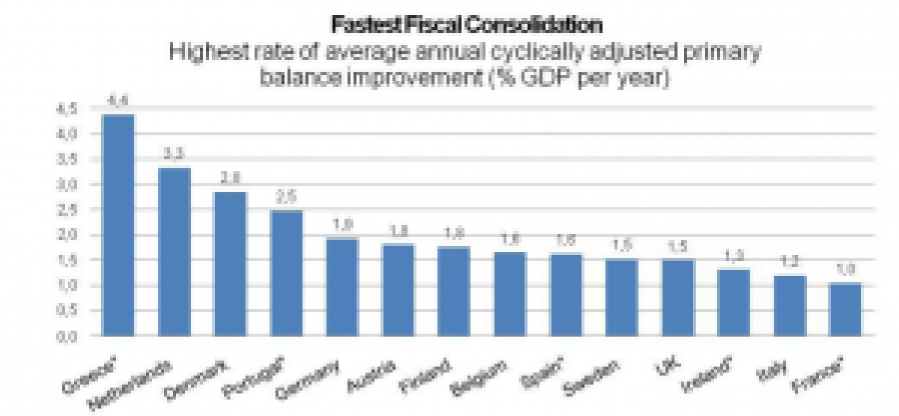
In July 2010, the Hellenic Parliament approved Law 3863, with preamble L3863/10 noting: "the objective is to change the system radically". Surely, important steps have been taken aiming at replacing the fragmented public social insurance with a unified, multi-tier system.[1] Cost containment is achieved by abolishing on average over 25 % of annual pension income.

Healthcare

As announced in the Greek National Reform Programme 2011-2014[2], the objective of the changes in healthcare is: *cost-containment in parallel with policies enhancing efficiency.* In 2011, the four largest sickness funds merged into the National Organisation of Health Service Provision (ΕΟΠΥ) in an attempt to reduce public expenditure. Additionally, reforms in pharmaceutical policy regarding pricing and reimbursement of prescription drugs were introduced.

The deficit: A positive stance

In 2009, Greece's public deficit was over 13% of GDP while the public debt was standing at 115% of GDP. Since the changes, Greece has achieved an annual rate of fiscal consolidation of 4.4 p.p. of GDP on average. As proudly pointed out on numerous occasions by Government officials this is the fastest fiscal consolidation ever achieved in the developed world (Greek Ministry of Finance, 2013).



Source: Hellenic Republic Ministry of Finance (2013)

Pensions

Prior to the changes, fiscal sustainability problems were evident in the pension system. As of 2009, pension expenditure was projected to rise across the EU to 12.5% of GDP by 2060 (EC, 2009). Whilst Member States that have suffered mostly from the financial crisis are expected to experience a slightly larger rise, Greece's projected spending is significantly higher (24.1%) highlighting the budgetary pressures exerted on a country whose pension system represents almost one-quarter of national income.

Table 1 Projected spending on public pensions (% of GDP)

	2007	2020	2030	2040	2050	2060
Greece	11.7	13.2	17.1	21.4	24.0	24.1
Spain	8.4	9.5	10.8	13.2	15.5	15.1
Portugal	11.4	12.4	12.6	12.5	13.3	13.4
Ireland	4.0	4.6	5.4	6.4	8.0	8.6
EU	10.1	10.9	11.4	12.3	12.5	12.5

Source: European Commission (2009)

The Greek pension system also suffered from an institutional fragmentation: according to the 2006 Social Budget the earnings-related retirement benefits were paid out through more than 175 social insurance agencies each being subject to different rules which in turn favoured five particular categories of citizens over others[3].

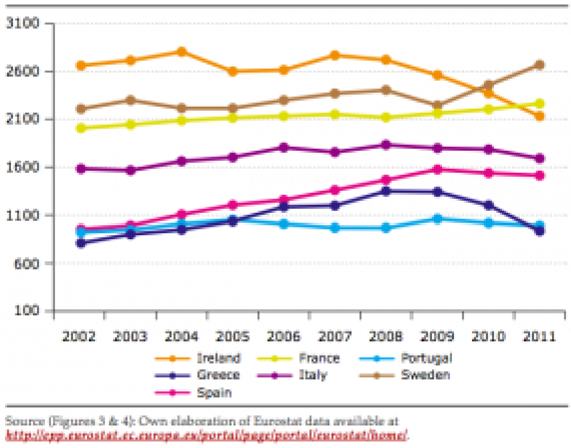
Overall, changes in the pension system have had a positive impact with regards to the country's fiscal problems. Whilst the 2009 projections of pension spending suggested that it would reach

24.1% of GDP in 2060, a more recent report estimated that it would rise to 14.6% (EC 2012).

Healthcare

From 2000 till 2009 total health spending rose from 8.0% of GDP to 10.2%, growing in per capita terms by an average annual rate of 5.7% (OECD 2013). Furthermore, as of 2010, Greece had the highest number of doctors per capita in the EU whilst also the highest pharmaceutical expenditure (ibid). Strikingly, much of this was paid for privately: in 2008 the share of public expenditure on health remained one of the lowest in Europe, while the share of out-of-pocket payments was one of the highest (ibid).

The recent changes have had a positive impact with regards to the sectors' fiscal problem. As of 2011, total expenditure on pharmaceuticals had fallen to 2.6% of GDP whilst total health expenditure decreased from 10.2% of GDP in 2009 to about 6% in 2013[4] (Graph 3).



Public health expenditure per head (Euros, 2005 constant prices)

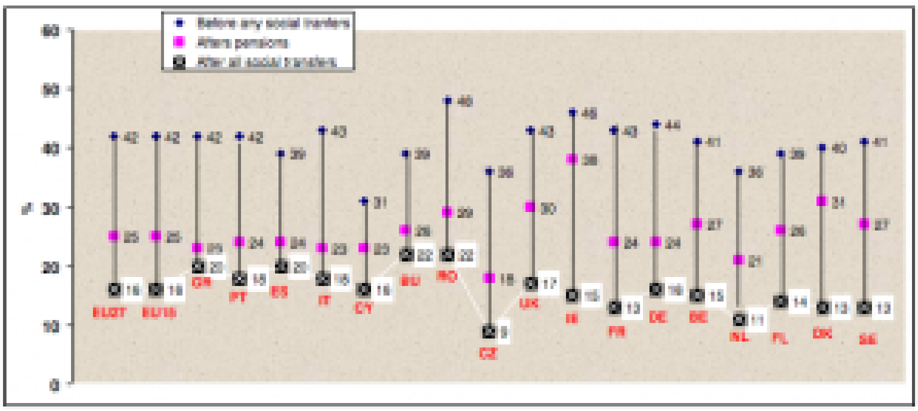
Source: CROP Poverty Briefs, Petmesidou (2013)

A more obscure stance:

Pensions

I will make four brief observations coming, from a slightly more pessimistic point of view. First, whilst the introduction of a multi-tiered system is expected to have positive fiscal effects, one should also consider the distributional impact. For instance, a number of powerful pension schemes have succeeded in keeping their independent insurance status (journalists doctors, engineers, lawyers, and Bank of Greece employees) allowing for a potential aggravation of income disparities in society.

Second, the across-the board drastic cuts in pensions create unequal access to private insurance. This enables for inequality to emerge amongst different socio-economic groups, creating an exacerbating income polarization among future retirees. Third, the indiscriminate reductions in pensions increase the risk for elderly people of being more affected by poverty. This is of particular importance as poverty among the elderly was substantially high even prior to 2008.[5] In addition, social transfers in Greece do not seem to be very effective with regards to reducing poverty (Graph 3). Hence, one has to highlight the redistributive effect of pensions (Annual National Report, p14 2011).



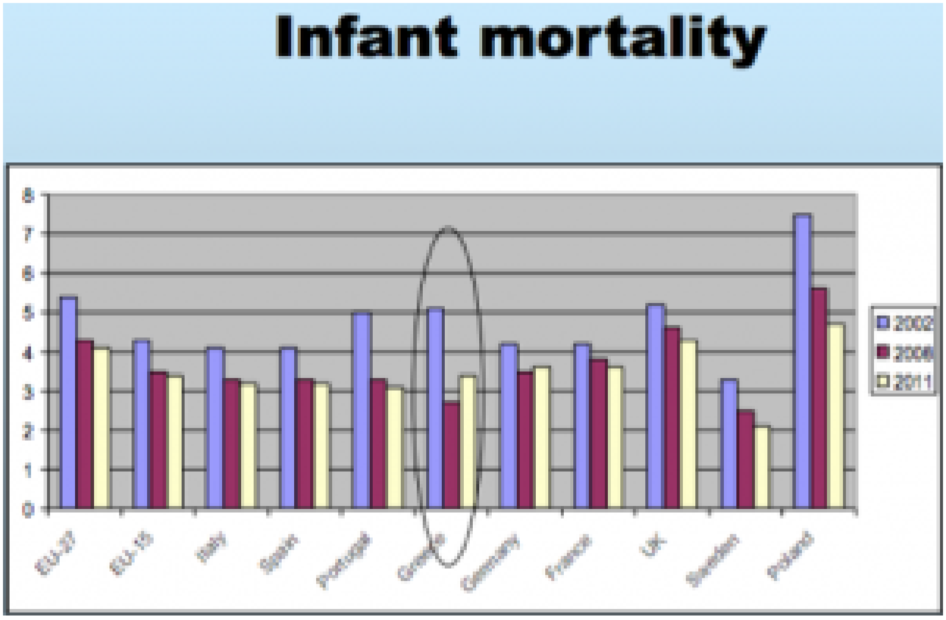
At risk of poverty before and after social transfers (2009)

Source: Annual National Report 2011, European Commission

Fourth, one should not ignore problems regarding social insurance budgeting given the dramatic fall in contributions; unemployment rates have increased dramatically and wages decreased coupled with a rise in benefit demand.

Healthcare

Whilst the decline in health expenditures could have perhaps been explained by efficiency savings evidence suggests that access to healthcare has recently worsened (Petmesidou 2013). In January 2013, the Centre for Health Services Research concluded that one in two Greek citizens are unable to cope with the rising cost of pharmaceuticals.[6] These worrying developments are followed by 20% of NHS hospitals being closed in 2013 due to the EOPPY's inability to cover hospital fees (Venieris, p24, 2013). Overall, whilst current demand for public health services is rapidly escalating, drastic cuts are threatening the capability of health services to deal with the situation with new problems emerging across a number of dimensions: access, equity, and service quality.



Source: Petmesidou (2013) "Crisis and austerity: a painful watershed for the Greek welfare state?"

Conclusion

Four years on, Greek reforms are advancing. Nevertheless, progress is still short of victory over the forces of lethargy and the ever present underlying political interests. Indeed, a myriad of bureaucratic problems combined with political and trade union interests have combined to impair 'real' change.

Surely, important positive signs have emerged as a result of policy responses imposed in return for the current €172bn bailout: as of April 2014 Greece has returned to international capital markets, budget figures for the first five months indicate that revenues will match targets of this years' primary surplus of 1.5% of GDP (before interest payments), and growth is projected to be positive this year with further optimism for 2015.

However, my brief analysis highlights the following: cost containment without significant structural reforms cannot address welfare problems. On one hand, spiralling debts and the fragmentation of the welfare state have had a significant impact on the country's sovereign debt crisis, requiring change and legitimising efforts for cost containment. On the other hand, the crisis and the policies adopted to counter it deprive the welfare state from its essential mechanisms, which are crucial during times of recession. In short, welfare changes did produce some improvements, but most changes include cuts which were indiscriminate and had an impact on poverty and inequality, coupled with a timid presence of structural reforms.

This serves as a reminder that Greece's main concern for the near future is not necessarily whether its foreign creditors will agree to another debt relief or whether the beautiful Greek islands of Syros and Santorini will enjoy record number of tourists this summer. Instead, it is whether the political elites, trade unions, entrepreneurs and the electorate will adopt a mentality of consensus for needed, but hopefully, much fairer cost-containment policies accompanied this time with courageous structural reforms.

I am optimistic and hope that the country which according to ancient Greek mythology gave genesis to *Ευρωπη* (Europa) will recover soon. Hope, on its own though, is not enough, courageous structural reform is what it needed.

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[1]http://www.psa.ac.uk/insight-plus/blog/crisis-and-austerity-painful-watershed-greek-welfare-state

[2] For more detail see: http://ec.europa.eu/europe2020/pdf/nrp/nrp_greece_en.pdf

[3] Matsaganis (2002) 'Social policy and the family in Greece. In: Families and the welfare state in Greece: developments and challenges in the 21st century'

[4]See Petmesidou (2012) : http://www.psa.ac.uk/insight-plus/blog/crisis-and-austerity-painful-watershed-greek-welfare-state

[5]In 2008 the poverty rate for the population over 65 years of age was 22.3% while for those over 75 the rate was 28% (Annual National Report 2011, European Commission)

[6]http://www.crop.org/viewfile.aspx?id=479

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