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REELING UNDER PRESSURE? THE WELFARE STATE AND THE CRISIS IN GREECE

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Abstract

"Long lines of the unemployed caused by economic crises are the core business of the welfare state", as Francis Castles recently wrote. There is little doubt that the economic crisis currently affecting Greece is indeed having a huge impact on the labour market. As a matter of fact, not only have the lines of unemployed become longer, but their composition has changed: for the first time in recent times, they include a great number of male breadwinners in households in which nobody else works. In the light of the above, unemployment threatens to drag whole families into poverty: this is 'the New Social Question' of our times. Nevertheless, while the crisis has greatly raised the demand for social protection, the supply of income support and social care to the must vulnerable of its victims has not risen accordingly. Far from it: although emphatically not under-funded, the Greek welfare state was unfit to cope with the social consequences of the economic crisis in 2009 (when the Greek crisis erupted), and remains so now. If anything, austerity policies did not spare those on low incomes, while structural reforms did not prevent the disruption of essential services and failed to strenghten significantly the social safety net. The paper offers an early analysis of the impact of the crisis on the labour market and the distribution of incomes. It then critically reviews social policy responses in a context of both cuts to social spending and reforms in social programmes. The paper concludes by discussing prospects for social policy in an era of permanent austerity.

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Reeling under pressure?
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1. Greece in crisis

The Greek crisis started off in 2009 as a fiscal crisis, soon turned into a sovereign debt crisis, and finally mutated into a full-blown recession, unprecedented in depth and duration. By July 2012, the Greek economy had already been in recession for four consecutive years, and showed few signs of recovery. The latest official figures (Bank of Greece 2012) estimated the size of (negative) growth in 2011 at -6.9 per cent per cent, and bleakly forecast a further -5.0 per cent per cent in 2012. Based upon that forecast[1], in 2012 GDP will have contracted by as much as 17.4 per cent per cent in real terms relative to 2008. So deep and drawn out a recession had simply no precedence in the country's economic history at peacetime.

The Greek crisis started inconspicuously. As a matter of fact, upon entry to the euro area, Greece had enjoyed a period of fast growth (averaging 4 per cent in 2000–2008). However, behind the façade of prosperity based on strong consumer demand, boosted by cheap credit, lay a largely uncompetitive economy, evidence for which took the form of a current account deficit of 14.9 per cent of GDP in 2008 (up from 5.8 per cent in 2004). More clouds began to gather in the run-up to the general election of October 2009. Immediately after the election, the incoming socialist government announced that earlier fiscal statistics had been misreported by the previous conservative government. What seemed like a routine piece of point-scoring between the country's two largest parties, soon assumed unanticipated dimensions. In fact, the extent of the correction was enormous. Eventually, budget deficit figures for 2009 were revised from 3.7 per cent to 15.6 per cent of GDP, while the corresponding public debt estimate had also to be raised from 99.6 per cent to 129.4 per cent of GDP (Bank of Greece 2012)[2].

The revised figures stunned public opinion at home and shocked markets abroad. Coming just as the European economy smarted from the impact of the 2007-2009 international financial crisis, and coinciding with sluggish growth worldwide, the news revived speculation about the future of the Euro, and shattered the credibility of Greece's claim to remain part of it. Immediately the cost of borrowing began to climb to prohibitive levels, as markets reacted by increasing spreads (that is, interest rate differentials from German government bonds), and by lowering credit ratings (Meghir et al. 2010; Featherstone 2011).

In an effort to bring public finances back under control, the government announced a first round of austerity policies in March 2010. This failed to placate the markets. In April 2010, the rating agency Standard & Poor's downgraded Greece's credit rating to below investment grade (i.e. junk status), while spreads on ten-year government bonds continued to rise sharply to 1,000 basis points (i.e. ten percentage points), from 200 basis points three months before. At that point, Greece effectively lost access to the international financial markets, and a sovereign debt crisis threatened to develop into a solvency crisis.

After much procrastination on all sides, an unprecedented €110 billion bailout package was agreed in May 2010 with the European Commission, the European Central Bank and the International Monetary Fund, designed to cover Greece's borrowing requirements for the next three years. In return for that, the government signed a Memorandum of Economic and Financial Policies. The Memorandum committed the government to sweeping spending cuts and steep tax increases, aiming to reduce the country's public deficit below 3 per cent of GDP by 2014 (IMF 2010; EC 2010). To prove its trustworthiness, the government announced a second austerity package at the same time.

This time the news did manage to impress international markets, but caused strong domestic reaction. Civil unrest reached a paroxysm on 5 May 2010, in the context of a huge and largely peaceful demonstration, when three workers lost their lives as extremists set fire to a high-street bank in Athens. The tragedy cast further doubt on the country's future, and lengthened the odds that the 'Greek programme' might prove effective[3].

Since then, the bailout package and the austerity programme were revised several times. After the Greek Parliament approved a Mid-Term Fiscal Strategy Framework (2012-2015), the Euro area summit of July 2011 improved the terms of the Greek programme by conceding lower interest rates and a longer repayment period (CEU 2011a). When the deal proved ineffective against the markets' bet that the country could not realistically service its foreign debt, and would therefore be forced to default, the European summit of October 2011 opened the way to a negotiated reduction in the nominal value of Greek government bonds, colloquially known as a 'haircut', and a new loan. The two instruments, 'accompanied by a strengthening of the mechanisms for the monitoring of implementation of the reforms', were hoped to help Greece reduce its public debt to 120 per cent of GDP by 2020 (CEU 2011b).

Under the terms of the austerity policies, public sector pay and pension benefits were cut. Nominal reductions were compounded by rising inflation, caused by VAT hikes as well as rising oil prices internationally and product market rigidities domestically. In the context of tax reform, the government changed the schedule of personal income tax, raised the top rate and announced a clampdown on tax evasion.

Austerity policies were introduced when the economy was already in recession, and thus made it deeper still. As a result of business failures, job losses started to mount to unprecedented levels. The latest figures available at the time of writing (November 2012) showed that the unemployment rate in August 2012 had climbed to an all-time high of 24.4 per cent of the workforce.

In a bid to reverse the rise in unemployment, boost competitiveness and revive the economy through 'intenal devaluation', the statutory minimum wage was cut in February 2012 by 22 per cent to €585 per month, and by 32 per cent to €510 per month for workers aged below 25. The cut, presented to a notably unenthusiastic Greek government by the 'troika' as a condition for securing the release of the new loan, had to be eventually enforced by decree, given that trade unions as well as employer representatives had shortly before released a statement that the minimum wage ought to be maintained at its current level in nominal terms.

In workplaces across the country, the cut in statutory minimum wages reverberated throughout the earnings scale. Coming in a period of rising unemployment and shrinking profit margins, and conceived as a remedy to both, the cut had one clear effect: it shifted the balance of power further against workers and in favour of employers. A series of institutional reforms, aiming to render the labour market more flexible (but not more secure), further reinforced this shift. Meanwhile, the effect of falling wages on prices was nowhere near as strong: the inflation rate did decline (to nearly 1 per cent), though it remained positive. In this context, by the end of 2012 average earnings were estimated to have fallen by 22.9 per cent in real terms relative to 2009 (Bank of Greece 2012).

So severe and drawn out a crisis had simply no precedence in Greece's economic history at least since the late 1940s. Needless to add, prospects for recovery at home were negatively affected by the wider uncertainty abroad, concerning the survival of the European common currency (OECD 2011; IMF 2011).

It was in the context of this bleak outlook that the general election of 6 May 2012 took place. When this proved inconclusive a second election was called for 17 June 2012, following which a coalition government was formed. Still, the heterogeneity of the parliamentary majority and the staunch resistance to austerity on the part of opposition parties bode ill for political stability.

This paper analyses a particular aspect of the Greek crisis: the role of the country's system of social protection. Its main thesis is that the relationship between the crisis and the welfare state in Greece is ambivalent: the welfare state can be cast as a villain, at least partly responsible for the crisis, as well as one of its victims. And yet, an effective social safety net remains one of the few instruments known to us capable of preventing the economic crisis from turning into a social catastrophe. In this context, the paper argues that the crisis can be an agent for renewal, giving birth to a radically reformed welfare state.

The structure of the paper is as follows. Section one introduces the subject by briefly reviewing the most salient aspects of the Greek crisis. Section two examines the role of the welfare state as a social 'shock absorber', and argues that its capacity to mitigate the social impact of the crisis was already seriously compromised before the onset of the crisis. Section three reviews the contribution of the welfare state to the crisis, its failures including poor performance and exploding costs. Section four discusses the effects of the crisis on the welfare state in terms of cuts and reforms. Section five concludes by speculating on prospects for the welfare state in an era of permanent austerity.

2. **The welfare state as a shock absorber**

There is certainly more to the welfare state than simply poverty relief. Other objectives, such as insurance and consumption-smoothing over the lifetime, are also important (Barr 2012). However, no modern system of social protection can be said to be complete and/or successful without a comprehensive social safety net for those threatened by extreme poverty. A crisis puts pressure on social safety nets, and tests their capacity to function as 'shock absorbers'[4].

There can be no doubt that, in the case of the Greek crisis, that pressure was particularly strong. In May 2008 unemployment figures reached their lowest level for over a decade: 325,000 persons, 6.6 per cent of the labour force. By August 2012, the number of jobless workers had reached 1.2 million, while the unemployment rate stood at 24.4 per cent (ElStat 2012).

Until recently, labour market institutions and norms protected 'male breadwinners', often at the expense of their wives and (grown-up) children. Without doubt, this was rather a socially conservative pattern: it stifled mobility, forced many women to remain housewives, and prevented many young adults from leaving the parental home before an unusually late age[5]. However, it had at least one key advantage: by protecting 'primary earners', it ensured that unemployment did not directly translate into poverty. Indeed, the unemployed and the poor seemed to be two different populations: the former comprised mostly wives of employed men and young persons sharing the parental home, while the latter concerned elderly persons and others living in rural areas plus marginal groups in cities.

Since the onset of the crisis, unemployment rose for men as much as it did for women, i.e. by more than thirteen percentage points, to 19.7 per cent and 26.5 per cent respectively (first quarter of 2012 compared to the same quarter of 2009). Youth unemployment, in particular, for those aged 20-29, increased enormously by 22-23 percentage points (to 36.6 per cent for men and 45.1 per cent for women). However, this time men of prime age (30-44) were not spared: their unemployment rate went up from a mere 5.6 per cent in 2009 to 18.1 per cent in 2012. Many of those concerned now found themselves living in jobless households, and with few other resources to draw upon.

The impact of the crisis on jobs has been asymmetrical in other respects. Generally speaking, unemployment affected manual workers more than non-manual ones, men more than women, employees in small firms more than those in larger ones, young workers more than older ones, and foreign workers more than Greek nationals.

Loss of earnings was also significant. Average real gross earnings for employees lost almost as much ground in the three years since the onset of the crisis (-22.9 per cent in 2009-2012) as they had gained in the nine years before that (+23.3 per cent in 2000-2009). In the public sector, the loss of earnings (-26.3 per cent) more than offset gains made since 2000 (+22.7 per cent). In the banking sector, losses were relatively limited (-16.8 per cent), but so had been earlier gains (+17.1 per cent). In the utilities sector, pay awards had been extremely generous in 2000-2009 (+56.8 per cent in real terms), so recent losses wiped out only about half of that (-27.9 per cent in 2009-2012). In other private firms, where most job losses took place, real earnings lost an estimated 20.8 per cent in 2009-2012 (they had grown by 24.4 per cent in 2000-2009). Finally, the minimum wage lost 24.5 per cent of its real value over the last few three years, having grown by 19.7 per cent in the nine years before the crisis (Bank of Greece 2012). Earnings from self employment (more common in Greece than elsewhere) also declined, but in that case reliable data were more difficult to find.

Note that the above applied to the formal sector of the economy. In the so-called informal sector (concerning part of the construction industry, agriculture, tourism and other services), where employers were subject to no constraints other than those implicit in the free play of (unregulated) market forces, earnings may have declined by even more[6].

In view of the above, it must be beyond doubt that the Greek crisis has caused severe income and job losses. But has it also caused poverty and inequality to increase?

Predicting the distributional impact of a crisis is less straightforward than may appear at first sight. Its effects on family incomes vary substantially, depending not only on the earnings and employment status of workers directly affected, but also on those of other members of the households in which they live, as well as on the capacity of the tax-benefit system to absorb macroeconomic shocks (Atkinson 2009; Nolan 2009). Moreover, the distributional impact may vary depending on the dimension considered: in a crisis, average living standards may decline, but inequality need not rise, and the estimated effect on poverty will be less pronounced when the relevant threshold is set as a proportion of average (or median) incomes than when it is held constant in purchasing power terms (Jenkins et al. 2011).

In other words, the effect of the Greek crisis on the income distribution has to be estimated directly rather than simply assumed or read off labour market or GDP growth figures. Since income statistics (whether national household budget surveys or cross-national ones like EU-SILC) tend to become available two or three years after their reference period (unlike labour force statistics which can be typically released within two or three months), the only realistic alternative to waiting is microsimulation (Figari et al. 2011).

Results of work in progress (Matsaganis and Leventi 2012) for 2009-2012, using the European tax-benefit model EUROMOD (www.iser.essex.ac.uk/euromod), can be summarized as follows. As a result of the crisis, relative poverty in Greece (as measured conventionally, by reference to a poverty threshold of 60 per cent of median incomes) has remained more or less stable just below 20 per cent. Instead, when fixing the poverty line at 60 per cent of 2009 median real incomes, poverty appeared to have risen to 35.8 per cent in 2012. While both indicators revealed different parts of the same picture, the latter was arguably better suited to periods of rapid change in living standards, capturing the sense of impoverishment when nominal incomes fall and prices rise (as is currently the case).

Looking at poverty by category, the situation of households headed by unemployed workers emerged as clearly alarming. Not only has their poverty rate increased dramatically (from what was a very high level before the crisis), but so has their relative weight in the population, because of the sharp rise in unemployment among primary earners. Considering the gaps in the social safety net (of which more below), and that long-term unemployment was expected to remain high in the foreseeable future, the plight of those in jobless households had become the new social question *par excellence*.

Changes in inequality were less pronounced. On the basis of available evidence, income losses in relative terms (i.e. as a share of their income) were greater for the poorest 10 per cent than for the richest 10 per cent of the population, even though in absolute terms (i.e. in Euros) the top income decile suffered a significant loss. Otherwise, for income deciles 2 to 9, the income distribution has remained virtually unchanged.

These findings were broadly in line with results for Ireland, where the recession was deeper albeit less protracted than in Greece (Callan et al. 2011), as well as with early estimates for other countries hit by the Great Recession (Jenkins et al. 2011).

The picture is bleak at the moment as nearly 600,000 jobs have been lost since the onset of the crisis, the unemployment rate is almost 25 per cent (ElStat 2012), another 4 per cent of the workforce wishing to work are not looking for a job, or working part-time because a full-time job could not be found (Bank of Greece 2012), and income losses are severe enough to push a staggering 36 per cent of the population below the poverty line (fixed at 2009 levels in real terms). All this implies that the need for social protection in Greece is more pressing than at any other point in the past since the end of the Civil War in 1949. The question is: has the welfare state risen to the occasion?

3. **The welfare state as a villain**

In general, a recession (even a 'great' one) should not overly trouble a well-designed system of social protection. Mitigating the social effects of economic crises is what public institutions spectacularly failed to do in the 1930s, but what (among other things) modern welfare states were created for:

> *Long lines of the unemployed caused by economic crises are the core business of the welfare state* [...] *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.* (Castles 2010, p.96)

On the eve of the crisis, the Greek system of social protection fitted perfectly the celebrated characterisation of the Southern European model of welfare as a combination of serious gaps in the social safety net and 'unparalleled peaks of generosity reserved for the protected core of the labour market' (Ferrera 1996, p.21).

Social expenditure in Greece had always been lower than the EU27 average (23.5 per cent vs. 26.4 per cent of GDP in 2000), but shortly before the onset of the crisis it had practically converged (26.3 per cent vs. 26.7 per cent of GDP in 2008). In 2009, social expenditure increased as a proportion of GDP both in Greece (to 28.0 per cent) and the EU as a whole (to 29.5 per cent), but the better reflexes of European welfare states in 'coping with the consequences of the crisis', as well as the differential timing of the crisis itself in Greece and the rest of Europe, meant that the distance widened again (Eurostat 2012).

Peaks of generosity were mainly – but not exclusively – located in the pension rights of public sector employees (in the civil service and the utilities sectors) and professionals (judges and lawyers, doctors and pharmacists, engineers and architects). Workers in private firms outside banking and the self-employed did not get such a good deal. In a context of institutional fragmentation, the parameters defining entitlements differed enormously: for instance, the statutory retirement age for men ranged from 45 to 65 years for a full pension. Variation was also wide in terms of contribution rates, minimum length of contributory period, reference earnings and replacement rates. The general picture was complex, but systematic cleavages could be identified between groups of pensioners, actual or future. In general, pension rules favoured the self-employed over wage earners, public over private sector employees, middle-aged contributors over younger ones, standard over non-standard workers, and men over (most) women.

Pensions had emerged as the most highly contested policy area in Greek politics over the last few decades. In an ageing world, pension expenditure as a proportion of national income was expected to rise everywhere. In view of that, since the 1990s most European countries had taken measures to counter the fiscal effects of unfavourable demographics. By and large, the reforms have defused the pensions 'time bomb'. For instance, spending on pensions in the EU was estimated to rise gently to 12.3 per cent of GDP in 2040 and 12.5 per cent in 2060. In countries affected by the current crisis, pension expenditure was set to increase a bit more rapidly than in the EU27 as a whole: in Ireland to 6.4 per cent and 8.6 per cent of GDP in 2040 and 2060 respectively; in Portugal to 12.5 per cent and 13.4 per cent; in Spain (to 13.2 per cent of GDP in 2040 and to 15.1 per cent in 2060. Nevertheless, nowhere was pension expenditure projected to rise as steeply as in Greece: to 21.4 per cent of GDP in 2040 and 24.1 per cent in 2060 (EC 2009). It was hard to view such a burden on public finances as anything than unsustainable.

Spiralling deficits were so often analysed in economic (efficiency) terms that it is easy to lose sight of the key fact that they primarily amount to a violation of equity, in this case between generations. Indeed, nothing can undermine the celebrated 'inter-generational contract' as much as the decision (it matters little whether by omission or commission) to send the bill for current largesse to future generations of workers and pensioners. It is not difficult to work out what a pension system absorbing almost one-quarter of a nation's resources might require in terms of contribution rates or, conversely, what the necessary benefit cuts might be if reform is left until too late. Moreover, as explained above, largesse was unequally shared also within the current generation of retirees.

In spite of rising expenditure, poverty in old age remained above the European average (22 per cent vs. 19 per cent). What is more, the gap between Greece and the EU in terms of poverty rates was wider in the 75+ age group (28 per cent vs. 22 per cent). Inequality measures (S80/S20 income quintile share ratio for those over 65: 4.5 in Greece vs. 4.0 in the EU27) told a similar story. In sum, the country's pension system failed to deploy the huge resources it commanded to meet fundamental distributional objectives.

And yet, although Greek pensions were socially inequitable as well as fiscally unsustainable, attempts at significant reform had ended in failure. A combination of fierce opposition on the part of labour unions and other professional associations, and lack of resolve on the part of the political class, led to paralysis. Particular episodes of aborted reforms, and of legislation passed only at the cost of nearly total capitulation to the demands of privileged groups, are extensively documented in a growing literature (see references cited in Matsaganis 2011). As explained shortly, the crisis changed all that.

Uneven access to benefits was the main feature of supplementary pensions too. The relevant social insurance schemes concerned about 62 per cent of all insured workers. While coverage was practically universal in the civil service and public utilities, and extensive among private sector employees (95 per cent), it was much more limited in the case of the liberal professions (48 per cent), extremely low for self-employed workers (2 per cent), and almost non-existent for farmers. Since most schemes were set up in the 1970s, and had therefore not yet reached maturity, only 38 per cent of pensioners received a supplementary pension on top of their main pension. While two in three retired employees were supplementary pension recipients, that was the case for only one in five former members of a liberal profession, one in seventy of retired self-employed (no farmers were involved). Benefits were almost randomly set by each social insurance scheme separately, at between 20 per cent and 45 per cent of end-of-career earnings.

Elsewhere in the system, gaps in the social safety net were considerable. Child benefits were only substantial for large families, as were family allowances for core workers. In contrast, the majority of families – those with one or two children – received little or no support, even when they lived in poverty. Public assistance with housing costs was limited. The social rented sector was under-developed, while a means-tested rent subsidy was only available on a contributory basis, i.e. beyond the reach of most poor families. Short-term benefits in case of sickness or maternity ranged from quite generous (for labour market insiders) to inexistent (for non-standard workers). Contributory unemployment insurance seemed adequate on paper – but its duration was short (a maximum of 12 months) and its coverage less than complete. Disability benefits were extremely fragmented even by Greek standards, with no fewer than 10 different categories with 22 sub-categories, often hiding absurd examples of differential treatment (for example, in 2011, a blind person received €362 per month if in employment or education, but €697 if a member of the legal profession). As a result of stringent eligibility conditions and very low rates of take up, non-contributory unemployment assistance failed to play the major role envisaged when it was introduced in 2001. Finally, Greece remained the only EU country where a comprehensive social assistance scheme, acting as a social safety net of last resort, was not available – not even on a local or regional basis, as in Italy, Spain and Hungary (Matsaganis 2011).

On a different register, the heavy reliance of Greek welfare on contributory social insurance disenfranchises non-standard workers and their families. The risks inherent in that were fully revealed by the crisis, as hundreds of thousands of workers lost their jobs and hence access to social benefits for themselves and their dependants[7].

Health care, as explained elsewhere (Matsaganis 2012), was emphatically not under-resourced; there was no shortage of qualified doctors, of hospital beds, or of expensive biomedical technology.Yet, the reputation of hospitals remained poor, many people held doctors in low esteem, services were costly to users, while the burden of private health spending fell more heavily on lower income groups. This amounted to a systemic failure whose causes might be identified as design faults (mainly the survival of Bismark-style social health insurance even after the creation of a Beveridge-style national health service in 1983), blurred lines of responsibility, and poor administrative capacity. To the above should be added what could only be described as a 'moral crisis': a significant shift away from 'knightly' towards 'knavely' behaviour, in Le Grand's terms (2003). This shift, evident in the rampant individualism and loose ethical standards of medical doctors and other actors, had seriously compromised the norms of public service.

In fact, poor administration and loose standards were evident in other policy areas as well. In March 2012, the government estimated the cost of benefit fraud at over €4 billion, equivalent to 2 per cent of GDP or 13 per cent of all social expenditure! Several factors converged to bring this about. The pervasiveness of a political culture based on the exchange of favours for votes, as shown by the case of invalidity pensions in Crete (traditional battleground of rival politicians), twice as common than elsewhere in the country[8], was one such factor. The complicity, often morphing into full-blown corruption, of medical doctors and local administrators sitting on committees processing disability claims[9], was another. Low levels of 'civicness' and a widespread attitude of mutual suspicion between citizens and the state did the rest[10].

As this brief outline suggests, the Greek welfare state was singularly unfit for the crisis. As a matter of fact, when the crisis did arrive, the policy response was rather feeble. In 2009 and early 2010, a string of 'special support schemes' were solemnly announced, targeting existing benefit recipients to whom a few hundred euros were paid as a lump sum. Then came the bailout package, and social policy (like all public policy) came under the strict supervision of the EU-ECB-IMF troika.

4. The welfare state as a victim

By far the most popular account of the relationship between the crisis and the welfare state in Greece is that the latter has simply been a casualty of the former. The 'demolition thesis' is often invoked in the political discourse, in media reports, and in scholarly publications[11].

That the crisis and the policy measures to counter it are profoundly affecting the welfare state cannot be seriously contested. Change occurs in at least two ways. On the one hand, 'fiscal consolidation' (i.e. the attempt to reduce budget deficits through austerity policies) may deprive the welfare state of precious resources – unless, of course, special care is taken to protect social benefits and services. On the other hand, the crisis may act as a catalyst for change: a 'critical juncture' (Pierson

2004) that makes reforms more urgent than ever, and sets in motion far-reaching transformations.

Rather predictably, proponents of the 'demolition thesis' view reforms, irrespective of their actual content, in exactly the same way as cuts: as neoliberal attacks on the welfare state. To judge the extent to which this view is justified, we need to examine the evidence. Both benefit cuts and welfare reforms are reviewed in some detail below.

Benefit cuts

There is little doubt that social benefits were not made safe from cuts to public expenditure. Pensions, especially higher ones, were significantly reduced in nominal terms. Under the 2010 austerity policies, prior to which pensions (and salaries) were paid in 14 monthly instalments, the 13th and 14th pay checks were abolished: they were replaced by a new flat-rate vacation allowance of €800 p.a. (which was only paid to pensioners aged over 60 whose pension did not exceed €2,500 per month).

At the same time, a 'Pensioners Solidarity Contribution' was introduced[12]. This amounted to a tax on pensions at steeply rising rates. In 2010, the contribution rate ranged from 3 per cent (pension bracket €1,401-€1,700 per month) to 10 per cent (pensions over €3,500 per month). Pensions below €1,400 a month were exempt. In 2011, all contribution rates above the €1,701 cut-off point were drastically increased. For pensioners aged over 60, the new rates ranged from 6 per cent in the pension bracket €1,701-€2,000 per month (up from 4 per cent in 2010), to 14 per cent for pensions over €3,500 per month (up from 10 per cent in 2010). For younger pensioners (aged below 60), even higher rates applied: from 12 per cent in the pension bracket €1,701-€2,000 per month, up to 24 per cent for pensions over €3,500 per month. Pensions in the €1,401-€1,700 bracket continued to be taxed at 3 per cent, while those below €1,400 a month remained exempt.

A similar 'Solidarity Contribution' on supplementary pensions was also introduced in 2011: the contribution rate ranged from 3 per cent (€301-€350 per month) to 10 per cent (€650 or more per month). Supplementary pensions below €300 a month were exempt.

Moreover, supplementary pensions were further reduced in 2012 by a rate that was inversely related to benefit levels: by 10 per cent for pensions between €201 and €250 per month, by 15 per cent for pensions in the €251-€300 per month bracket, and by 20 per cent (pensions above €300 per month). Supplementary pensions below €200 a month were left intact.

On the whole, social insurance organisations were caught between a rise in benefit claims and a fall in contribution income. In an extreme case, payment of means-tested rent subsidy, provided by the Workers' Housing Organisation (*OEK*), was wholly suspended in 2010. What apparently made the scheme vulnerable was the fact that most rent subsidy recipients were non-Greek (even though in most cases fully meeting contributory and other conditions). In a context of rising xenophobia (partly fuelled by concerns about soaring crime rates), the pattern was repeated in February 2011, when on the helpful suggestion of the far Right in Parliament, a clause explicitly designed to exclude foreign immigrants ('a minimum 10 years of permanent and continuous residence in Greece') was added to the eligibility conditions for benefits to large families.

In a similar condition (dwindling receipts, soaring expenditures), the Manpower

Employment Organisation (*OAED*) seemed content to leave the income test for eligibility to unemployment assistance unchanged in nominal terms since 2001, allowing recipient numbers to dwindle to 733 in 2009 and 1,850 in 2010. These figures corresponded to approximately 0.4 per cent and 0.7 per cent of all long-term unemployed workers, or 2.7 per cent and 5.1 per cent of those eligible respectively[13].

Equally unsettling was the government's misconceived bid to crack down on benefit fraud. In one instance, in November 2010, *EKAS* (a means-tested top-up on pensions, known as the "pensioners' social solidarity supplement") was suddenly withdrawn from 15,285 pensioners (about 5 per cent of all recipients) in *IKA* (the main social insurance agency) alone. When 8,447 of them appealed immediately, they were told their case could not be examined before April 2011, due to a shortage in personnel. The same pattern of administrative ineptitude causing unnecessary hassle and temporary interruption of income support was to be repeated.

Funding cuts also affected the proper functioning of public services, even where the scope for efficiency improvements was substantial. This seems to be the case in health, where spending rose fast in the heady years immediately preceding the crisis. In fact, faster than GDP (which, as mentioned earlier, grew itself at an average annual rate of 4 per cent), as shown by the fact that total health spending went from 7.9 per cent of GDP in 2000 to 9.6 per cent in 2007. Much of the extra cost was accounted for by pharmaceuticals: the relevant expenditure increased from 1.4 per cent of GDP in 2000 to 2.0 per cent in 2007. According to the Memorandum, public health spending should be brought down to 6 per cent of GDP or less by 2012 (it was at 5.8 per cent in 2007), while public expenditure on pharmaceuticals should not exceed 'the European average' of 1 per cent of GDP (it was 1.78 per cent in 2007 in Greece, up from 0.95 per cent of GDP in 2000).

On that evidence, the required cuts, while significant, should have probably been feasible to achieve in a well-run health service without fatally compromising vital services. The trouble is that the Greek National Health Service (*ESY*) cannot easily fit that description. If it were better run, doctors and managers on the ground should have been able to eliminate waste and guarantee essential health care on reduced budgets. But this, for reasons briefly analysed in the next section, has not been the case. Instead, the cuts were introduced from above, item by item, were implemented clumsily and sometimes randomly, and seemed to work mostly by creating supply shortages, rather than by achieving proper savings. On the whole, the prevailing mood was a bitter distributional struggle and a scramble for shrinking resources on the part of those who make their living working for or with the National Health Service[14].

Farther from the public gaze, more vulnerable beneficiaries suffered more, as the case of the Home Help programme (a popular domiciliary care scheme aimed for elderly persons able and willing to live at home if supported) demonstrates. Discontinued by the conservatives when European funds ran out, the programme was reintroduced in 2010 by the socialist government in a distorted version: now targeted to elderly persons living with unemployed relatives, the move secured European Social Fund financing but left an estimated 30 per cent to 40 per cent of previous beneficiaries no longer eligible.

In all these respects, policy makers failed to protect recipients of essential social benefits[15].

Welfare reforms

As explained above, Greek pensions, in spite of being fiscally unsustainable as well as socially inequitable, seemed to be immune to reform – until, that is, the Memorandum of Economic and Financial Policies was dictated to the Greek government by the international 'troika' of donors (the EC, the ECB and the IMF) in May 2010.

Indeed, the passage of Law 3863, approved by a narrow majority in Parliament in July 2010, was the first significant pension legislation since the early 1990s. The broad outline of the law had been laid out in the Memorandum [agreed by the Greek government and the international 'troika' of donors (the EC, the ECB and the IMF) in May 2010] – down to the provision that in the new system the annual accrual rate should not exceed 1.2 per cent on average[16]. The reform, widely criticised as neoliberal, did indeed imply lower pension benefits and a higher age of retirement for all – especially for some of the privileged groups accustomed to getting much more in benefits than they had ever paid in contributions. Nonetheless, in terms of structure, the reformed system (to be introduced from 2015) might almost be described as Scandinavian – at least, by IMF standards (for a more detailed analysis, see Matsaganis and Leventi 2011).

Specifically, the reform introduced a quasi-universal basic pension and a contribution-related proportional pension. The latter will be calculated as lifetime earnings multiplied by annual accrual rates multiplied by the number of insurance years. To enhance incentives, accrual rates increase with career length, from 0.8 per cent per year for workers with less than 15 insurance years, to 1.5 per cent per year for those with 40+ insurance years. The risk is that low-paid workers, with loose attachment to the labour market and uncertain career prospects, might see little point in paying contributions – and hence face poverty in old age. The basic pension was set at a modest €360 per month in 2010 prices. Access conditions fell short of full universality: those failing to meet the contributory conditions for a proportional pension will have to pass an income test as well as a residence test.

True to form (and against the advice of the 'troika' of donors), the reform accommodated the demands of the liberal professions (medical doctors, law practitioners and engineers), press workers and Bank of Greece employees to preserve their own separate schemes, effectively opting out of the reformed system. Moreover, it also protected the acquired rights of public utility workers and banking employees hired before 1983, and those of uniformed workers (the police, military etc.) irrespective of date of entry. Finally, the reform did not at all affect farmers, whose contributory pension was phased in gradually since 1998 on more favourable terms. In all these respects, the familiar pattern of powerful groups securing for themselves favourable treatment at the expense of less powerful ones reasserted itself – even under emergency conditions.

Supplementary pensions had escaped policy makers' attention for a long time. Even the 2010 reform (Law 3863) made no provision for supplementary pensions – nor, for that matter, for separation payments paid as a lump sum on retirement to civil servants and workers in public utilities. And yet, in 2012 supplementary pensions were more unsustainable and inequitable than main pensions had been before the 2010 reform.

Supplementary pension schemes had been originally set-up to be self-funded: employee and employer contributions would pay for pension benefits, requiring no state subsidy. However, with a typical contribution rate of 3 per cent plus 3 per cent of current earnings, and a benefit rate of 20 per cent to 45 per cent of end-of-career earnings, it was only a matter of time before the relevant schemes got into serious trouble. In 2009, total expenditure on supplementary pensions reached 2 per cent of GDP, out of a total pension spending of 13.4 per cent of GDP.

In early 2012, the 'troika' demanded a reform of supplementary pension schemes 'designed in consultation with the European Commission, ECB and IMF staff'. Its objective should be to stabilise pension expenditure, guarantee the budgetary neutrality of these schemes, and ensure medium- and long-term sustainability of the system' (IMF 2012, p.62). In the context of strict conditionality, the reform had to be completed 'prior to the disbursement' of the next tranche of the loan. In record time, and with no prior debate, a draft bill was hastily prepared, presented to Parliament, approved by a majority of MPs (those affiliated to the parties of the ruling coalition), and made it to the statute books as Law 4052 in March 2012.

The reform merged all existing schemes into a single supplementary pension scheme (*ETEA*), refashioned as a 'notional defined contribution' system. Individual benefits will be calculated on the basis of a notional rate of return (linked to the rate of growth of the wage bill of insured workers), and a sustainability factor (adjusting benefits in light of demographic trends to eliminate future deficits), both to be periodically revised by the National Actuarial Authority. The new system will apply for all future recipients of supplementary pensions, with older workers enjoying a smoother transition: for those who entered the labour market before the end of 2000, the new method for calculating entitlements will be introduced on a pro rata basis, for contributions paid from 2015.

In view of the above, the 2012 reform of supplementary pensions can be judged as balanced, and with a strong Scandinavian flavour - given that notional defined contributions are the key feature of the Swedish pension system, following its 'path-breaking' reform in the mid-1990s (Palmer 2002).

Other cash benefits, comprising the social safety net, were shown earlier to suffer from poor administration, differential treatment, and significant coverage gaps. Nevertheless, nothing was done to put in place a more effective system of social assistance. Nothing, that was, until mid-2012, when an OECD report explicitly commissioned under the provisions of the 'Greek programme' recommended the radical overhaul of existing benefits.

Specifically, the report's main recommendations were summarised as follows:

> *Define and implement a coherent and comprehensive reform strategy for social welfare in order to strengthen the efficiency and effectiveness of social welfare policy and governance. Establish a task force to define the new system and its governance, and to carry the reform process forward. Abandon universal benefits and move progressively to a system of means tested benefits for various groups of people in hardship. Restrict access to social programmes to the poorest income brackets before transfers. Extend unemployment assistance and its duration, based on a means test. Specifically, extend unemployment benefits by an additional 12 months for existing eligible unemployed, and cover those with no initial entitlement for the same period, based on means testing. Close existing family benefits and replace them with a new single means tested benefit. Close existing disability benefits and replace with a new single means tested benefit. Close the existing housing benefit and replace with a new means tested benefit.* (OECD 2012, p.20)

At about the same time, an IMF periodic review of the 'Greek programme' explained that:

> *In this context, the authorities are to identify 1–2 percent of GDP in additional savings, with the focus on discontinuing non-essential programs and improving the targeting of core programs. The largest potential savings would be possible through replacing most existing programs with a single, income-tested minimum income scheme targeted at the bottom 20 percent of the income distribution (with presumptive income also used to control for evasion. Some savings from the reforms—targeted at ½-1 percent of GDP—would be reinvested in strengthening core programs (for instance unemployment benefits) to protect the most vulnerable.* (IMF 2012, p.19)

The two reform proposals shared a predilection towards means testing, but differed in crucial respects. Most significantly, the OECD explicitly rejected the option of moving towards a guaranteed minimum income scheme, as favoured by the IMF, 'because of the length of time, transitional cost, and administrative difficulties of such a radical development in the current Greek context' (p.57). The objection is certainly not groundless, but could be raised just as well against the principal recommendation of the OECD report that 'the Greek social welfare system would become anchored in means testing' with 'distinct programmes retained for different groups' (p.57).

Under the 2013-2014 Spending Review, aiming to cut public expenditure by almost 3 per cent of GDP on a permanent basis, very little scope was allowed for policies to strengthen the social safety net. A new means-tested child benefit was introduced in place of family benefits targeted to large families, while a minimum income scheme was to be piloted in 2014 in three local areas. Other than that, cuts in social benefits and social services were identified as key source of savings for the purposes of fiscal consolidation.

Part of the explanation for this rather depressing outcome was that, of course, new social benefits cost money – which in turn suggests that, in order to make room for new spending, cuts in other areas of public expenditure would have had to be even deeper. As Pierson (2011) has argued, the main reason social programmes have proved relatively 'resilient' in the 'era of permanent austerity' (from the mid-1970s to the present day) is that, by benefiting large sections of the electorate, they help create coalitions in favour of the *status quo*. Let us set aside for a moment that the current austerity in Greece is much harsher than the 'permanent austerity' of the last four decades in Europe and North America. Pierson's point implies that the coalitions in favour of new social programmes, not yet in force, and potentially benefiting groups that are weak in political and social as well as economic terms, will be a lot less powerful. There is evidence that this is exactly what has been happening in Greece: defenders of the *status quo*, ranging from trade unions in nationalised industries to professional associations (judges, engineers, medics) with good connections to the political establishment, have been quite successful in resisting cuts; as a result, most of the burden of fiscal consolidation is shifted onto less powerful groups (civil servants, other public sector workers including university professors), leaving little space for policy measures aimed for the real victims of the recession (the unemployed, the poor).

In health policy, the most significant development was the amalgamation of the four largest sickness funds, covering over 90 per cent of population, into a National Organisation of Health Service Provision (*EOPPY*), under Law 3918 of February 2011.

The new organisation will be responsible for providing primary care including diagnostic tests and pharmaceuticals prescribed out of hospital. It will be funded by employee and employer contributions, as in the constituent sickness funds, supported by a state subsidy set at 0.6 per cent of GDP annually. A further cash injection of €1 billion per year will be added in the transitory period, to account for the costs of providing primary care to farmers, hitherto only eligible for visits to out-patient hospital departments and rural health centres.

By international standards, the provisions of Law 3918 may be seen as rather unremarkable, if not timid. Nevertheless, the reform provoked extreme reactions, including the occupation of the Ministry of Health by medical activists for several days. The main bone of contention was the remuneration of medical doctors providing services to members of *EOPPY*. Eventually, doctors were allowed to practice privately, and to work part-time for the organisation, providing to patients a maximum of 150 or 200 consultations per month free of charge, in return of a fee of €10 per visit. As a result of this rather odd arrangement, patients had no way of knowing before they set out to visit a doctor whether theirs was among the first 150 or 200 free visits a month.

At the time of writing, the new organization seemed to be in shambles, as doctors protested that they had not been paid for services rendered, patients protested that doctors were either unavailable or asked for an illegal fee, while the chairman of *EOPPY* protested to doctors for lack of cooperation, and to the government for inadequate funding.

How can the experience of welfare reform in Greece since the onset of the debt crisis in 2009 be summed up? With no exception, reforms were forced on a reluctant government, an ill-prepared public administration, hostile interest groups, and a (at best) suspicious public, from above: by the 'troika' of donors. The fact that domestic actors reacted passively to reforms limited their appeal and legitimacy. Moreover, having wasted the long years of rapid growth, reforms had to be implemented at the same time as funding cuts, reducing policy makers' room for manoeuvre, and their capacity to absorb the frictions inevitably created as welfare programmes moved away from the *status quo ante* towards a new equilibrium. On the whole, more progress was made where cash benefits (especially pensions) were concerned, while changes were less successful in policy areas (notably health) involving service provision.

5. **The crisis as an agent for renewal?**

The current crisis has caught the Greek welfare state poorly equipped to cope with its social consequences. And yet, policy responses over the last three years have mostly failed to redress traditional imbalances and to strengthen social safety nets. As a result, the provision of social benefits and services left many victims of the crisis with little or no support, exactly when the need for social protection was greater than ever. The failure to protect low incomes (coupled with the widespread feeling that other injustices, such as tax evasion at top incomes, remained endemic) has dealt a blow to the acceptability of austerity policies. This, in turn, has fuelled protests against the cuts, and raised serious doubts about the feasibility of reconciling the expectations of markets abroad with the requirements of democracy at home[17].

This was not inevitable: social rights in Greece have always been so unequally distributed between categories that the scope for improving social protection, while at the same time trying to cut budget deficits, remained more substantial than elsewhere. Nevertheless, since the onset of the Greek crisis, policy makers have done little to expand coverage and mend holes in the social safety net, using savings from reductions in the generosity of benefits reserved for privileged groups. Rationing resources, scarcer now than ever before, by political influence rather than by need for social protection has often reaffirmed itself as the guiding principle behind the exercise of social policy in Greece.

In the interests of social justice, this evidently had to change. Might not the reforms listed before, recommended (or often dictated) by international agencies, open up opportunities for just such a change? Egalitarian reform brought about through pressure by the 'troika'?

One should distinguish between form and content. The method of many of these reforms was certainly objectionable, if not an offence to democracy and national sovereignty. However, their content was typically an unambiguous improvement on current policies. A multi-pillar pension system, with a (quasi-universal) basic pension and a (quasi-actuarial, contribution-related) proportional pension, plus (for most) a supplementary pension set on the basis of notional defined contributions; closer coordination of social health insurance, coupled by a tighter control of medical spending; a streamlined system of income support, comprising improved unemployment assistance, single child and disability benefits, and extended housing assistance; the real prospect of a guaranteed minimum income scheme being seriously considered for the first time ever - these items had been on the agenda of egalitarian reform of Greek welfare for years (Matsaganis 2005).

At the time of writing, the future of the Euro seemed at risk, and the place of Greece within the Eurozone even more so. It may turn out that popular reaction against austerity reinforces a well-entrenched hostility to reforms, in favour of a nostalgic return to the *status quo ante*. If the preceding analysis is anything to go by, that would be unfortunate. The many failures of the Greek welfare state preceded the current crisis, and made it unfit to cope with its social consequences. Alternatively, a reformed welfare state, less generous to favoured groups, and probably more stringent overall, but also more equitable and more effective at the low end of the income scale, might gradually emerge. The verdict must remain open.

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Notes

[1] Note that all previous forecasts of the rate of growth by the Bank of Greece, the IMF or the EU turned out to be optimistic. In July 2012, the Ministry of Finance estimated that GDP would contract by 7.0 per cent in 2012 and by a further 3.0 per cent in 2013 (against a previous estimate of +1.0 per cent, later revised to 0 per cent in 2013).

[2] Note that the 2009 figures have (so far) undergone six revisions, the latest in October 2011.

[3] It also prompted the celebrated economist and Nobel Prize winner Paul Krugman to comment: ''If Greece were a highly cohesive society with collective wage-setting, a sort of Aegean Austria, it might be possible to [confront the crisis] via a collectively agreed reduction in wages across the board – an "internal devaluation"'. But as today's grim events show, it isn't.' From Paul Krugman's New York Times blog 'The Conscience of a Liberal', entry dated 5 May 2010, rather ominously titled 'Greek End Game' (http://krugman.blogs.nytimes.com/ 2010/05/05/greek-end-game/).

[4] The term *social shock absorber* is rarely used in English, but is common in Italian (*ammortizzatori sociali*).

[5] In 2008, the female employment rate in Greece ranked 25th in the EU-27 (only Italy and Malta scored worse). In 2005, the mean age at which Greek men left the parental home was 30 years (see Ward et al. 2006).

[6] For a description of 'the new proletariat' in Greece, see Mouriki (2010). For a recent analysis of labour market segmentation, drawing on the case of Italy, see Jessoula et al. (2010).

[7] Labour Force Survey data, cited by the Bank of Greece (2012, p.65) showed that in 2011 relative to 2010 the number of those insured with IKA (the general regime) had dropped by 8.7 per cent. The corresponding figures were 8.6 per cent for OGA (the farmers' scheme), 2.8 per cent for civil servants, and 2.3 per cent for OAEE (the self-employed scheme).

[8] In Crete, 20 per cent of all pensions paid to residents of Chania or Iraklio were invalidity pensions, compared to 9 per cent in Athens. Available at: http://www.ethnos.gr/ article.asp?catid=22770&subid=2&pubid=63685163.

[9] In some well-publicised cases, benefit fraud seemed to involve well-organised rackets, as in the Athens district of Kallithea, in the islands of Zante, Chios, Kalymnos and elsewhere. In Kallithea, an investigation found that the managers of the local agency of IKA, the largest social insurance organisation, had approved hundreds of benefits to illegitimate claimants, with whom they split the profits (http://www.tovima.gr/society/article/?aid=448190). In Zante, out of 700 recipients of blind benefit only 40 were found to be eligible. Kalymnos was found to be home to 31 per cent of all disability benefit recipients in the prefecture of Dodecanese, even though accounting for only 8 per cent of its population (http://www.tanea.gr/oikonomia/article/?aid=4703917). In Chios, all 450 recipients of blind benefit (an abnormally high proportion of the local population) were reexamined in July 2012 to establish their legitimacy (http://www.ethnos.gr/article.asp?catid=22770&subid=2&pubid= 63685163).

[10] In July 2012, IKA announced it had identified 8,000 cases of pensions paid for persons who had in fact been dead for years (http://www.ethnos.gr/article.asp?catid=22770&subid=2& pubid=63685163). English readers are referred to the Reuters post 'Greece pulls plug on 200,000 benefit fraudsters' (http://www.reuters.com/article/2012/04/25/us-greece-benefits-idUSBRE83O0G420120425). With respect to 'civicness', only 24.3 per cent of Greek respondents to the 1999 World Values Survey stated that 'claiming government benefits to which you are not entitled' was 'never justifiable', compared for example to 64.9 per cent of Italians (see http://www.worldvaluessurvey.org/index_html).

[11] For emblematic examples of each, see respectively: Chapter 7 of the manifesto of the Coalition of the Radical Left (SYRIZA) (http://www.syriza.gr/theseis) in the run up to the general election of 6 May 2012 ('The onslaught of the last two years led to the total demolition of [the Greek welfare state]'); the rather curiously titled article 'Worried Greeks

Fear Collapse of Middle Class Welfare State' printed by the New York Times on 25 September 2011 (http://www.nytimes.com/2011/09/25/world/europe/as-welfare-state-collapses-greeks-suffer-and-fear-future.html); and the contributions to the November 2011 Newsletter of the Hellenic Social Policy Association on 'The economic crisis and social policy' (http://www.eekp.gr/media/files/en_deltio/newsletter_10-11.pdf).

[12] The introduction of pensioners' solidarity contribution might be seen as a substitute, albeit blunt and inaccurate, for the pension reforms that had failed to materialise until 2010. By taxing more pensioners aged below 60, and those on higher pensions, some justice was restored.

[13] According to Labour Force Survey data, the number of long-term unemployed workers was 222,600 in 2009 and 261,600 in 2010 (first quarter). Note that the corresponding figure in the same quarter of 2012 had more than doubled to 632,500. Naturally, not all long-term unemployed workers are eligible for unemployment assistance. As is standard practice, income conditions apply. However, not only is the income test in Greece excessively severe (€5,000 per annum plus €587 per dependent child), but eligibility conditions also include the requirement that recipients have previously claimed unemployment (insurance) benefit, receipt of which expires after 12 months at the most, and moreover that their age is above 45. Even so, we estimate the number of those eligible for unemployment assistance at 34,383 persons in 2009 and 36,141 in 2010, which implies a non take up rate of 97.3 per cent and 94.9 per cent respectively (Matsaganis and Leventi 2012).

[14] Given that medical doctors tend to be an articulate and well-connected professional category, the state of health care in Greece has attracted considerable international interest. As described in a recent editorial of the European Journal of Public Health: 'The consequences for Greece's National Health Service are now apparent. Those in need are increasingly unable to see doctors. Neighbourhood clinics are closing so people must travel further, and those still open face staffing cuts and reduced opening hours; 26,000 public-health workers (including 9,100 physicians) have lost their jobs. Cuts of 40 per cent to hospital budgets have led to shortages of medicines and supplies. Those who once purchased private health care are turning to the public sector: admissions have fallen by one-quarter in private hospitals while increasing about 40 per cent in hard-pressed public hospitals'. (Stuckler and McKee 2012, p.2) The editorial also cites recent studies on the adverse effects of the crisis on the health status of Greeks, including an alleged rise in suicide rates, a finding contested in a more recent paper in The Lancet (Fountoulakis et al. 2012).

[15] Note that the above was not quite all by way of funding cuts: under the 2013-2014 Spending Review, negotiated with the 'troika' in the summer of 2012, the government planned to set a cap on all pensions (at €2,200 to €2,400 per month), to overhaul the existing system of social assistance benefits and restrict those remaining to the poorest 20 per cent of population through extensive means testing, as well as to intensify efforts to combat benefit fraud.

[16] The *accrual rate* is the rate of return on contributions, and is directly related to the *replacement rate* (pension benefits as a proportion of earnings): the replacement rate equals the annual accrual rate multiplied by the number of insurance years. Therefore, a 30-year career with an average accrual rate of 1.2 per cent results in a replacement rate of 36 per cent.

[17] For an authoritative account of the current crisis in the light of the perennial tensions inherent in democratic capitalism, see Streeck (2011). For a radical analysis of the recent protests in Greece, see Kouvelakis (2011). For a range of views on the riots of December 2008, in many ways a foretaste of what may lie ahead, see the collection of essays in Economides and Monastiriotis (2009).