7. Public sector adjustment amidst structural adjustment in Greece: Subordinate, spasmodic and sporadic

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1. INTRODUCTION

This chapter reviews the post-2009 public sector adjustment measures in Greece. Unlike many public sector reforms in democratic countries, where checks and balances in the system lead to adjustment before dysfunctionality reaches alarming proportions, the ongoing and planned public sector adjustment in Greece is subordinate to a massive fiscal and structural adjustment programme driven by the public debt crisis: public debt was 126 per cent of GDP in 2009 and has now (June 2012) reached approximately 170 per cent.

Although Greek debt accounts for merely 1 per cent of global debt, the possibility of a sovereign default has endangered the survival of the euro and with it the world economy due to the interconnectivity of the global financial system. If this were to happen, it would be the first such default for a high-income economy in more than 60 years. Under these conditions a quick response to avoid a disorderly default and save the global economy in the short term was deemed by the lenders to carry more weight than an orderly adjustment that would put Greece on a sustainable course in the long term with lower social costs.

The structural adjustment measures constituted more a spasmodic fiscal adjustment programme than a carefully designed economic adjustment programme. The initial programme (May 2010) was frontloaded with too many measures to be implemented quickly (2010–13) without the benefit of prior expenditure, functional or social impact reviews. This knee-jerk reaction was associated with massive underperformance of that programme that consistently missed its targets.1 Greece was drawn into a deep recession (expected 20 per cent loss in GDP by end-2012 from its...
2008 level). A second programme followed (February 2012) that not only intensified fiscal measures and accelerated reforms in the public sector but also kept adding new measures in a sporadic way, notably targeting labour relations and employment in the private sector.

As of today, the picture is still changing on a daily basis but, as this chapter discusses, the indications so far are that the part of the structural adjustment programme that referred to the public sector could have been better conceptualized and designed. The structure of the chapter is as follows. Section 2 provides a short overview of the Greek economy and debt. It shows that the need for public sector adjustment was clear in terms both of size and efficiency. Section 3 presents the structure and evolution of the public sector, while Section 4 discusses the public sector adjustment measures and their consequences in terms of employment size, pay, benefits and pensions. Section 5 examines in more depth reforms in the cases of the two largest government sectors, namely health and education. Section 6 summarizes and assesses several effects of the reforms including their social impact. Section 7 concludes by comparing the Greek experience, so far with lessons from international experience, and provides some policy recommendations.

2. OVERVIEW OF THE GREEK ECONOMY AND DEBT

At the end of the dictatorship in 1974, the debt-to-GDP ratio stood at 18 per cent. The restoration of democracy was followed by Greece joining the EU in 1981, ahead of Spain and Portugal, and getting access to generous structural European funds, whose use could hardly be described as prudent. Excessive government borrowing that took place in the next couple of decades and accelerated after Greece joined the euro in January 2001 enabled the government to borrow at practically zero ‘spreads’.

Debt-financed economic growth followed. Focusing on the decade prior to the onset of the crisis (2009), the economy averaged annual real GDP growth close to 4 per cent, making Greece one of the best performers in the European Monetary Union (EMU). This buoyant growth largely reflected a domestic demand boom, high real wages, low interest rates, rapid credit expansion and loose fiscal policy. Greece reached a high standard of living, among the top 30 countries in the world in terms of per capita income. It was ranked 22nd according to the UNDP’s Human Development Index (UNDP 2010), as well as The Economist’s quality-of-life index (The Economist Intelligence Unit 2005). In 2008, the per capita gross domestic product (GDP) in Greece in purchasing power parity
(PPP) stood at US$30,076, which corresponded to 95 per cent of the EU average (Eurostat 2009).

The boom proved to be unsustainable. Public funds were not channelled into investments with high social returns. Public expenditures kept increasing and were driven by clientelism, nepotism and populism that are now generally admitted to have prevailed during most of the periods when the alternating governments of Conservatives and Socialists were in power since 1974. The public sector became bloated and was in need of adjustment in terms of size, structure and performance. However, the alarm bells rang only when the debt-to-GDP ratio exceeded 120 per cent in 2009 and the budget deficit reached nearly 16 per cent of GDP (against the then officially reported figure of only about 6 per cent).

Due to the unsustainable debt dynamics (Monogios and Korliras 2012), Greece became both illiquid and insolvent. However, the initial adjustment programme in 2010 treated Greece mainly as illiquid, that is, unable to meet its current debt repayment obligations. It did not (as it should) treat Greece as insolvent, that is, unable to repay its debt in the long run. The ‘long run’ came as early as within a year (by the end of 2011) by which time the adjustment programme was ‘readjusted’. The financial markets kept panicking despite attempts to ‘ring-fence’ Greece. The most generous debt forgiveness package in world history that followed in February 2012 seems to have averted a European crisis (at least, at the time of writing) though the final outcome is still uncertain amidst emerging concerns about Spain and Italy (Tzannatos 2012).

3. THE STRUCTURE AND EVOLUTION OF THE PUBLIC SECTOR

The Greek public sector comprises two main components: general government and public enterprises/organizations. In turn, general government comprises central government, local government and social security entities. Central government is further divided into central administration, legal entities of private law and legal entities of public law. The central administration is made up of the presidency, ministries (offering central and decentralized services), independent authorities and decentralized authorities (Figure 7.1). The composition of the public sector is indicated in Figure 7.2.

Statistics on the size and composition of budgetary allocations, as well as on the total number of public sector employees, remain elusive. Only recently, and as part of the ongoing adjustment, has the government begun to undertake a census of its employees, a comprehensive spending
Source: OECD (2011a).

Figure 7.1  Structure of the Greek public sector
review, a review of social programmes and a functional review of public administration. According to some sources, public employment in all its forms had reached nearly 1 million by 2009.3

Based on official data, employment in the public sector increased from 264,000 in 1970 to 824,000 by 2009, equivalent to 3 per cent per annum. During that four-decade period, employment in the private sector increased by only 30 per cent, from 3 million to 3.8 million – an annual growth of less than 1 per cent. Self-employment remained practically unchanged at around 1.7 million, still a sizeable number. Specifically during the decade that preceded the crisis, Greece was at the top among OECD countries in terms of employment growth in the public sector (Figure 7.3).

The uncontrolled expansion of employment in the public sector had implications for its internal structure, which was transformed to satisfy personal ambitions more than operational needs. The organizational sprawl of the Greek public sector over the years can be seen with reference to the Ministry of Labour during the period from 1991 to 2008 when its

Note: SOEs (state-owned enterprises) include only those where the government has majority of shares (Chapter A).

Source: General Accounting Office.

Figure 7.2 Composition of general government permanent employment by sector, Greece, 2010 (number and as a percentage of total employment)
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departments increased from 31 to 45 after no less than 15 ad hoc ‘generations’ of laws and decrees.4

More generally, individual ministries ended up, on average, with 439 internal structures. As many as 20 per cent of departments are staffed by only one employee while the number of persons in managerial positions is far too large compared to the number of employees under their supervision: more than half of departments have three or fewer subordinates, and more than 90 per cent of all departments have fewer than 20 employees (Figure 7.4). The majority of departments do not have the critical size to be efficient as they are at times created to satisfy the career progression of individuals rather than national objectives. The prevailing culture and procedures in the central administration encouraged a ministry-based silo vision of governance, leaving little room or inclination for cooperation and operational development (OECD 2011a).

Moreover, organizational sprawl affects the supervisory role of government for the private sector and the quality of public services. The resulting practices focus on the fulfilment of inward-looking narrow competencies as set out in the law and hundreds of legal texts. The use of performance assessments in personnel decisions in central government was minimal,

Source: International Labour Organization (ILO), LABORSTA database.

Figure 7.3 Employment growth (%) in central government and public corporations, OECD, 2000–2008
while working hours were among the lowest in the OECD compared to the private sector.\textsuperscript{5} Salary levels in the government sector were primarily a reflection of time in service rather than performance. The end result has been little room or inclination for policy coordination across and even within ministries. This has also created ample space for discretionary behaviour by officials through favours or extortion.\textsuperscript{6}

Compensation of government employees as a percentage of GDP was practically the same in Greece in 2001 as in the euro area, at around 10.5 per cent. By 2009 the Greek share had gone up to 13.4 per cent, while it remained practically the same in the euro area. ‘Special wage’ regimes in Greece, such as those for judges, the military, doctors, academics and employees in state-owned enterprises (SOEs), accounted for one-third of the public sector wage bill (Mnemonio 2, February 2012).

In terms of individual wages, average monthly earnings of public sector employees were higher than those in the private sector, although they have increased less over time (Table 7.1). The public/private differential was 41 per cent for women and 27 per cent for men in 2000. This differential had declined to 34 per cent for women and 24 per cent for men by 2009, which is a typical change when governments overexpand for political reasons. However, some part of this differential is justified as the education attainment of public sector employees is higher than that of private sector

\textit{Figure 7.4 Distribution of government departments according to size, Greece, 2010}
workers. According to one source, the adjusted public/private differential was reported to be ‘about 11 per cent’.\footnote{7}

All in all, the expansion of the public sector was delinked from the social objectives one would expect to find in an accountable government; recruitment was not based on merit; rewards were not aligned to performance; and social services were not commensurate with the needs and incomes of the population. Increases in public spending, other than those needed to sustain relatively high salaries and growing employment, were used for obscure procurements that served the interests of rent-seeking officials as well as those of their collaborating counterparts in the private sector. For example, as shown below in Case Study 1 (Section 5) on health care, expenditure on pharmaceuticals increased from €2.2 billion in 2001 to €6.8 billion in 2009 compared to public expenditure on hospitals of only €1.5 billion in 2009.

To summarize, Greece entered the crisis with an economy unable to sustain its public debt. The rise in the budget deficit needed to fund an insatiable public sector since the 1980s reached its limits by 2009 as government revenues as a percentage of GDP started falling and declined from more than 40 per cent in 2000 to just over 36 per cent in 2009. At the same time, public expenditure rose from 43 per cent to more than 50 per cent during the same period. Fiscal consolidation was necessary. The issue becomes what needs to be cut, how and when. The next section reviews the reform measures.

4. PUBLIC SECTOR REFORMS AND THEIR EFFECTS

The scope of the adjustment programme has left untouched practically no area of economic, labour and broader social policy. An attempt to count the measures enacted by the government by November 2011 under the first adjustment programme initiated in May 2010 returned some 72. Another

<table>
<thead>
<tr>
<th>Sector</th>
<th>Gender</th>
<th>2000</th>
<th>2009</th>
<th>Total change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>Women</td>
<td>754</td>
<td>1,171</td>
<td>55.3</td>
</tr>
<tr>
<td></td>
<td>Men</td>
<td>834</td>
<td>1,276</td>
<td>52.9</td>
</tr>
<tr>
<td>Private</td>
<td>Women</td>
<td>535</td>
<td>871</td>
<td>62.9</td>
</tr>
<tr>
<td></td>
<td>Men</td>
<td>655</td>
<td>1,033</td>
<td>57.6</td>
</tr>
</tbody>
</table>

Source: Labour Force Surveys.
79 prior actions were included/enacted in Mnemonio 2 by February 2012 (Monogios and Tzannatos forthcoming). This section reviews the many measures that affected public sector employment and wages directly. Later on, it discusses pensions, which represent one of the most important entitlements from employment and, in the case of Greece, the largest single component of GDP.

Practically all ministries and agencies have reduced wages and employment in an attempt to bring the public wage bill from 13.4 per cent of GDP in 2009 closer to 9 per cent. This was to be done through various measures, including the following:

- wage and salary cuts as well as ceilings on benefits and high pay;
- increase in the number of weekly working hours (from 37.5 to 40) and reductions in overtime payments;
- introduction of part-time public sector employment and unpaid leave;
- reduction in benefits for various activities (for example, reductions in the number of remunerated committees and councils; reduction in other additional compensation, allowances and bonus schemes);
- temporary freeze of automatic progression and the introduction of a new payroll grid and job-ranking system;
- reduction in total public sector employment and fixed-term contracts – including in SOEs, as well as in the number of ‘highly ranked’ officials;
- introduction of a ‘one hiring for every 10 departures’ rule for 2011 and ‘one hiring for every five departures’ rule for 2012–15;
- transfer of excess staff to a labour reserve paid on average at 60 per cent of their wage (excluding overtime and other extra payments) for up to 12 months and a cut in the productivity allowance by 50 per cent;
- reduction in the number of admissions to the military and police academies;
- reduction in benefits for SOEs (for example, the Public Electricity Company);
- reduction in the number of municipalities and subsidies for local government; and
- cuts in defence spending.

These measures were initiated in May 2010 and aimed to quickly reduce the budget deficit. Many of them missed the targets for 2011: for example, retrenchments were slower than expected while the primary budget continued to be in deficit against a projected surplus. In February 2012 the measures were intensified accordingly.
It must be noted that neither the May 2010 measures nor those up until February 2012 were based on prior functional review of public administration, a review of social spending programmes or a general expenditure review. Reviews in these areas were initiated only at the beginning of 2012 and were to be completed between July and December 2012. As discussed below (Section 6), there has been practically no social dialogue. Instead, on one hand, the government has unilaterally changed the industrial relations system and, on the other, there has been massive strike activity.

4.1 Public Sector Employment Cuts

As mentioned earlier, although the cross-border debate on Greek public sector employment is characterized by ‘a lack of real data and much stereotyping’ (Ammerman 2011; see also The Economist 2010), the Greek public sector has undoubtedly been overstaffed. Overstaffing was considered to be around 50 per cent, at least in some government organizations and agencies (OECD 2011a).

Public employment was initially envisaged to decline by about 20 per cent from its 2009 level by 2015. This was to be done through a combination of reductions in contract employment, attrition policies and involuntary exits, in addition to redundancies for the closure or merging of some public entities. The biggest reductions were to take place among temporary employees (more than 75 per cent of the 89,000 in 2009) and those working in local government (by 50 per cent of the 21,000 in 2009).

The planned reduction in total public sector employment was to be around 60,000 in 2010, half of which would come from temporary employees. Another 30,000 ‘surplus personnel’ among those with permanent contracts aged over 60 years from about 150 state organizations and agencies were also expected to be placed on ‘labour reserve’, that is, they would be retained and be paid 60 per cent of their basic salary until 2012 and, if not reallocated to another job by then, they will be subsequently dismissed. These planned reductions in employment fell short of the projections made in the first adjustment programme (Mnemonio 1, May 2010).

According to revised targets in the second adjustment programme (Mnemonio 2, February 2012: 9), the total reduction in public sector employment by 2015 should be 150,000 (or 26 per cent for total employment or be reduced to 600,000 by 2015). Those on labour reserve were originally planned to be dismissed within two years but this period was cut to one year. The possibility of re-employment is of course very limited given the ‘one hiring for 10’ rule (for 2011) and ‘one hiring for five’ rule (from 2012 to 2015) and the intensity of the recession.
4.2 Public Sector Pay Cuts

While it can be debated whether the pay difference between the public and private sectors is justified, the system of allowances that evolved over time is indicative of the clientelistic behaviour of the state.

Although there is no complete account of what benefits were paid to whom, the following highly selective list is illuminating. There was a monthly allowance of €690 paid to 420 employees in the Greek Telecommunications Organization for ‘warming up car engines’. Another allowance of €420 was paid to 1,987 employees in the National Railways Organization for ‘washing their hands’. A ‘propeller allowance’ of €840 was paid to 653 coastguards. The ‘antenna bonus allowance’ of €1,120 was paid to 329 employees at the Athens-Piraeus Electric Railway Company. A ‘folder transferring allowance’ of €290 was provided to 6,800 office workers. A ‘bus handing over’ allowance of €450 was paid to 1,100 workers. An allowance for ‘timely handling of cases’ of €595 was provided to employees at the Ministry of Justice, and a ‘fax services allowance’ of €870 to 657 employees at the Electrical Power Corporation. An ‘annual canteen allowance’ of €120 was paid to all staff at the Greek Petroleum Group, although there was an in-house restaurant where food was provided free of charge. It is said that there was even a provision for an allowance ‘for not getting any other allowances’.

The reforms aimed to bring the wage and benefit structure in the public sector closer to the private sector. To do so, the reforms included pay cuts, a new and unified salary grid for the public sector and reductions in benefits. An immediate reduction in the wage bill came through the elimination of two monthly payments of the 14 customary payments paid in a year.12 This and other reforms are included in Table 7.2, while the new salary grid is described in more detail below.

Containment of the wage bill is expected to be reinforced less directly – and with a view to increasing efficiency – through a new public sector payroll system, expected to be enacted in November 2011 (Table 7.3). The new system imposes a monthly salary cap of €2,200. It provides for six ranks and 12 subgrades instead of the current five ranks and 18 subgrades. Payments under the new scheme would be linked to productivity through the introduction of ‘incentive performance payments’ that could augment pay by up to 25 per cent, following a positive evaluation. For those evaluated negatively, there will be a wage freeze of up to 50 per cent.

The new evaluation system based on performance criteria will make it more difficult for a civil servant to move up through the whole ranking scale. Even if all performance evaluations are successful, it has been estimated that 100 per cent of civil servants will make it from rank F to rank
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Table 7.2 Summary of pay reforms, Greece, 2010–2012 (€)

<table>
<thead>
<tr>
<th>Job ranking</th>
<th>New pay per level of education (years of rank in parentheses)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Elementary</td>
</tr>
<tr>
<td>A</td>
<td>–</td>
</tr>
<tr>
<td>B</td>
<td>–</td>
</tr>
<tr>
<td>C</td>
<td>1,134</td>
</tr>
<tr>
<td>D</td>
<td>986 (10 years)</td>
</tr>
<tr>
<td>E</td>
<td>858 (10 years)</td>
</tr>
<tr>
<td>F</td>
<td>780 (2 years)</td>
</tr>
<tr>
<td>Total no. of years</td>
<td>22 years</td>
</tr>
</tbody>
</table>

Note: * Further education.

Source: Authors’ estimates based on official documents.

Table 7.3 New payroll system and job ranking in the public sector, Greece, 2011

| Reduction in annual pay | 14.5 per cent cut in basic salary via the elimination of 13th and 14th monthly wages |
| Rationalization of benefits | Abolition of all benefits except for dangerous work, work near national borders, large family allowances and national days. Added allowances for high responsibility posts, motivation, fiscal objectives (for example, tax collection) and personal attainments |
| Reduction in wage bill | Number of ‘higher rank’ officials to be reduced from 30,000 to 10,000 |
| Lowering unit costs | Increase in weekly working hours from 37.5 to 40 hours |
| Pensions | Main pensions exceeding €1,200 per month cut by 20 per cent (and for those below the age of 55 years by 40 per cent); supplementary pensions above €150 per month cut by 15–30 per cent (depending on the fund); end-of-service lump-sum payment cut by an additional 10 per cent (on top of those already decided) |
| Level of basic salary and salary grid | Expected reduction in pay of regular employees by 17 per cent |
| Special wage regimes | 12 per cent cut (for example, for diplomats, doctors, judges, professors, political appointees, police, armed forces) |

Source: Official sources.
E, 90 per cent from rank E to D, 80 per cent from D to C, 60 per cent from C to B and only 20 per cent from B to A. Accordingly, the number of ‘higher-ranking’ public sector officials (estimated at 30,000 today) is expected to be reduced to some 10,000 following the new payroll and job-ranking system.

The new scale for civilian personnel provides for more or less uniform decreases in the 10–15 per cent range for the lower paid but leaves unchanged or even increases pay for the two top grades (Table 7.4). In terms of its likely effects, given the current distribution of public sector employees, pay for the majority of civil servants (about 78 per cent) is expected to remain the same. Although there are no estimates of the likely distributional impact of the new payroll and job-grading system, it is likely that some or even many civil servants will find themselves in lower grades with no allowances and lower pension entitlements than before.

Already, cuts in wages and benefits have had a significant effect on take-home pay. Following the first wave of reforms, public sector pay was reduced by 15 per cent in 2011. The reduction in the pay of those working in SOEs has been 30 per cent.

Nevertheless, not all pay reforms have been implemented while further reductions are planned. According to the IMF, the new salary grid for public sector employees introduced in November 2011 will reduce the average salary of regular public sector employees by a further 17 per cent (IMF 2011b: 83), on top of the previous cuts of about 15 per cent as a result of the elimination of two monthly wages of the 14 previously paid annually.

The overall impact on average wages in the public sector has not been estimated formally. However, based on budget figures for the total compensation of employees in 2009 and 2012 (€31 and €24 billion, respectively) and the number of public sector employees (824,000 and 693,000, respectively), the average reduction is 22 per cent. Another estimate of the reduction in public sector employees’ incomes is provided by the civil service union (ADEDY). According to union estimates, the reduction has been of the order of 38–40 per cent (ILO 2011: 34).

4.3 Pensions

There are about 2.9 million pensioners in Greece in 2012 (against an employed labour force of around 4 million). Of these, 2.3 million were previously workers in the private sector (or their survivors). This compares to 3.2 million private sector workers. The number of pensioners who were former civilian workers in the public sector comes to nearly 300,000 in November 2011 while that of former military personnel comes to nearly
Table 7.4  Changes in public sector salaries based on the new system, Greece, 2010–2011 (€)

<table>
<thead>
<tr>
<th>Category</th>
<th>Previous payroll system (valid until 30.10.2011)</th>
<th>New payroll (effective 01.11.2011)</th>
<th>Change in salaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic salary (1) Performance incentive (2) Allowances (3) Total monthly salary (4)=(1)+(2)+(3)</td>
<td>Basic salary (1) Performance incentive (2) Allowances (3) Total monthly salary (4)=(1)+(2)+(3)</td>
<td>€</td>
</tr>
<tr>
<td>B-level</td>
<td>711 28.50 143 882.50</td>
<td>780 0 0 780</td>
<td>-102.50 -11.61</td>
</tr>
<tr>
<td>newly hired</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B-level</td>
<td>798 28.50 143 969.50</td>
<td>832 0 0 832</td>
<td>-137.50 -14.18</td>
</tr>
<tr>
<td>5 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U-level</td>
<td>1,105 50 136 1,291.00</td>
<td>1,201 0 0 1,201</td>
<td>-90.00 -6.97</td>
</tr>
<tr>
<td>5 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P-level</td>
<td>1,015 45 230 1,290.00</td>
<td>1,106 0 0 1,106</td>
<td>-184.00 -14.26</td>
</tr>
<tr>
<td>3 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P-level</td>
<td>1,207 45 242 1,494.00</td>
<td>1,255 0 0 1,255</td>
<td>-239.00 -16.00</td>
</tr>
<tr>
<td>13 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U-level</td>
<td>1,345 50 401 1,796.00</td>
<td>1,588 0 0 1,588</td>
<td>-208.00 -11.58</td>
</tr>
<tr>
<td>17 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U-level</td>
<td>1,185 50 129 1,364.00</td>
<td>1,201 0 0 1,201</td>
<td>-163.00 -11.96</td>
</tr>
<tr>
<td>9 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P-level</td>
<td>1,589 45 230 1,864.00</td>
<td>1,992 0 0 1,992</td>
<td>128.00 6.87</td>
</tr>
<tr>
<td>33 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U-level</td>
<td>1,666 50 379 2,095.00</td>
<td>2,096 0 0 2,096</td>
<td></td>
</tr>
<tr>
<td>33 years</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note:  B = Basic education level, P = Polytechnic level (further education), U = University level.

Source:  Data processed by ADEDY (Greek Civil Servants' Confederation).
By 2012 the ratio of active civil servants in general government to pensioners was down to almost 2:1.

Pensions and broader social security-related payments constitute the single most important component of the government budget: contributions to insurance funds (including health expenditure) absorb 24 per cent of the budget (in 2010) of which one-third (8 per cent of the budget) goes to pensions paid to former government workers. Given the relative size of the private and public workforces, public pensions are on average 2.6 times higher than private pensions, with the highest pensions paid to military employees.

Rationalizing pensions was one of the main priorities of the adjustment programme. At the top end, workers in the public sector, especially some privileged parts of it, can and do take advantage of early retirement provisions and others end up with pensions practically exceeding their salary. Others have to make do with sub-poverty pension levels. The system is also subject to abuse, with disability pensions being almost 50 per cent higher than the other EU countries (more than 14 per cent compared to 10 per cent), as are pensions paid for those in what are sometimes generously defined as ‘arduous occupations’.

One of the activities undertaken to this end was to try to account for the number of pensioners. In an attempt to identify whether there were any ‘ghost’ pensioners, a census of pensioners and cross-checking of personal data with full implementation of social security ID number was completed in October 2011, which left 55,000 pensioners unaccounted for. If this figure accurately reflects fraud, its annual cost may be up to €700 million per year. In February 2012 the government announced that it had discovered another ‘60,000 ghost beneficiaries’ whose alleged fraudulent claims totalled approximately €460 million per year.

The pension reforms include simplification, consolidation, indexation, compliance and monitoring and apply to both public and private schemes:

- immediate reductions in pension levels for current beneficiaries (loss of two out of 14 monthly payments a year);
- parametric changes for future pensioners (increase in pensionable age, less generous determination of pension levels);
- reductions in pension among those who voluntarily retired early;
- improved targeting.

The statutory retirement age for women was raised to 65 years, in line with men. The required years of contribution for a full pension were raised from 37 to 40 years. Early retirement penalties were increased: benefits will
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be reduced by around 6 per cent per year of early retirement before the age of 65 without 40 years of contributions. Pension benefits will become more aligned to lifetime contributions instead of being based on final salary or wages in the last few years of employment. All voluntary exit plans from the public sector have been abolished. There is also an adjustment in supplementary pension schemes, a freeze in pension levels through 2015 and imposition of an upper cap on pensions, as well as on the end-of-service indemnity (lump sums) paid to some civil servants, sometimes at extremely high levels. The disability pension system is being reformed with the aim of reducing the number of disability pensions to 10 per cent of overall pensions by 2015. The list of arduous professions entitled to early pension rights is being restricted, which will reduce their share in total employment from 14 per cent in 2007 to about 8 per cent. The reduction in the value of pensions has applied pro rata to all current and future workers since the beginning of 2011. It applies to basic, contributory and supplementary pensions and any other related scheme, including indemnities (lump sums) paid at the time of retirement.

The expected course of the total pension bill according to the adjustment programme is presented in Figure 7.5. The effects will be front-loaded, with practically all savings taking place by 2020. The savings will


Figure 7.5 Expected pension expenditure after reforms, Greece, 2000–2050 (% of GDP)
come not only from cuts in the (high) pensions in the public sector, but also from (low) pensions such as those paid to farmers. Savings are also expected to come from changes in both the coverage ratio and the benefits ratio. As argued below, pensions in Greece constitute the most potent measure for poverty reduction and the ongoing and planned changes in the pension bill are bound to increase poverty.

The ability of the pension funds to meet future payments has been adversely affected by the recent private sector involvement (PSI) in public debt restructuring. This involved a voluntary ‘haircut’ in the face value of Greek government bonds. The haircut resulted in a significant loss to the social security funds of 54 per cent of the €24–30 billion they held in government bonds.

Although the effective decline in average pensions is not yet clear, it is estimated to range between 20 and 30 per cent. A further reduction in main and supplementary pensions by 15 per cent (on average) is envisaged for 2012. Moreover, there may be additional reductions in pensions to the extent that the fiscal targets for 2013 and 2014 do not materialize (Figure 7.5).

5. CASE STUDIES

5.1 Case Study 1: Ill-designed Reform Programmes in Health Care

The health sector in Greece is large and its 89,000 employees falling under the public budget are second only to those under the Ministry of Education (190,000) which are on a par with the Ministry of Defence. The health sector was among the most prominent of those included in the adjustment programme from the very beginning, with explicit expenditure cuts and detailed reform measures.

This subsection argues that there was significant room for cost reductions in the area of pharmaceuticals. However, the programme included many institutional changes despite the absence of technical studies of what should be addressed, how and over what time horizon as health sector reforms are complex and face powerful groups of health sector workers who benefit from a sizeable black economy consisting of significant moonlighting by doctors and large private under-the-table payments (ESDY 2006, 2011).

5.1.1 Profile and benchmarking of health care

Health care has been an ailing sector in Greece. The centralized nature of the system has led to corruption rather than improved allocation
and performance. Planning, coordination, managerial and administrative capacity, mechanisms for assessing needs and setting priorities were all underdeveloped and weak. There were no explicit funding criteria. Sickness funds faced high and increasing budget deficits over time.

There is an oversupply of doctors and an undersupply of nurses. With regard to doctors, there was an even greater oversupply of specialists (at the expense of general practitioners) who, in combination with a dysfunctional referral system, obscure procurement, irrational pricing and opaque reimbursement mechanisms deprived health care of both efficient delivery and effective prevention and treatment of the population at large. The fact that pharmacists are a closed profession and the attempt to open it up was the only measure that the parliament backed off from enacting in the draconian measures introduced in February 2012, is indicative of the deep-rooted rent-seeking nature of the sector. The list of misspent finances, inefficiencies and inequitable outcomes in health care is lengthy, but it can all be summarized by saying that quality has been low and the effectiveness of public funds allocated to the health sector could improve.

Turning to funding issues, total spending on health in Greece was 9.7 per cent of GDP before the crisis, in 2008, compared to the OECD average of 9 per cent. One feature masked by this aggregate statistic is that total spending in Greece includes one of the lowest shares of public funding among OECD countries (5.9 per cent of GDP). Another feature is that per capita growth in health spending in Greece was one of the fastest among the OECD economies during the 10 years before the crisis.

The main reason for the rapid increase in public expenditure on health spending over time was pharmaceutical costs. Per capita spending on drugs in Greece increased from €192 in 2000 to €682 in 2008, the fastest increase among 20 EU countries covered in a recent study (OECD 2011b). In 2011, spending on drugs as a percentage of total health spending in the EU ranged from 10 per cent in Denmark (lowest) to 25 per cent in Greece (highest). Obviously, pharmaceuticals are a promising area both for rent-seekers in the private sector and obliging officials in the public sector. This is yet another manifestation of lack of government accountability and corruption.

5.1.2 The measures
An obvious focus of the adjustment programme was the reduction and consolidation of the health-care budget. According to the adjustment programme, this was to be achieved not just by focusing on expenditure on pharmaceuticals (Table 7.5).

Expenditure on pharmaceuticals is a low-hanging fruit and justified in the context of fiscal adjustment. The explosion in pharmaceutical
expenditure ought to be reduced. Overpricing was one issue. The other was that generic drugs in Greece account for barely 13 per cent of all drugs compared to 50 per cent according to international norms. A price reduction of over 90 per cent for some generic drugs has been largely achieved (Ministry of Health 2011). Further reductions in the price of medicines, creation of a negative list (drugs not to be included in medical coverage plans), expansion of the list of pharmaceuticals that do not require prescriptions, full implementation of e-prescriptions, a reference price system, enhanced purchasing and procurement mechanisms, and centralized purchasing of medical supplies are under way (European Commission 2011; Ministry of Finance 2011).

However, the adjustment programme did not stop at regulating and rationalizing pharmaceuticals. It included raising user charges as well as many structural and institutional reforms whose immediate payback in terms of fiscal savings is less evident. Moreover, as international experience suggests, health reforms require good prior technical analysis and time to work, while it would be redundant to mention that the government did not have any consultation with the stakeholders (medical personnel and users). Among the other reforms, the following were included:

- imposition of charges to the uninsured seeking medical treatment in public hospitals;
- reductions in operating costs of public hospitals;
- implementation of a new ‘health map’ and associated reduction in hospital expenditure, along with a re-evaluation of mandate and expenses of non-hospital supervised entities;
- an increase in copayments by insured persons for medical expenses and drugs;
- provision of unified/uniform medical services by all social insurance funds;

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals</td>
<td>3.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Drugs</td>
<td>3.1</td>
<td>1.7</td>
</tr>
<tr>
<td>Total</td>
<td>6.1</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Public sector shock

- payments for outpatient visits, medical tests and care by the insured and migrants;
- contract agreements between public hospitals and private health insurance companies;
- reduction in the services provided to the non-insured (gate-keeping function); and
- relaxation of smoking restrictions in public places – if a levy is paid.

5.1.3 Implementation

Public expenditures on health were reduced on average by 30 per cent (year-on-year) in the first quarter of 2011, despite an increase in the number of patients (see below). Taken together, the adjustment programme aims to create savings of more than €2 billion by 2015. However, due to the overall failure of the first wave of adjustment measures to improve the budgetary situation in 2011, additional cuts in the budget of the Ministry of Health were included for 2012. According to Mnemonio 2, the government will intensify ‘measures to achieve savings in the purchasing of outpatient medicines of close to €1 billion in 2012 compared to 2011’ (2010: 12).

The contracts between health insurance funds and doctors are being revised. A new payment mechanism started for each new contract since 2011 based on a minimum number of patients per doctor. The new system will lead to a reduction in the overall compensation cost (wages and fees) of physicians by at least 10 per cent in 2011 compared to the previous year, and by an additional 15 per cent in 2012.

As an indication of what this means in practice, there has been a 40 per cent reduction in hospital budgets. Ten major hospital units (out of 134) were merged, with more mergers planned. Spending on mental health decreased by 45 per cent, despite much greater need as a consequence of the crisis (Economou et al. 2011). According to one study, 26,000 public health workers (including 9,100 physicians) have lost their jobs (Triantafyllou and Angelopoulou 2011).

5.1.4 Effects

Although the effects of adjustment on health care usually take time to surface, some early evidence is already available. An early comparative study of 10 European countries estimated a standardized increase in suicides in Greece by 17 per cent already in 2010 (Stuckler et al. 2011a). More recent data quoted in parliament confirmed that suicides increased by 25 per cent in 2010 (compared with 2009) (Avgenakis 2011), while the Minister of Health reported a 40 per cent increase in the first half of 2011 (compared with the same period in 2010) (Loverdos 2011). Media reports
indicate that the inability to repay high levels of personal debt might be a key factor in the increase in suicides (Tsimas 2011). The national suicide helpline reported that 25 per cent of callers faced financial difficulties in 2010 (Katsadoros et al. 2011).

On the demand side, another study found a significant increase in people reporting that they did not go to a doctor or dentist despite feeling that it was necessary (Kentikelenis et al. 2011). The number of people able to obtain sickness benefits has declined since the crisis began as the adjustment programme has explicitly eliminated or reduced the value of practically all sickness and disability benefits (except for the totally disabled).

On the supply side, the 40 per cent cuts in hospital budgets following the implementation of the adjustment programme has resulted in understaffing and reported shortages of medical supplies as well as increased bribes to medical staff to jump queues in overstretched hospitals (Telloglou and Kakaounaki 2011). There was a 24 per cent rise in admissions to public hospitals in 2010 and a further 8 per cent in the first half of 2011. Greater recourse to public services has been the result of the inability of poorer citizens to seek private care. One study reported a decline in the order of 25–30 per cent in admissions to private hospitals (Hellastat 2010). Those in need are increasingly unable to see doctors. Neighbourhood clinics are closing down or, as a result of staffing cuts, have reduced opening hours. Nevertheless, the proportion of Greeks seeking medical attention from street clinics is reported to have increased from below 5 per cent before the crisis to about 30 per cent.

Along with reduced access to health care and increased suicide rates, homicide and theft rates have at least doubled since the crisis. The prevalence of heroin use reportedly rose to 24,000 cases in 2010 compared to 20,200 in 2009, a 20 per cent increase. However, budget cuts have resulted in the loss of one-third of street-work programmes (European Monitoring Centre for Drugs and Drug Addiction 2010).

HIV infections rose by an astonishing 52 per cent in the first half of 2011, due largely to increases in both commercial sex work and injection drug use: there was a 12.5-fold increase in HIV among injection drug users. This may be related to a rise in the number of new HIV infections as half of the increase has been attributed to infections among intravenous drug users: there were 922 new cases in 2011 versus 605 in 2010. Greek non-governmental organizations report being able to meet less than one-fiftieth of the demand for needle exchange (Stuckler et al. 2011b). In a round-up of more than 100 homeless by the police in the centre of Athens in March 2012, two-thirds of the homeless were found to be HIV positive.
5.1.5 Discussion
The capture of health care by the system’s insiders – from medical personnel to pharmacists and those involved in procurement – is undeniable. Striking examples include the excessive costs of drugs, both through over-pricing or bypassing generics, as well as the proliferation of departments and directors in hospitals.

However, Greece remains an average spender among OECD countries in terms of public health expenditures (Vaughan-Whitehead, Chapter 1, this volume), while such expenditures cannot be viewed solely as a cost to be cut, especially without prior assessment of the effects. Expenditure cuts in the health sector should not be dictated by the failure of the adjustment programme to close the deficit because it wrongly emphasized raising revenues. In any case, a good public system reduces the incentives for tax avoidance and evasion.

While the adjustment programme rightly focused on the case of pharmaceuticals, the attempt to address too many structural and institutional problems too quickly is likely to have significant adverse effects on health outcomes. Moreover, given that the solutions to structural and institutional problems require not just careful technical analysis but also social consensus, the reform measures are only by chance likely to lead to desirable and sustainable outcomes.

All in all, while the diagnosis has been correct, the programme seems to be ill-designed and likely to be poorly implemented. It is ill-designed at least in terms of including too many frontloaded reforms without prioritizing them and sequencing them. The prime focus of the adjustment programme was on cost savings and cost recovery. As an example, the programme relaxed the ban on smoking in public places through exemptions to be granted after the payment of a special levy of €200/m² in about 3,000 commercial undertakings with an area of more than 300m² such as restaurants, bars, night clubs and casinos. The levy is expected to fetch annually just €40 million. This is picking up pennies in front of a steam roller.

5.2 Case Study 2: Consensual Reforms in Education
Like health care, the education system in Greece has reached a point at which reforms were a necessity. Unlike in the case of health, a substantial reform was initiated that was home grown and enacted during the crisis (Law 4009 of 2011) by an unprecedented parliamentary majority without outside pressure. It is presented in this chapter as an example of reforms based on a prior assessment of the situation based on social dialogue and aimed at long-term structural problems.
The education system in Greece in 2010 was based on a law enacted in 1982 (Law 1268). Following that law there was an unprecedented but uncoordinated expansion of the education system serving insiders’ interests more than those of the nation – like the rest of the public sector. Focusing henceforth on tertiary education, the handful of institutions of higher learning that existed in the 1970s were augmented by the creation of KATEs. These were initially institutions that offered further education. They subsequently evolved into Higher Technological Educational Institutes (TEIs) and, through Law 2916/2001 were subsequently upgraded to university status. Whether they could act as universities, not least because of the quality of their teachers, was not taken into account. However, this upgrading well served the interest of the insiders along with the uncritical creation of new universities. Today, in a country of 11 million people, there are 24 universities (consisting of 260 departments) and 16 TEIs offering 81 specializations and consisting of 195 departments located not only in major cities but also scattered across islands, some with only a few thousand inhabitants.

With some notable exceptions, teachers resembled largely underemployed civil servants using their institution mainly as a base for moonlighting. Students were happy to take on light teaching loads serving the credentialist purpose of finding a public sector job. This unholy alliance continued in the form of many long strikes for various reasons by either students or teachers (usually when the students did not strike). A high degree of political penetration/polarization was present, as reflected in visible rival factions among faculty and student alliances in line with clear party political lines. The standards and learning outcomes of the system fell behind those internationally expected amidst conditions of increasing European integration, if not globalization.

Higher education governance was weak, if not chaotic. Centralized control and fragmented organizational structures in tertiary education mirrored those of the broader public sector. Lack of capacity and/or willingness to align the system with universal principles and the demands of citizens perpetuated barriers that prevented the Greek education system from becoming internationally competitive. The ‘evolution’ of tertiary education in Greece made the country an international negative outlier. This is shown in Figure 7.6, which ranks 18 EU countries as well as the United States and Japan in terms of a composite ‘supply indicator’ that takes into account flexibility, selection of students, budget autonomy, staff policy, output flexibility, accountability, evaluation and funding rules (Martins et al. 2009).

By the time of the debt crisis, the tertiary education system in Greece was out of touch with reality. On one hand, it had the most centrally...
planned educational system among OECD countries (OECD 2011c). On the other, it had a very decentralized decision-making process serving the narrow interests of those already employed in local institutions. The alignment with EU structures was piecemeal and cosmetic. It was motivated by external funding prospects rather than an integrated vision (ibid.: 14). Effective evaluation mechanisms were lacking, as well as accountability – like other areas of public administration. All in all, Greece has failed to engage in structural reforms in the area of education for decades, which would have integrated its system with those of its European counterparts.

Leaving aside the perennial issue of accuracy and timeliness of Greek data, the higher education system was in need of reform irrespective of its fiscal implications. Its internal efficiency was low with completion rates among the lowest in the OECD with average time taken to complete a four-year course of 7.6 years. In terms of salary cost per student, the Greek figure of US$3,170 is nearly 40 per cent higher than the OECD average. In terms of external efficiency, though much depends on aggregate labour demand conditions, Greece has the highest unemployment rates among 25–29-year-olds with a tertiary degree (13.2 per cent) compared to those for the rest of the OECD countries (average of 5.7 per cent). According to data from the Labour Force Survey, no group of graduates from any university course faced an unemployment rate below 10 per cent as many as five years after graduation (Mitrakos et al. 2010). Long-term...
unemployment is also prevalent: 7.5 per cent of Greek graduates are unemployed for more than six months compared to the OECD average of only 3 per cent. Moreover, the Greek Constitution explicitly states that tertiary education is to be provided free of charge and exclusively by the public sector. As a result, private funding for tertiary education comes to only 6 per cent compared to, on average, 14.5 per cent for the OECD countries. But only part of the limited private sector involvement is due to the absence of student fees: the tertiary education system has very weak links with the private sector of the economy, particularly as regards joint research projects (OECD 2008). Furthermore, the centralized nature of the system in terms of budgets, ultimate appointments of elected officials and so on implies that the administrative burden of the Ministry of Education includes the processing of almost 1,000 academic requests per week.

5.2.1 Reforms

The new Law 4009/2011 on restructuring the higher education system was the result of a year-long multi-layer consultation process with significant representation of stakeholders (political parties, academia, civil society) that showed political maturity, at least by Greek standards. In terms of numbers, the law passed by an overwhelming parliamentary majority (260 out of 300).

The new legal framework governing the higher education system repeals hundreds of pages of previous legal texts and simplifies the structure at a regulatory level. Its effects are not yet known but the right areas were addressed, including governance, the internationalization of programmes and funding mechanisms. The law expanded the role of the Hellenic Quality Assurance and Accreditation Agency and introduced evaluation mechanisms aiming to improve the overall effectiveness and efficiency of the higher education system.

From the perspective of public sector governance, the law establishes a new body, the Council of the Higher Education Institute, whose typical 15-person membership will be made up of professors (7), external members (7 who would be elected by a supermajority of 80 per cent among the professors – thus avoiding very narrow political or other alliances) and students. The rector will enjoy enhanced managerial responsibilities and will be elected by the majority of professors instead of a broader constituency that previously included students. Institutions will have the right to create internal statutes and regulations as well as to define their baseline and future strategies. There will be a more ‘checks and balances’-based management system which is expected to lead to more transparent and effective administration.

At the level of human resources, the law introduced what are deemed...
to be transparent mechanisms (such as open web-based procedures, public access to databases, and clear criteria) for the promotion of professors and other teaching staff. It also provides for obligatory evaluation of teaching staff every five years.

5.2.2 Discussion
Drafted along lines compatible with the Bologna process, the tertiary education reform law offers Greek tertiary education an opportunity to break with the past and increase its effectiveness and efficiency in a way that would better meet the challenges of the emerging national labour market and, more broadly, the economy. It can also help the system to become better integrated with European and international environments.

Whether this will materialize (and when) remains an open issue for many reasons. One is that the implementation of the law would require a series of enabling decrees and regulations that may not be forthcoming – as the experience with the overall adjustment programme so far indicates. It is not known how the reforms will be met (or avoided) by existing professors, the majority of whom were appointed under and benefited from the old system. Giving them greater autonomy may perpetuate old habits unless the other governance reforms the law sets in motion become binding and do so quickly.

The likely effects of the reforms are therefore not known. But this is not the point in the context of this chapter. The point is that the necessity of the reforms was felt, like the case of the 170 per cent debt-to-GDP ratio, and was addressed outside the partisan climate that has been created since the successive failures of the structural adjustment programme, as evidenced from the latter’s successive revisions and reorientation.

6. ASSESSMENT

Public sector adjustment has been long drawn out in Greece. However, the public sector measures described in the previous sections are part of a massive and hurried fiscal adjustment programme to address the immediate liquidity problems of Greece and, with it, avoid a pan-European and global crisis.

The reform programme has followed ‘first principles’ and includes ‘too much’ to be implemented ‘too soon’. It was effectively (a) a fiscal adjustment programme, not an economic one, and (b) an emergency programme for avoiding a disorderly default that would endanger the euro, instead of setting Greece on a sustainable path for economic recovery and creating an efficient and effective public sector in the medium term.
Changes in the public sector were hasty and designed without prior functional reviews to establish what is required to achieve the vision of different units, without an expenditure review to see what areas of public sector need to be rationalized more or less, and without social impact reviews.

The repeated re-evaluations and reorientation of the programme cannot be described as ordinary processes of monitoring and evaluation. The changes in magnitude, mix and course of the overall adjustment programme are so large that they suggest that efforts ‘to keep Greece afloat to avoid endangering the rest of Europe in the short-run and until mechanisms are developed to safeguard the euro’ were given more priority than coming up with a longer-term plan that would suit Greece better and put it on a sustainable path in the long term. What the right balance should have been is a matter of debate. There is also a dilemma between the responsibilities of and price to be paid by an individual member of any coalition (in this case the Euro club) vis-à-vis the collective interests of others (solidarity versus responsibility).

With these comments in mind, this section examines – selectively – what is known about or can be expected in terms of the social impact of the public sector reforms, as well as the continuing recession.

6.1 Unemployment, Social Protection and Pensions

Unemployment has grown massively as a consequence of the recession. Although an estimate of no more than 70–80,000 public sector employees have left the service so far (mainly through retirement), the total number of unemployed has increased by more than 600,000, reaching nearly 1.2 million and nearly 23 per cent in April 2012 (compared to less than 8 per cent in 2008). The 150,000 reduction expected in the public sector until 2015, the increase in the ‘inactive’ population by another 100,000 since 2009 and the closure of 368,000 businesses in 2010–11 and another 172,000 predicted to follow in 2012 paint a bleak picture of the labour market and overall economic situation in Greece for many years ahead.

Much of social protection in Greece took the form of employment in the public sector, including relatively high pensions and early retirement, especially for some groups, such as high-ranking civil servants, the military, judges and employees of SOEs. However, less generous pensions for most other workers, who work long hours and retire after a long working life, constituted a major avenue for reducing poverty. This comes across clearly from Table 7.6. In Greece, other than pensions, the many forms of benefits found in other countries contribute very little to poverty reduction. The effect of pensions on poverty reduction is highest in Greece, behind only Italy and Germany. This finding is confirmed in the latest report (2012)
Public sector shock

Table 7.6 Contribution of benefit type to poverty reduction, Greece, 2000s

<table>
<thead>
<tr>
<th>Country</th>
<th>Pensions</th>
<th>Family benefits</th>
<th>Sickness/disability/unemployment</th>
<th>Social assistance</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>−15.6</td>
<td>−4.7</td>
<td>−4.9</td>
<td>−0.1</td>
<td>−0.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>−11.5</td>
<td>−2.2</td>
<td>−5.1</td>
<td>−0.3</td>
<td>−2.9</td>
</tr>
<tr>
<td>Germany</td>
<td>−18.2</td>
<td>−4.9</td>
<td>−4.1</td>
<td>−0.5</td>
<td>−0.5</td>
</tr>
<tr>
<td>Greece</td>
<td>−16.7</td>
<td>−0.8</td>
<td>−1.4</td>
<td>0</td>
<td>−0.1</td>
</tr>
<tr>
<td>Spain</td>
<td>−12.7</td>
<td>−0.4</td>
<td>−4.0</td>
<td>0</td>
<td>−0.2</td>
</tr>
<tr>
<td>France</td>
<td>−16.9</td>
<td>−3.6</td>
<td>−3.8</td>
<td>−0.2</td>
<td>−2.4</td>
</tr>
<tr>
<td>Ireland</td>
<td>−6.1</td>
<td>−2.8</td>
<td>−5.4</td>
<td>−0.2</td>
<td>−0.8</td>
</tr>
<tr>
<td>Italy</td>
<td>−19.4</td>
<td>−0.5</td>
<td>−2.0</td>
<td>0</td>
<td>−0.1</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>−16.6</td>
<td>−6.0</td>
<td>−4.1</td>
<td>−0.3</td>
<td>0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>−14.7</td>
<td>−3.4</td>
<td>−4.3</td>
<td>−1.4</td>
<td>−0.7</td>
</tr>
<tr>
<td>Austria</td>
<td>−15.6</td>
<td>−6.7</td>
<td>−2.9</td>
<td>0</td>
<td>−0.5</td>
</tr>
<tr>
<td>Portugal</td>
<td>−11.1</td>
<td>−0.9</td>
<td>−2.5</td>
<td>−0.3</td>
<td>−0.2</td>
</tr>
<tr>
<td>Finland</td>
<td>−12.4</td>
<td>−5.6</td>
<td>−11.3</td>
<td>−0.5</td>
<td>−2.8</td>
</tr>
<tr>
<td>UK</td>
<td>−14.0</td>
<td>−4.3</td>
<td>−3.9</td>
<td>−3.8</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>−14.4</td>
<td>−3.3</td>
<td>−4.3</td>
<td>−0.3</td>
<td>−1.1</td>
</tr>
</tbody>
</table>

Source: De Neubourg et al. (2007).

of the Bank of Greece where it is reported that the 13.4 per cent of GDP spending on pensions contributes 19.3 per cent to poverty reduction while the 14.5 per cent dedicated to all other forms of social spending reduced poverty by only 3 per cent (Bank of Greece 2012, Table VII, p.88).

Although unemployment benefits may have a bigger impact on poverty reduction in the future, given the recent surge in unemployment rates, only about one-third of those unemployed receive some kind of unemployment benefit, about €471 per month for up to one year, which has now been reduced by 22 per cent in line with the government’s reduction of minimum wages against the prevailing collective agreement.

As part of the adjustment programme, in February 2012 the government reduced the gross monthly minimum wage in the private sector that was collectively agreed between employers’ and workers’ organizations in July 2010 (that is, after the initial adjustment programme was agreed between the government and the Troika). The reduction was from €751 per month to €586 per month for those above the age of 24 (equivalent to 22 per cent) and to €510 per month for those under 25 years of age (equivalent to 32 per cent).

The level of unemployment benefit will be reduced accordingly. For the
already unemployed, the level of unemployment benefit will be reduced to 60 per cent of the minimum wage (€360 per month augmented by 10 per cent for every child), while for the newly unemployed it has yet to be determined but is expected to be around 50–55 per cent of the minimum wage (Table 7.6).

The role of pensions and unemployment benefits in poverty reduction is confirmed in Table 7.7. Poverty is highest among families headed by pensioners, along with those headed by unemployed persons. And despite the already high rates of poverty among those two groups, poverty in these two groups increased most together with private sector employees. The table also suggests, as mentioned earlier, that public sector employment is an indirect form of social protection in Greece.

The total effects on poverty are not reflected in the above statistics as the increase in the share of the population living at risk of poverty or social exclusion was not significant during the first two years of the crisis. The share was estimated to be 27.6 per cent in 2009 and 27.7 per cent in 2010 (compared to the EU27 average of 23.4 per cent). However, for 2011 the estimated figure rose sharply above 33 per cent (Eurostat 2012).

### 6.2 Recession Effects

The effects of the adjustment programme can be separated into two: (i) the direct ones, such as those arising from reducing pay, downsizing employment and adjusting pensions; and (ii) the indirect, such as those from the...
induced recession due to lower spending by the government, declining consumption by households and subdued production in the private sector. In fact, cumulative reduction in real GDP by approximately 20 per cent since 2008 is likely to shadow many other effects.

Although it is difficult to establish these two effects separately in practice – especially in the case of Greece – because of lack of data, some early estimates, albeit tentative, are available and suggest that the recession-induced social effects can prove to be more important in the long run than the adjustment measures. For example, the change in the ratio between the income share of the wealthiest 20 per cent of the population and the income share of the poorest 20 per cent (known as S80/S20) was estimated to have declined from 6.1 to 6 due to the adjustment measures but the recession-induced effect increased it to 6.2 (Matsaganis and Leventi 2011).

6.3 Revenues

Finally, in assessing the adjustment programme one should go beyond what the government pays and examine also what it collects. In this respect there has been an unprecedented drive to increase public revenues. There have been many changes in, as well as additions to, revenue-raising measures aiming to broaden the tax base, reduce evasion and increase tax rates. Most new revenue measures have been regressive, such as the reduction in non-taxable income, increases in indirect taxes, imposition of a solidarity tax and the introduction of a property surcharge, which is a tax on practically all taxpayers (including the unemployed) plus significant increases in user fees (for example, for electricity and health services).

The way the budget deficit was to be reduced gave more emphasis on elusive revenue increases than expenditure cuts. This departs from the lessons learnt from the long experience of implementing structural adjustment programmes which suggest that most of the narrowing of the fiscal gap should come from predictable expenditure cuts rather than certain increases in revenues, especially when the shadow economy is significant (as in the case of Greece where it is estimated to be of the order of 23 per cent).

Failing to follow the lessons from the international experience, the economy has provided the answer to the adjustment programme: revenues in 2011 were expected to be €58 billion and actual revenues are estimated to be €53.3 billion. The difference is more than the cuts in the health sector and 13 times more than the €350 million savings Greece had to commit to as a condition for receiving the second bailout package of €130 billion by
March 2012 and avoid default. This condition was met by imposing last-minute further cuts on pensions.

6.4 Social Dialogue

The measures were introduced without any serious involvement of the social partners. On the contrary, the adjustment programme changed the nature of industrial relations. According to the IMF (2012a):

If the ongoing social dialogue is unsuccessful in identifying concrete solutions, then to achieve this goal the government will take legislative measures in the urgent public interest to allow wage and non-wage costs to adjust as needed. (p. 122) . . . Given that the outcome of the social dialogue to promote employment and competitiveness fell short of expectations, the government will take measures to foster a rapid adjustment of labour costs . . . At the same time, the government will promote smooth wage bargaining at the various levels. (p. 176)

The changes introduced following the 2010 crisis have fundamentally changed the bargaining structure in Greece (as well as individual contracts).31 Until then, the framework for negotiations was provided by legislation passed back in the 1990s through which conciliation, mediation and arbitration played an important role (Fulton 2011).

The last national collective agreement was negotiated between and concluded by employers and workers in July 2010 after long discussions. Following that agreement and in view of the crisis, the GSEE (General Confederation of Workers) agreed to a pay freeze until 2012, and any increases thereafter would not exceed the average inflation forecast for the EU. This agreement provided for a binding ceiling for all agreements at both industry and company levels rather than the more conventional setting of a floor upon which other agreements could build.

The basic structure of Greek collective bargaining changed further in December 2010 through new legislation. Rather than company-level bargaining by law only being able to improve on national- and industry-level agreements, company negotiators can now agree lower conditions than those set at national-and industry-levels. The possibility of extending industry-level agreements to employers who had not signed them has also been abolished.

Finally, the possibility of either employers or unions calling for arbitration have been eliminated and now both must agree to seek arbitration. The government says this ‘provides symmetric access for all parties’, but it weakens the position of the unions. And as mentioned earlier, by act of
parliament the national minimum wage was reduced by 22 per cent for adult workers (above the age of 25) and by 32 per cent for those under that age. The new rates are to be applied automatically to sectoral agreements that are not agreed within three months after their expiry. Thus, social dialogue and collective bargaining are for the time being under the unilateral control of the government.

6.5 Strikes

There are no official records on strike activity. A rough estimate based on the reported monthly incidence (not duration) of strikes suggests that there were as many as 838 strikes between January 2011 and April 2012, ranging from a low of nine strikes in August 2011 to more than 110 in October 2011. Included in these figures are 46 general strikes by the private sector (16) and the public sector (30) (Table 7.8).

These figures suggest that the average monthly number of strikes has been around just over 52. This surely underestimates the true number. Moreover, this estimate excludes other types of protest (such as road closures, demonstrations and so on).

Table 7.8   Strikes by sector, Greece, January 2011–April 2012

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. of strikes</th>
<th>Sector</th>
<th>No. of strikes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public transport</td>
<td>102</td>
<td>General strikes – public sector</td>
<td>30</td>
</tr>
<tr>
<td>Public hospitals</td>
<td>68</td>
<td>General strikes – private sector</td>
<td>16</td>
</tr>
<tr>
<td>Pharmacies</td>
<td>27</td>
<td>Private sector (others)</td>
<td>84</td>
</tr>
<tr>
<td>Education</td>
<td>38</td>
<td>All workers militant front</td>
<td>12</td>
</tr>
<tr>
<td>Local/regional governments</td>
<td>31</td>
<td>People in uniform</td>
<td>22</td>
</tr>
<tr>
<td>Lawyers</td>
<td>95</td>
<td>Ministry of Finance</td>
<td>11</td>
</tr>
<tr>
<td>Social security funds</td>
<td>3</td>
<td>Ministry of Infrastructure</td>
<td>8</td>
</tr>
<tr>
<td>SOEs</td>
<td>27</td>
<td>Ministry of Culture (museums)</td>
<td>20</td>
</tr>
<tr>
<td>Mass media</td>
<td>208</td>
<td>Ministry of the Interior</td>
<td>1</td>
</tr>
<tr>
<td>Agricultural sector</td>
<td>7</td>
<td>Others (sectoral unions )</td>
<td>28</td>
</tr>
</tbody>
</table>

Total number of strikes: 838  
Average number of strikes per month: 52.4  
Average number of general strikes per month: 2.9

Source: Authors’ calculations based on www.apergies.gr.
7. CONCLUDING REMARKS AND POLICY DIRECTIONS

It cannot be disputed that the Greek public sector required wide-ranging reforms. However, the reforms have been subordinated to a structural adjustment programme that has been, in turn, subordinated to the need to save the euro and placate the international markets. Effectively, Greece has been treated for illiquidity while it was insolvent.

Leaving aside this misdiagnosis, the programme was spasmodic and sporadic while it ignored the weak implementation capacity and relied on undue optimism that defied the international experience in terms of how much the public sector can adjust and how long it can take. For example, only 15,000 of the much anticipated reduction of 150,000 jobs in the public sector are likely to come from dismissals – the rest would come from gradual attrition given the protection granted to public sector workers by the Constitution. The point here is not that the constitutional provision is right or wrong: it is that it was not taken into account in the initial design of the programme.

These considerations apply a fortiori in the case of managing the structural adjustment programme which, unsurprisingly, has been readjusted at least four times in a period of less than two years. In any case, international experience – and that of the IMF, too – clearly recognizes that adjustment programmes need to be sustainable and socially acceptable. Even the representative of Greek employers commented

The achievement of the fiscal targets in 2010 and 2011 appears to range from doubtful to impossible . . . If the Mnemonic leads to national divisions, change will become impossible and bankruptcy unavoidable . . . Collective agreements . . . are useful [and] a way to avoid conflict . . . Let’s leave companies and workers to communicate between themselves and find their own solutions . . . What we support is derived from Europe, not some African countries . . . Europe is envied globally for its system of social protection.33

The lessons from the shock therapy approach that was applied to Africa three decades ago seem to have been forgotten in the case of Greece.

A critical condition for adjustment to succeed is to preserve the drivers of economic growth. This is clearly recognized at European level in the attempt to bring the increased debt that resulted from the effort to rescue the financial sector after 2008 back to the pre-crisis level. However, in the case of Greece, real GDP has fallen by approximately 20 per cent since 2008 and has yet to bottom out. Unemployment, which was below 8 (7.7) per cent in 2008, has now increased to nearly
23 (22.6) per cent, thus depressing aggregate demand. These effects have now started to look like those that prevailed in the United States in the Great Depression of the 1930s. Debt sustainability is not expected to be achieved before 2022, if then. In the meantime, seniority payments provided in collective agreements have been frozen by law and will be allowed to be reactivated when the unemployment rate falls below 10 per cent. Youth unemployment alone stands at 52.7 per cent, and recent ILO research indicates that the time taken for youth employment to recover from earlier crises is on average 11 years in countries where the pre-crisis level was attained, while in many it only achieved a new trough (ILO 2010).

The Greek structural adjustment programme (and within it, public sector adjustment) lacked three key ingredients that have emerged from international experience:

1. a clean and coherent strategy (was it a programme for Greece or for the euro?);
2. sound technical foundations (was the policy mix and its timing appropriate for illiquidity or insolvency?); and
3. social acceptance (has there been dialogue among the social partners and ownership of the reform agenda?).

One can probably be more lenient on the lack of a clear strategy when one is not sure about the nature and size of the problem and its future course. However, from an economic perspective, while fiscal crises must bridge the gap between public expenditures and taxes, they also need to:

- preserve productive and infrastructure investments to enable the resumption of economic growth;
- tax production and economic activities least and last; and
- include measures that protect the vulnerable.

None of these conditions are evident in the case of Greece. Both citizens and employers are complaining about the 32 taxes that have been introduced or expanded since 2009. Although Greece has been labelled a ‘special case’ among policymakers in Europe, its case may become ‘general’ as the need for bailouts and adjustments may well be repeated (and soon) in some other countries located along the Mediterranean coast or among the more recent members of the enlarged EU that have economic and institutional characteristics similar to those of Greece (Tzannatos 2012).
In this respect it might be useful for the countries under stress (and also for the benefit of their creditors, too) to take into account the following:

- Assess what drivers for economic growth will remain by following alternative policy scenarios.
- Examine whether a country is a high-cost economy or simply a high labour cost economy.
- In the case of a high labour cost economy, check whether this is because of (a) public sector pay and employment policies, in which case focusing just on public sector reforms may well address the bulk of the problems or (b) inflexibility in the private labour market.
- If the economy is a high-cost economy, not just because of public sector size/pay/benefits but because of limited capacity and weak institutions and, more importantly, because of cronyism and corruption, the adjustment programme should take into account that institution building for capacity, transparency and accountability takes time and even well-designed programmes will falter in implementation.
- If the size of the shadow economy is significant, then the adjustment programme should also take this into account. The targeting of formal sector employees in Greece by the adjustment programme shows that the old habit of ‘flexibilizing’ the visible part of labour by bypassing even collective agreements freely concluded between employers and workers is yet another arithmetical exercise that ignores the macroeconomic implications where production is dominated by micro and small enterprises and the shadow economy is large (Schneider 2010, 2011; Tzannatos and Monogios 2011).
- Assuming that the previous conditions are justified, the mix, intensity, sequencing and timing of adjustment measures should be realistic, meaning that they should make use of the large accumulated experience with adjustment programmes, for example, that the deficit and debt would be reduced in a more sustainable manner through expenditure cuts than tax increases.
- Both in the case of expenditure cuts and also revenue raising, the composition of measures is important, for example, which expenditures to reduce and what taxes to raise. To this end, a thorough review of public spending should be institutionalized and conducted concurrently within the medium-term fiscal strategy and the budget framework.
Public sector shock

- The social impact of adjustment should be taken into account. It is not a matter of philanthropy but an internationally recognized fact that conserving the social fabric leads to productivity gains, increases social acceptance and creates a more equitable distribution of opportunities.

In this context, it goes without saying that the negative lessons from public sector adjustment in Greece, as discussed in this chapter, reflect a situation that needs to be transformed in accordance with the positive messages presented in other chapters in this volume: employment adjustment should be based on competencies and needs (unlike the mechanical reductions implemented in Greece), wage adjustment should be progressive (unlike the horizontal approach adopted by Greece), reforms should be decided after social dialogue (unlike the unilateral decisions introduced by the Greek government), social services and poverty reduction measures should be preserved (unlike the case of health and pension reforms in Greece), public sector adjustment should not call into question the role of the public sector (especially in productive investments and for preserving the drivers of economic growth), a social safety floor should be established for the protection of the poor and most vulnerable especially in times of distress and a long-term horizon should be adopted (instead of changing the programme before its previous version has even been implemented).

NOTES

* The views expressed are those of the authors and do not necessarily represent those of their respective organisations. The authors thank, with the usual disclaimer, Michael Ben-Gad, Angelos James, Phokion Kolaitis, Daniel Vaughan-Whitehead and the authors of this volume for their comments.

1. In a study of 133 adjustment programmes supported by the International Monetary Fund (IMF), the IMF’s independent evaluation office found that policymakers consistently underestimated the adverse effects of rigid spending cuts on economic growth. See IMF (2003), Lindner (2012) and IMF (2012b). In the case of Greece, the expectation of turnaround of the economy by 2012 has been met with unemployment rising to 26.8 per cent (and youth unemployment to 56.6 per cent – both the highest in Europe) by the time this paper went to press (January 2013). Greece is entering its sixth consecutive year of recession, surpassing that of Argentina from 2001 to 2005.

2. The writing of this chapter was completed amidst evolving and uncertain conditions in Greece on the basis of incomplete data and frequently updated official reports (including two ‘Mnemonia’ (Memoranda of Understanding between the Greek government and its lenders, the so-called ‘Troika’ that includes the IMF, the European Commission and the European Central Bank), one Medium-Term Fiscal Strategy, five reviews by the IMF and another five by the EU, more than 150 implementing laws (including no fewer than four on public sector pay) plus many still pending – although announced –
expenditure cuts and revenue increases). At this point in time (June 2012) this chapter should be considered as work in progress and some of the findings may be subject to changes.

3. OECD (2011a) also states ‘The inconsistency in public employment statistics has been long noticed but has persisted. It is one indication (among many) of the imperative necessity of improving the statistical coverage of the public sector’ (p.72). The statistics quoted below are primarily derived from this source and OECD (2011b).


5. OECD (2011b) though this is because of the long hours worked in the private sector in Greece.

6. Unsurprisingly, the definition of competencies is a constant and considerable activity for both the executive and the legislature. For example, between 1996 and 2011 there were 2,890 competency changes for the central government through laws, 11,018 through presidential decrees and 3,191 through ministerial decrees, that is, on average 1,140 changes of government competencies per year. See OECD (2011a).

7. Unreferenced estimate cited in IMF (2011a) which also states that the unadjusted premium was 32 per cent.

8. Mnemonio 2 (2012) cites this figure as a target to be achieved in line with the most efficient OECD countries.

9. The basic salary can at times be less than half of total earnings.

10. Officially, these figures have been neither confirmed nor disputed.

11. A total of 15,000 redundant staff were to be transferred to the labour reserve in the course of 2012, in connection with the identification of entities or units to be closed or downsized. Staff in the labour reserve will be paid at 60 per cent of their basic wage (excluding overtime and other extra payments) for no more than 12 months, after which they will be dismissed. This period of 12 months may be extended to 24 months for staff close to retirement. Payments to staff while in the labour reserve are considered part of their severance payments (Mnemonio 2, 2012: 9).

12. There was an extra monthly payment in December and ½ monthly salaries paid at Easter and in the summer.

13. This exercise is to be repeated in summer 2012.

14. These figures also include recipients of social benefits such as blind beneficiaries who, upon cross-checking, were found to hold professional driving licences. The latest account of the Ministry of Labour and Social Security reports revealed more than 200,000 fraudulent cases for benefit payments in the last two years, costing the budget between €700 million to €1 billion/year.

15. In 2008 there were almost 15 nurses for every 1,000 citizens in Finland, Iceland, Ireland and Switzerland with slightly lower rates in Denmark and Norway. Greece had the second lowest rate (5 nurses per 1,000 inhabitants) after Turkey.

16. Certain groups, especially certain establishment elites, were accorded ‘hotel’ treatment, including abroad.

17. This is higher only than in Australia (5.7 per cent) and Poland, Chile, the Republic of Korea and Mexico where public funding is around 4 per cent or less (OECD 2010).

18. The countries with lower increases in health expenditure were Poland, Mexico, Slovakia and the Republic of Korea.

19. These savings are anticipated from a reduction in overtime pay for doctors by €50 million and family allowances by €43 million.

20. Nonetheless, these figures have not been formally confirmed.

21. The study examined Austria, the Czech Republic, Finland, Greece, Hungary, Ireland, Lithuania, the Netherlands, Romania and the United Kingdom. It also found that the countries facing the most severe financial reversals of fortune had bigger rises in suicides, ranging from 13 per cent in Ireland to more than 17 per cent in Latvia.

22. ‘Polytechnics’ in Greece are universities and on average more rigorous than the latter.

23. Suffice to say that up to now only one university in the country has offered international graduate courses.
24. Authors’ compilation based on information provided by the Ministry of Education.
25. Ironically, Law 1268 (enacted by the Socialists in 1982 under Andreas Papandreou the father) was replaced by Law 4009 (also enacted by the Socialists under George Papandreou the son).
26. Following ratification of the law, a significant number of schools and universities around the country were occupied by protesting students. The protests gained momentum, resulting in widespread and extensive damage to many establishments, including infrastructure, computers and equipment.
27. For a more detailed presentation of reforms in each of these areas, see Tzannatos and Monogios (2011).
28. Greeks work more than 42 hours/week compared to the EU27 average of less than 38 hours. The average retirement age in Greece (including the early retirement provisions for civil servants and employees in SOEs) was higher than the average in the EU27. The OECD reports that in 2009 the average effective retirement age for Greek men was 61.9 years (compared to 61.8 for German men and 59.1 for French men) and for Greek women 59.6 years (compared to 60.5 for German women and 59.7 for French women). According to The Economist (2011) the average age of retirement of Greek workers is 59.1 years compared, for example, to 61.8 years in Germany and 62.1 years in the Netherlands.
29. Similar results are reported in Ziomas et al. (2009).
30. Mnemonio 1 (2010). This was reversed in Mnemonio 2 (2012) attesting once more to the poor design of the programme in the first instance.
31. With regard to individual contracts, the length of the probation period for a newly hired worker was increased from two to 12 months; the maximum period for termination notices was reduced from 42 to six months; the limit for collective redundancies (for example, in a company with 250 employees) was raised from five to 12 workers; and the overtime premium was reduced by 20 per cent. See Bank of Greece (2012: 70–74).
32. Interview given by E. Venizelos, Leader of the Socialist Party and former Minister of Economy and Finance, to Elli Stae, Greek ERT (Greek Radio and Television), 2 May 2012.
33. Press conference by Dimitris Daskalopoulos, Chairman of the Board of Directors, Hellenic Federation of Enterprises, 16 November 2010.

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