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Introducing a Safety Net: The Effects of Neoliberal Policy on Welfare, Poverty, and the Net Social Wage during the Greek Crisis

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Abstract

The combined effects of internal devaluation and fiscal consolidation policies implemented in Greece between 2010 and 2019 are reflected in substantial levels of income contraction and unequal distribution of the financial burden. Neoliberal policy responses are examined through a *safety net* that allocates scarce fiscal resources to persons in extreme need, subject to high primary budget surplus targets. The safety net operates in this manner when social pressure upon the worker class intensifies. Further, the essay explores two supplementary aspects. First, a modified measure of poverty using the conventional approach of differentiated income poverty lines is considered. Second, *net social wage* variations are examined. Results indicate Greek workers have suffered substantially and that neoliberal policies have placed disproportionate burdens on persons most in need.

JEL Classification: I30, I32

Keywords

safety net, poverty rate, net social wage

1. Introduction

The eruption of the 2009 Greek financial crisis was the last act of a historically long but fragile[1] phase of economic growth. Apart from its domestically originated adverse development prospects, the inherent unsustainability of the Greek welfare system was further intensified by the

[1] Argitis and Nikolaidi (2014) presented evidence showing the growing financial fragility of the Greek public sector in the 2000s.

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broader institutional architecture of the Eurozone. Beginning in 2001, after having abolished any actual authority on the standard tools for conducting monetary policy, Greek governments were successful in softening the rough edges of the otherwise unequal income distribution. To an extent, social expenditures (public education, health, pensions, etc.) were financed by conventional open-market techniques of issuing new public debt, resulting in the piling up of annual debt-repayment needs and moving the state's lending cost upward.

The late-2009 crisis, however, marked the formation of a set of stricter EU budget rules that amounted to a substantive annulment for each member country to exercise national fiscal policy independently. In the beginning, EU authorities appeared stunningly unprepared to immediately offer an institutional response regarding how the increasing trends of the Greek budget deficit and debt were to be reversed. Although ideas for serious spending cuts and long-term fiscal prudence permeated the EU Stability and Growth Pact (Wyplosz 2012), the exact catalog of extended reforms that—according to conventional wisdom—would have helped the state regain international confidence remained unspecified. Under these circumstances, IMF's (2010c) positive affirmation[2] to the Greek government's request for technical assistance in resolving the ongoing crisis initially appeared to satisfy the need for filling up the institutional gap of a European crisis management agency. However, though the IMF's involvement in the EU bailout schemes has also been criticized from a conservative perspective (Münchau 2012), its role in waging a war against the redistributive features of social welfare has proved pivotal.

All three consecutive programs of economic adjustment (PEAs) in Greece carried out from 2010 to 2019[3] were characterized by a unique blend of austerity policies and neoliberal ideology. The former was demonstrated by the universally declared purpose of the fiscal consolidation doctrine, which dictated that "fiscal strategies should aim at gradually—but steadily and significantly—reducing public debt ratios" (IMF 2010a: 4). In section 2, the repercussions of tight fiscal policy on social transfers are discussed through the evaluation of the changing character of the welfare state and its transformation into a *safety net*. The latter was identified by the nature of intervention against the system of social welfare.

During the years of prolonged recession (2009–2016), the pace of the Greek economy toward a delayed phase of ongoing neoliberal reformation accelerated. Imitating the institutional structure of other western European countries, several qualities of Greece's welfare state underwent revision. In the process of reconfiguring the institutional framework of Greek capitalism, it was imperative that the social welfare system had to be diminished in size and modified in quality (Missos 2019b). European neoliberalism was unleashed through a complex package of economic reforms to which all member states would have to—sooner or later—comply, and which was becoming even stricter as the 2009 economic crisis unfolded.

At an ideological level, neoliberalism is intertwined with an individualistic approach toward society, but from a historical perspective (Kotz 2015), it is more appropriate to approach neoliberalism as a stage of capitalist development in which freely operated markets are associated with predominant role maintaining an uninterrupted level of economic activity. Economic life is gradually and steadily deregulated as public enterprises are privatized and the state loses its administrative power over strategic investment decisions, further allowing for extensive changes in the corporate sector. Among these changes, the most important one is attributed to the advancing role of financial institutions undertake against nonfinancial businesses (Epstein 2005). Through a relentless and unregulated exercise of financial innovation practices, the swelling financial sector

[2]"We welcome the support for Greece from its EU partners, which, together with policy actions undertaken by the Greek authorities, are important new steps in response to the challenges the country faces. The Fund, as noted by the EU leaders, is prepared to offer expertise and support as necessary" (IMF 2010c).

[3]The first PEA was initiated in May 2010 and the third officially ended in August 2019.

creates a large pool of assets, the value of which is temporarily unaffected by the economic performance of the corporate sector. Resources are reallocated from the public to the private sector, and the state is progressively deprived of its capacity to provide for employment and to regulate working conditions in the labor market.

For several decades, welfare state provisions in Greece were considered non-negotiable acquired rights, the elimination of which were combatted by widespread support coming from social movements and the organized trade unions. Persistent levels of high unemployment, however, caused the bargaining power of labor unions to erode. The significance of this issue is conveyed by the fact that from a 48.2 percent membership in 1977, the union density in Greece declined to 20.2 percent in 2016, with more than half of the drop-off occurring during the Eurozone years (see OECD trade union statistics). As a repercussion, the share of part-time jobs increased, and working conditions were left outside the protection offered by collective agreements. For as long as the old, moderately generous system of social welfare preserved its capacity to provide workers and their families with a satisfactory level of public services and insurance, income inequality was tempered. Of course, this is not to suggest that the *net social wage* was necessarily positive throughout the period (see section 4), only that the distribution of disposable income in Greece was relatively smoother. However, the generous features of social welfare now constitute only remnants of a bygone era—when the intervention of the state was coordinating a wide array of socioeconomic affairs. This crucial aspect of the Greek welfare state was severely damaged during the long-lasting recession (2009–2016), causing an unprecedented economic downturn unique among the postwar years for not only Greece but also for Europe (see section 3).

Another aspect of neoliberal welfare is that it develops a distinctive social pedagogy. Constructed upon the idea of effectively mobilizing social latent forces, public policies are applied along the lines of punishing the most vulnerable groups of the income structure, forcing them to accept personal responsibility for the deficient economic conditions they encounter (Soss et al. 2001). The welfare state's confined opportunities and restricted budget supposedly encourage the poor to rely on their own limited means for maintaining their living standards by getting the most possible out of those means. The status quo thus having been replaced by a new marketized scheme of provisions and benefits, the neoliberal welfare state focuses "on getting people to internalize market logic and accept personal responsibility for the need to find whatever means, however limited, to get by in the changing economy" (Schram 2018: 313). Social resources are transferred under a new rationale of marginally assisting the incomes of those living in poverty so that they do not take advantage of the state's benevolence. From a neoliberal perspective, people are considered human capital seeking to be invested in the highest-return activities possible, thereby expropriating the gains to overcome their state of financial distress. As is shown in section 2, neoliberal policies did succeed in reshaping the Greek welfare state, enhancing its compatibility with the operations of the free market in tandem with the dictates of personal responsibility (Harcourt 2010).

Based on the typology initiated by Esping-Andersen (1990) and elaborated on by Ferrera (1996), the Greek welfare system has been classified as Southern-European. More specifically, the four basic regimes describing both core and peripheral EU countries are as follows:

1. Social-democratic. It corresponds to generous and universal social transfers and progressive taxation. In the mostly Scandinavian economies to which it is applied, individuals are entitled to a series of highly appreciated social provisions and benefits.
2. Conservative-corporatist. This regime indicatively corresponds to countries like Germany and Austria. It is less generous as far as the level of social transfers is concerned, and its benefits are directed to households instead of individuals. As a rule, most social provisions are offered according to the employment status of the beneficiary.

3. Liberal. In this regime, the operation of the market plays a prominent role on how the benefits are allocated among the beneficiaries. The dominant practice follows the method of means-testing (explained below), and the regime refers mostly to the UK and Ireland.
4. Southern-European. This last welfare regime represents Greece, Spain, Italy, and Portugal. It is described as particularistic and clientelistic, wherein a considerable cost of social care is covered by the households' annual budget, filling in the gaps of formal social protection. It is argued that the Greek welfare system can no longer be designated as Southern-European due to the structural reforms it underwent during the period of recession.

A body of literature exists that includes several contradictory views on the role of the welfare state. Most of this research emphasizes the differentiated effects of social welfare upon income inequality and distribution. Following Keynesian tradition, some studies provide evidence showing that the level of social spending operates as a major institutional determinant contributing toward the alleviation of the level of income dispersion (Caminada, Goudswaard, and Koster 2012; Checchi and García-Peñalosa 2010). In addition, the redistributive role of the state in favor of wage earners has also been underscored by several scholars of the Marxist strand, especially those scholars who experienced the short-lived postwar boom of Western economies. Prominent examples are Bowles and Gintis (1982), who question the classical Marxist view that the role of the state is constrained by the character and superiority of capitalist social relations. This branch of Marxist thought shares a favorable position toward the role of the state on redistribution as a profit squeezer.

Conversely, Bertola (2010) deals with the interaction between the process of European integration and inequality and concludes that the latter tends to move significantly upward when countries are no longer able to conduct independent monetary and fiscal policies, whereas the welfare states of the integrated countries become less generous. In addition, the neoliberal tide of reforms backed by the IMF has sponsored policies intended to create a homogeneous type of one-size-fits-all system of welfare. By doing so, all distinct cultural qualities and socioeconomic features that have been developed as products of a unique historical course are left out of the analytical scope. Consequently, the 2009 crisis has rendered the previous regime classification redundant because the Greek system went through a fundamental neoliberal reformation.

The present paper highlights a particular aspect of this discussion, employing the conclusions of empirical research that belong to a rather heterodox strand of economic theory. Both Maniatis (2003, 2014) and Shaikh (2003) argue in favor of a differentiated methodology, showing that the role of the state on the distribution of income has tended to be negative. In the same spirit, Maniatis and Passas (2019) have paved the way for a radical analysis regarding the role of social welfare during the neoliberal phase of Greek capitalism that considers the net social wage for various EU countries. Herein, the net social wage approach is used to examine whether and to what extent the intervention of the state alters the distribution of income for the interests of the working class.

The neoliberal policy mix implemented during the period of economic retrenchment affected the living standards of Greek workers. In the following paragraphs, this effect is discussed in a three-pronged approach. Section 2 explains that the underlying reformation of social welfare in Greece was in complete alignment with the mandates of "pervasive austerity" broadly implemented by the EU (Theodoropoulou 2014) through the adoption of the late fiscal treaties (Truger 2013). The introduction of the new system constitutes a direct retreat to the low social welfare standards of a safety net—in other words, a scheme of social benefits targeted at cases of extreme poverty—carried out so that the potential impact of fiscal adjustment policies on income is moderate. The analysis contributes toward a deeper understanding of the theoretical origins of these reforms, arguing that the new social policy framework is closely related to the imposed rules of fiscal discipline. The adoption of a safety net signifies an important institutional shift that is consistent with the restrictive neoliberal policies promoted by the IMF and politically supported by the European Commission.

In section 3, an unconventional index for the measurement of income poverty in Greece is proposed by utilizing microdata from the Survey of Income and Living Conditions (SILC) conducted on an annual basis by the Eurostat. SILC is commonly used for obtaining a conventional measure of equivalized personal income that is widely considered by policymakers in the EU. Thus, knowledge of its findings is important. The proposed differentiated way of statistical processing captures the unequal and abrupt household income decreases, as well as the impact neoliberal policy has had upon the lives of the working people in Greece.

All calculations presented are based on original statistical analysis that makes use of cross-sectional microdata from the SILC surveys. The latest survey available at the time of this study is from 2018 and conveys data corresponding to 2017 income. As the available data on macroeconomic performance indicate, 2016 is designated as the last in a sequence of 8 years of continuous recession, after which the Greek economy was officially moving toward a new phase of GDP growth.[4] However, the evidence suggests that whereas growth did return, the crisis for wage-earners remained (see also Papatheodorou 2015).

Last, section 4 takes a different approach, showing that the net social wage in Greece has varied substantially during the recession years. As already mentioned, the way that welfare states contribute to the disposable income of wage-earners is highly questioned. Based on this approach, findings suggest that during most of the period that Greece has been a member of the EU, the overall income effect of the wage-earners was negative, indicating that labor exploitation was intensified by the role of the state. However, the institutional framework of the precrisis welfare regime was maintained for more than 3 years after the crisis was initiated. Social security spending was contracted but at a slower pace than the disposable income of the working class, and that process revealed some ephemeral signs of low-level redistribution.

The current research attempts to shed new light and bring more evidence forward on the level of the social cost imposed by the economic adjustment program in Greece by focusing on the abrupt changes that have taken place during the period of recession. In addition, it is argued that the fundamental repurposing of the Greek welfare state and its conversion into a safety net should be interpreted through the ongoing expansion of neoliberal ideology as manifested in the EU process of enlargement.

2. How the Safety Net Works

The conventional narrative of neoliberal policy for managing the Greek crisis has been based on a wrong diagnosis concerning its causes and nature. Policy recommendations sponsored by the IMF and the European Commission have concentrated on relieving the symptom of high public debt through fiscal contraction. The rationale behind such an exceptionally high social-cost approach is exemplified by proponents of the view of fiscal profligacy, who maintain that fiscal discipline improves the confidence of the public sector in the eyes of the international financial markets. Mainstream macroeconomic theory assumes that the restoration of confidence eventually attracts foreign investments, a critical component needed for aggregate demand to rise.

[4]Press release: Annual national accounts, year 2017 (second estimate) and revision of years 2015–2016, ELSTAT (October 17, 2018).

However, significant contraction of social transfers does not necessarily come with public debt reduction or with GDP growth (Botta and Tori 2018). Ten years after the implementation of profound structural reforms and excessive cuts in social expenditures, the level of Greek public debt remained high, while its GDP still had a long way to recovery.[5] Paradoxical as it may seem, these fallacious views on the economic crisis may serve a different, more intricate purpose that favors the ideals of neoliberal ideology of further disciplining labor and reducing the scope of the public sector (Panageotou 2017).

Between 2009 and 2016, the real GDP in Greece receded substantially (−27 percent) while median income fell even more rapidly (−39.8 percent), causing an enormous rise in poverty. In addition, the per capita income between Greece and the Euro area, measured in purchase power standard (PPS) terms, was aggravated. Under these reduced circumstances, immense amounts of long-termed loans were granted to Greece by its international creditors in exchange for an immediate implementation of structural reforms—as they were demonstrated in PEAs—along the lines of fiscal consolidation and internal devaluation (IMF 2010b, 2012). Unable to meet the deficit-debt criteria illustrated in the Stability and Growth Pact (European Legislation 135/21), the Greek government budgets were further constrained. Eight years of sizable fiscal adjustments marked by social agitation and political turmoil is what it took to turn a budget deficit of 15.6 percentage points into a minor surplus.

Neoliberal thought has developed policy responses aiming at counterbalancing austerity-produced inequality hikes. The priority of this strand of literature (Cournède et al. 2013; Fabrizio and Flamini 2015) is placed on the suitability of fiscal consolidation as the only credible way for public debt to become serviceable. Furceri, Jalles, and Loungani (2015) indicate that permanent cuts on specific categories of public spending will gradually improve the credibility of the public sector, bringing interest rates down and eventually allowing for the creation of fiscal space. Decisive initiatives and reforms concerning the advancements in “targeting and efficiency of the public programs” (Furceri, Jalles, and Loungani 2015: 142) are taken to be of utmost importance since the wider possible social acceptance and lack of domestic conflict are considered key elements for austerity programs to succeed (the concept of *targeting* is analyzed further below).

A safety net is considered a necessary condition for fiscal consolidation to succeed (Ardagna 2009), while its logic is analogous to managing scarce fiscal resources. Government deficits are expelled from the range of dominant economic policy choices, and the level of public revenues is assumed inadequate to maintain the financial sources required for the previous state of social security to be sustained. Consequently, fiscal adjustment must necessarily be based upon the side of public expenditures (Alesina et al. 1995)—in other words, social transfers. From that perspective, the institutional reforms proposed in the PEAs adhere to a neoliberal theoretical standpoint that leans toward the idea of market liberalization (IMF 2014). Moreover, the entrepreneurial role of the state is confined to passively offering new opportunities for private initiatives. Such a framework for the social policy has dominated the field of economics and has furthermore displaced the very essence of social welfare at the margins of economic life (Beck 2000) by building upon the idea of a less possible intervening state of limited redistributive power. A powerless state is highly considered a prerequisite for the level of political and social cohesion required, assuming that fiscal consolidation measures have to be implemented.

Neoliberal policy success is also based on the ease with which ideas are diffused in public discourse. For that purpose, neoliberal reformation of social welfare has its own terminology dominating social dialog. For instance, *rationalizing* social expenditures is a milder term used in place of

[5]Gualerzi (2017) argues that market forces alone cannot pull the economy out the crisis. He also contended that “austerity policies add to the trends of structural transformation of the macro dimension reflected in spending cuts and the efforts to contain deficits and debt” (406). A crucial aspect of this observation is shown in figure 1.

spending cuts, going *parri passu* in place of enhanced targeting (i.e., the process of detecting the most vulnerable population groups and engaging them with certain types of benefits). Thus, social policy is preoccupied with determining socioeconomic profiles that can supposedly represent the groups in urgent need of social assistance. As a result, effectiveness is achieved through the optimal use of insufficient public resources. For example, an annual provision of €840 has been designed to be granted to every three-member household comprised of two adults and one child less than 16 years old, whose household income falls below €10.5 thousand.[6]

The introduction of exceptionally low-income criteria also conforms to the principle of maximizing the utilization of limited public resources while minimizing inappropriate waste to households considered by the new welfare system to be in relatively less need of additional income. In this case, households that fall within this particular category are entitled to receive a definite amount of state benefits in cash or in kind (e.g., food coupons or electricity allowance), but the right is provided only to cases of extremely low income so that a significant part of the overall population is excluded. This approach has also been designated by the World Bank's advisory report in order to "develop recommendations on how to strengthen the social welfare system in Greece by streamlining benefits in order to… channel resources into *targeted* programs and thereby more *effectively* protect the poorest citizens in Greece" (World Bank 2016: 7, my emphasis). Social welfare policy is thus gradually associated with assisting those who are desperately in need, while any potential factors that may be positively contributing toward growth (Morel, Palier, and Palme 2012) fall completely out of scope.

In addition, the new, reformed safety net is founded on the idea of procedural fairness because it is expressed by the introduction of means-tested schemes (IMF 2010a: 33). From a technical standpoint, implementing the logic of means-tested schemes alone is capable of transforming the general character of the older Southern-European regime (Esping-Andersen 1990: 29). The combined criteria of income level and household size play a prominent role in establishing the recipient's right to claim social transfers. In addition, the policy goals of such measures correspond to an improved level of efficiency by finding the best possible allocation of fiscal resources subject to a substantial limitation of the range of potential beneficiaries.

In periods of abrupt economic recessions, the part of social security expenditures that is allocated in a non-means-tested manner is commonly perceived as unjust by the public. Indeed, the lack of proportionality criteria according to which the state transfers are distributed among its social groups establishes the rational basis upon which a common sense of unfairness grows within public discourse and media. Assuming a restricted policy against budget deficits, the introduction of means-tested criteria is applied as the rule intending to curb the rise of social injustice. Consequently, in sharp contrast to targeted benefits, the universal provisions are reduced significantly, thus creating a way for a completely new system of welfare to emerge. International think tanks like the Organisation for Economic Cooperation and Development [OECD] have argued in favor of such reforms when examining the ineffectiveness of the previous system in Greece. The OECD maintains that "Coverage of the poorest is therefore inadequate" and that "rebalancing the Greek social welfare system emerges as a priority in order to target those most in need. The OECD considers that given the context of fiscal austerity and the importance of minimizing the poverty rate in the current social context, this is the most appropriate approach. It therefore recommends that the Greek social welfare system essentially abandon universal benefits and become anchored in means testing" (Organization for Economic Cooperation and Development [OECD] 2013: 33).

[6]Under Greek law 4512/17, art. 214

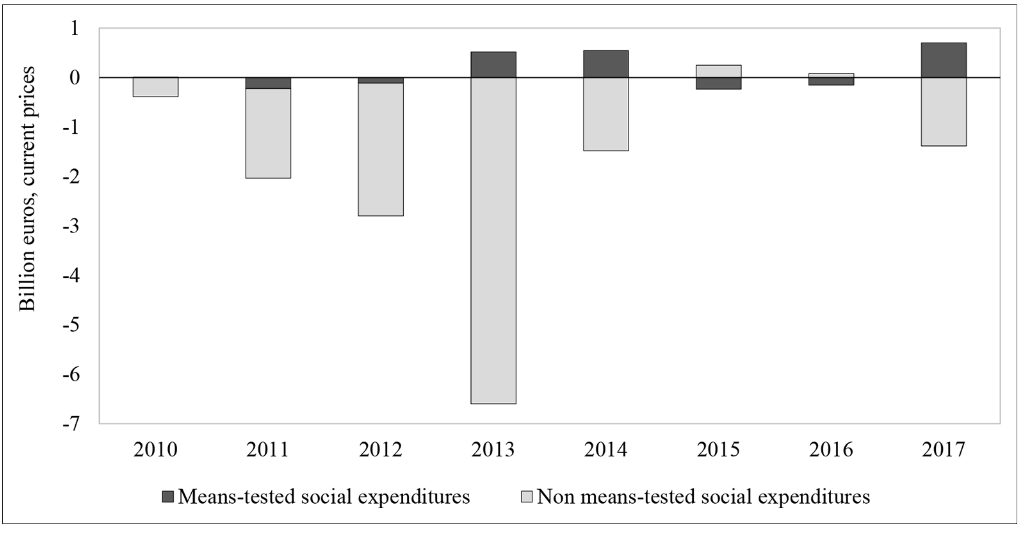

Figure 1. Annual change of means-tested and non-means-tested social expenditures, in billion Euros, current prices, Greece, 2010–2017.
Source: Eurostat.

One of the most crucial aspects of fiscal consolidation measures implemented between 2009 and 2017 in Greece is represented by the incomplete substitution of non-means-tested by means-tested social expenditures. Figure 1 depicts the annual change in the total magnitude of these two categories of social benefits, expressed in billions of euros (current prices). The amount attributed to the first group of benefits that are offered independently of the household income criteria has contracted considerably more than the relevant increase of the amount dedicated to means-tested benefits. Especially for the years 2011 and 2012, both types of transfers receded, while in 2013, the immense decrease of non-means-tested expenditures by €6.6 billion was totally unable to be offset by an analogous increase of the opposite category. This gap was left uncovered and resulted in a significant adjustment, which can be easily seen in figure 1. In other words, from 2010 to 2017, non-means-tested benefits have contracted by €14.02 billion, while the increase in the number of benefits allocated according to income criteria has been utterly insufficient (close to €1 billion) for counterbalancing during this dire time period.

All three PEAs implemented in Greece during the period of recession share an identical view as far as the macroeconomic effect of social transfers is concerned. In particular, social transfers were exclusively encountered as cost-burdening, and on these grounds, it was recommended that they are closely audited through the balanced budget principle (Ghilardi and Rossi 2014). Accordingly, an urgent obligation in need for new public expenditure—not included in the budget—would require coverage by additional revenue measures of equal value (i.e., through the imposition of new taxes or the reallocation of given expenses). Applying this budget management technique, the outcomes produced are said to be fiscally neutral, meaning that priority is given to maintaining fiscal targets already agreed upon. Thus, a considerably low effect on aggregate demand is attributed by neoliberal ideology to social transfers, suggesting that their reduction will only cause a short-term moderate decline of the GDP that will eventually improve the operation of the free market. The implemented

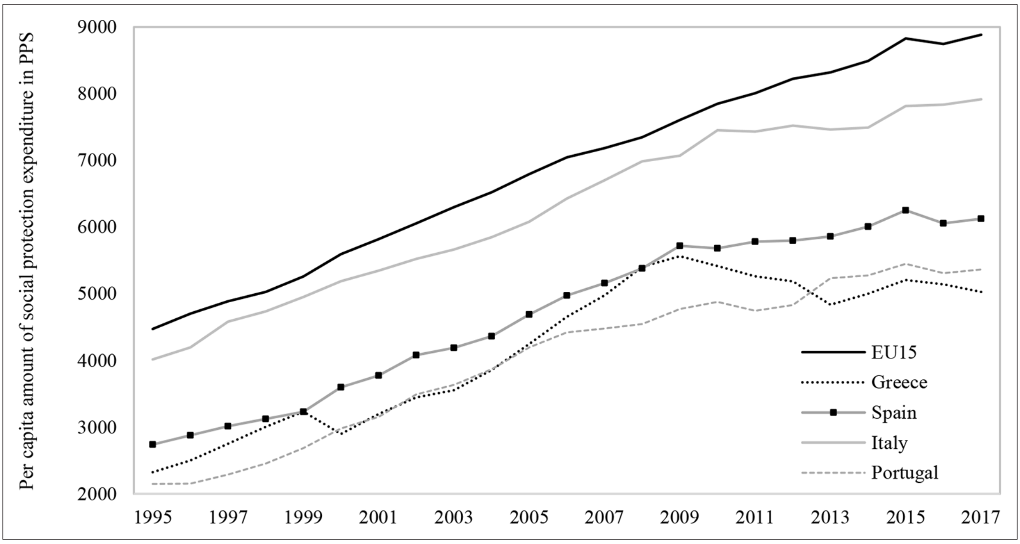

Figure 2. Amount of per capita social security expenditures in the purchase power standard (PPS (EU15 = 1), for Southern-European Welfare System Countries, 1995–2017.
Source: Eurostat.

austerity programs in Greece, however, substantially underestimated the impact social security cuts would have on GDP.[7]

Throughout the prolonged period of recession, the demanding fiscal targets set forth by the PEAs were effectively achieved by efforts that were in combination put on the side of expenditures as well as revenues. Regarding the former, in the document of the first PEA that was activated in May 2010, IMF (2010b: 8) highlighted the following: "Since the adoption of the euro, Greece has increased its noninterest expenditures by 8 percentage points of GDP, including with public wages, consumption, and social transfers imposing an overly large burden on the state. This needs to be reversed." Not surprisingly, the level of government spending was marked as exceptionally high, and thus efforts were primarily focused on that side of the budget in general and on the level of social transfers and public wages in particular. However, this view cannot be indisputably accepted as correct, let alone fair.

When comparing between countries, various macroeconomic variables are commonly presented in terms of GDP percentages. In the case of Greece, from 2009 to 2016 its nominal GDP was diminished by almost 27 percent, making social expenditures as a percent of GDP to wrongly appear extremely high. Alternatively, a more reliable measure for comparing the relatively low level of social transfers can be offered by restating them as per capita amounts of the PPS. Per capita transformation and PPS indexation are needed for at least two reasons. First, the per capita measure resolves the problem of comparison between countries of different population sizes. Second, by correcting for the PPS, comparability is improved even further since the differences in the purchasing power of the same money units between countries are remedied. Thus, figure 2 illustrates a different kind of measurement that should instead be used for comparisons among European countries

[7]For the difference between actual and expected recession—as was predicted by several IMF reviews of the Greek programs—see Missos (2019a). In addition, the IMF has offered a belated apology for its incapacity to provide a more reliable forecast of the program's effect on GDP (Blanchard and Leigh 2013).

and the respective mean of the EU15.[8] As can be observed, between 1995 and 2017, Greece has consistently fallen short of the EU15 average level. As depicted, the relative value of Greek social protection spending is comparably less than almost every other country belonging to the group of Southern-European welfare regimes. This group of countries, however, includes an important level of internal inequality. In Italy, the relative value of per capita social spending in the PPS performs a bit below the EU15 average, whereas the rest of the Southern-European countries can be designated as forming a subgroup of substantially undervalued social welfare systems. From 2008 onward, the value of per capita social expenditures in Greece in relation to the EU15 average has seriously decreased, diverging from the long-term trend and expanding the gap between itself and other countries of southern Europe.

The gap between Greece and the EU15 reflects the low level of social convergence between countries. In examining the value of per capita social spending measured by the PPS, it is clear that in 2000 Greece fell behind the EU15 average by 48.7 percent (2,898 for Greece and 5,594 for the EU15). In the years of high growth following the adoption of the euro currency and up to 2008, this extremely large gap scaled down to 28 percent, leaving Portugal behind and exhibiting a transient trend of full convergence with Spain. Over the first phase of high growth, social spending in Greece accelerated. In the years that followed, however, and during the time of economic recession, the previous picture changed dramatically, and by 2016, the gap between Greece and the EU15 had deteriorated, returning to that of past levels (43.3 percent). As a result of fiscal consolidation measures, the percentage difference between Greece and the EU15 expanded significantly. What may seem strange, though, is that the relative value of social security spending is not high, and therefore it cannot be blamed as the main cause for the excessive level of budget deficits.

The major policy implications of this prejudiced view of placing disproportionate responsibility on social spending for the general economic slowdown are reflected in the series of notable cuts that followed. In addition, the basis upon which all types of allowances were bequeathed to the people was revised. The value and purchasing power of the new schemes of benefits and pensions became remarkably less than before. A large part of the Greek population experienced a severe decline of its total disposable income even as its relative socioeconomic conditions were altogether degraded. Within the 8 years of recession, Greek society adjusted to a new, depreciated, less commodious way of life.

3. Measuring Poverty

In what follows, I make use of Eurostat's official statistical microdata and terminology concerning the concept of the *poverty line*, conventionally defined as 60 percent of each country's median equivalized disposable income.[9] Herein, the conventional definition is revisited on the grounds that it is unable to express the impact that the policy of internal devaluation and fiscal adjustment imposes on the income standards of the overall population in Greece. Calculations are based on the modified OECD scale used for comparisons between individual income and that of different types of households. All steps of the analytical process rely on a series of microdatabases that are annually published by Eurostat (SILC); for this study, the surveys of 2010–2018, referencing

[8]The group of the EU15 corresponds to a statistical subcategory containing all countries that were members of the European Union before the 1st of May 2004. More specifically, the category of the EU15 refers to the following: Austria, Belgium, France, Germany, Denmark, Greece, Ireland, Spain, Italy, the Netherlands, Portugal, Sweden, Finland, the United Kingdom, and Luxembourg.

[9]Henceforth referred to as median disposable income. Eurostat's conventional poverty line is defined as 60 percent of the median disposable income of the total population. https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:At-risk-of-poverty_rate

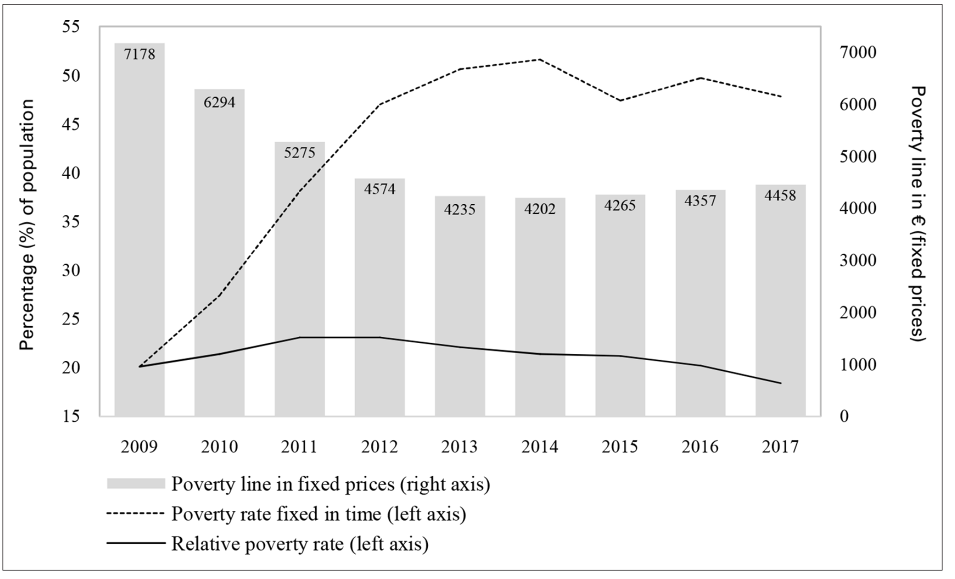

Figure 3. Poverty rates (percent) and deflated (2009 = 100) poverty line, in €, Greece, 2009–2017.
Source: ELSTAT and author's own calculations.

incomes of 2009–2017, are utilized. In the following figures, the chronologies appearing on the horizontal axes refer to this later group of years during which the household income was obtained rather than when the surveys were conducted. The last survey available is that of 2018 (incomes of 2017). Last, the current analysis is confined to the case of Greece, and therefore the critique of the characteristics of different social welfare regimes in which the EU15 countries are grouped is not further discussed.

According to the mainstream approach, the poverty rate is measured as the percentage of the population whose disposable income falls below 60 percent of the median. An individual is portrayed as either poor or not poor depending on whether income earned lies above or below that threshold. This definition, as it suggests, ascribes to an entirely relative view of poverty, meaning that it does not capture the changes in median income over time. From 2009 to 2016, the median disposable income in Greece has contracted substantially by more than 37 percent in nominal terms—10 percentage points more than the GDP fall. However, this simple fact has systematically avoided mention in all relevant reports published, either from the IMF, the European Commission, or the OECD, concerning poverty in Greece. In ascribing to this conventional approach to the poverty rate, neoliberal policymakers were indicating the state of poverty in relative terms—under the always-present economic circumstances—no matter how dire living conditions had become.

To emphasize this misinterpretation, an enhanced measure that can provide some new insights concerning the impact fiscal consolidation programs had on the general level of disposable income is required. This fact has also been stressed by other studies (Papatheodorou and Papanastasiou 2018) using the alternative poverty rate published by Eurostat, which keeps the 2007 poverty threshold as constant. However, the modified version presented in figure 3 differentiates from Papatheodorou and Papanastasiou (2018) in at least two respects. First, it is based on original microdata calculations using the fixed 2009 poverty line because, according to all SILC surveys available, the median income in Greece reached its peak in that year. Thus, by calculating the percentage of the population that falls below this threshold—instead of any other—a better, more conclusive grasp of the social cost of economic adjustment is yielded. Moreover, the distance to full recovery is also better appreciated, since 2009 typically marks the beginning of the long-lasting GDP recession. Second, the modified rate is further expressed in real terms, meaning that all incomes have been readjusted by taking the Consumer Price Index into account.[10] Accordingly, the poverty threshold is not kept nominally fixed, but it is rather expressed in real—deflated—terms that incorporate price variations. This adjustment provides a better, more reliable measure of income adjustment and approaches the poverty level in Greece more accurately. In that respect, the new poverty line is 60 percent of the median individual disposable income of 2009 at fixed prices. For convenience, this differentiated poverty rate is henceforth briefly referred to as "fixed in time".

Figure 3 depicts the basic magnitudes evaluating poverty levels in Greece. As has already been illustrated, despite eight consecutive years of a strong recession, the relative rate of poverty has not gone through significant changes. From the 20.1 percent that existed in 2009, it increased to 23.1 percent in 2011, where it remained constant for another year (2012) before starting to decline and gradually falling even below the 2009 level. Thus, in 2017, the risk of poverty was estimated at 18.45 percent. Such a low rate of poverty can in no way represent the level of income depreciation in realistic terms. Therefore, the additional indicator included in figure 3 adheres to a fixed and deflated level of the individual poverty threshold.

Between 2009 and 2014, a severe, real-value reduction of the poverty line by 41.5 percent reflects one of the major consequences of the economic policy mix that was followed during the years of economic contraction that the relative way of measuring poverty cannot capture. Thus, the fixed-in-time poverty rate shows an important deviation from the relative measure. What this rate actually says is that, according to the respective SILC microdatabases, in 2009 the part of the population that was living with less than €7,178, is estimated at 20.1 percent. Similarly, in 2014, people earning less than €6,684—the deflated level of the 2009 poverty line—contained 51.6 percent of the population. As a result, within a period of 6 years, the income level of another 31.5 percent of the population had diminished to less than the deflated amount corresponding to the poverty line of 2009. Accordingly, in 2017, the fixed-in-time poverty rate was 47.8 percent, indicating only a marginal improvement in the level of income poverty thus defined. Disposable income was still quite low and had a long way to recovery.

An additional development that certainly requires further discussion and thorough examination concern the income levels of those living in poverty. The population of the poor is by no means a homogenous group, and their living conditions have attracted a great deal of attention from policymakers during the crisis. According to the European Commission (2017: 80): "The new scheme [of social assistance] is expected to improve both inequality and risk of poverty. By design the benefit reaches individuals and households in the lowest decile of the income distribution. Within this scheme, the poverty gap and the rate of extreme poverty are expected to improve appreciably." Let me examine both. The *poverty gap* is defined as the ratio of the distance between the median income of the poor and the line of poverty over the line of poverty As an indicator, it offers information concerning the depth or intensity of poverty since it reflects the level of disposable income under which 50 percent of the poor population subsists. Figure 4 provides evidence that during the period of recession, the annual median disposable income of those in the risk of poverty fell roughly by 45.2 percent, more than the percentage reduction of the poverty line (figure 3). Furthermore, the poverty gap has moved upward and, for a series of years, has remained over 30 percent. Both these aspects advocate that the income of the poorest

[10]Out of simplicity, 2009 has also been chosen as the base year for CPI adjustments.

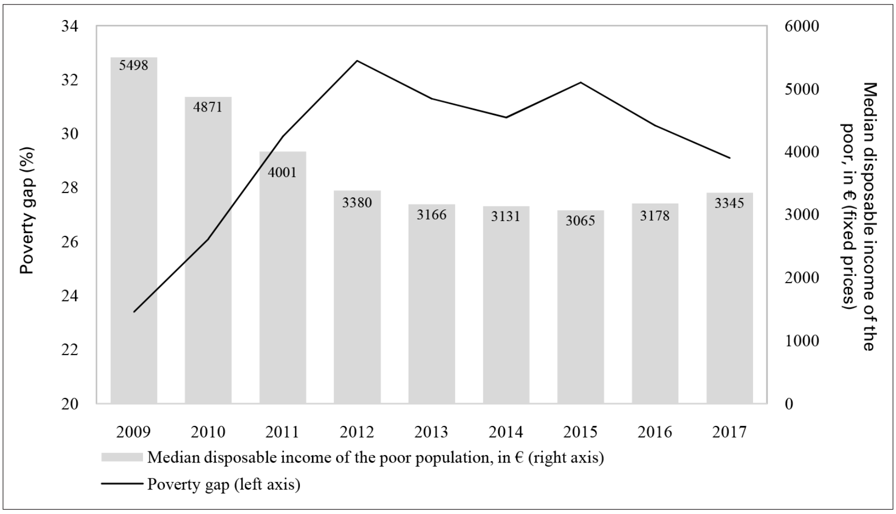

Figure 4. Poverty gap (percent) and Annual Median Disposable Income of the Poor Population, € in Fixed Prices (2009 = 100), Greece, 2009–2017.
Source: ELSTAT, author's own calculations.

50 percent of the population's poor has considerably depreciated and that the poor have become much poorer.

On the other hand, according to the European Commission (EC 2017: 80), *extreme poverty* is defined as the percentage of the population earning less than 30 percent of the overall median disposable income. When considered through the lens of the fixed-in-time concept used in figure 3, the results are particularly odious. In 2009, the percentage of the population that lived with less than €3,589—the 30 percent of the 2009 median income in fixed prices—per annum was nearly 4 percent. In 2013, the same rate culminates to 16.1 percent, whereas for 2016 it falls slightly toward 14.4 percent. Therefore, in comparison to the income conditions of 2009, extreme poverty in Greece has elevated. Although this policy aims at alleviating severe incidents of poverty and the overall design of its benefits is targeted toward the most indigent group of the overall population, by limiting its capacity and lowering its standards, the new system puts disproportionate responsibility for the financial conditions they face on the low-income population.

4. Net Social Wage Approach

The implementation of the safety net constituted a control on social welfare expenditure. This element can also be seen through the net social wage ratio. This approach depicts a distributional measure capturing the overall outcome between state benefits received and taxes paid by a class of workers. It deviates substantially from the conventional practice of utilizing the SILC survey based on households' microdata from which the personal/individual distribution of income is derived. SILC-based inequality measures are derived from taking the whole population into account while separating among different income groups or scales. The net social wage, on the other hand, refers to the political and economic role of the social classes and reveals whether the primary distribution of income that is the result of the class struggle between capitalists and workers is improved by the contribution of the welfare state. As a consequence, its main goal is to examine whether the total taxes imposed on wage earners are counterbalanced by the state benefits directed to them in order to enhance their living standards.

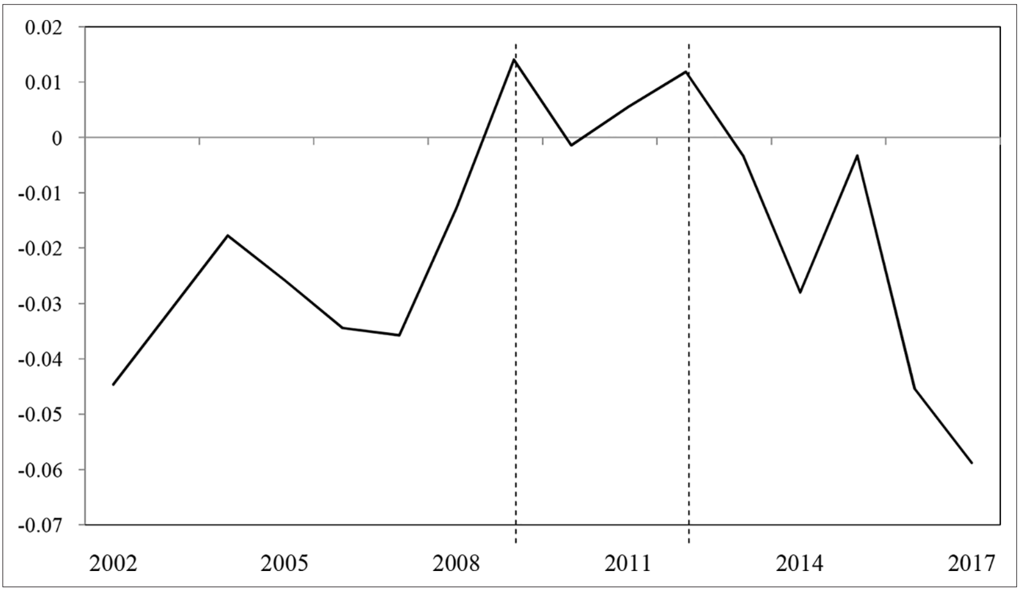

Figure 5. Net social wage ratio, Greece, 2002–2017.
Source: Eurostat, Ministry of Finance, and author's own calculations.

Calculations are based on the methodology developed by Maniatis and Passas (2019), but the results presented herein differ in a significant way from theirs (figure 5). The working class is straightforwardly defined as the sum of salaried workers—either full-timers or part-timers—and the unemployed divided by the total labor force, which also includes the self-employed and all other types of employers and professionals. As far as the amount of taxes on wages is concerned, it is assumed that the gross market wage earned is higher than that of the subsistence level and that social transfers—either in cash, kind, or services (health, education, infrastructure, etc.)—are channeled back to them so their living standards can be maintained or even improved.

Not all of the state's expenditures (see column B in table 1) are directed to workers, and, of course, not every category of taxes (see column A in table 1) affects their disposable income either. For example, expenditures regarding general public services, public order, and military defense do not constitute part of income transfers that contribute toward the improvement of the workers' living conditions. On the other hand, expenditures on public transportation, education, health, social security, culture, and recreation activities do belong among those welfare state categories of which a significant part is devoted to the population of workers. In addition, taxes on profits—as well as other similar types of taxes—do not burden the wage earners at all, whereas a part of the direct taxes on income and net social contributions are extracted from the amount of gross wages exclusively. These amounts of expenditures and taxes, of which workers' have their share, is estimated by multiplying each category by a labor share (i.e., the ratio of employed and unemployed wage earners over total employment). Finally, the amount of labor taxes and labor benefits is taken in terms of GDP, the difference of which constitutes the net social wage ratio.

Figure 5 depicts the variations of the net social wage ratio in Greece for a period that spans 2002 to 2017. Contrary to Maniatis and Passas (2019) results, these results offer quite a different picture that is consistent with my account of the ongoing transformation of the welfare state in Greece. Based on these calculations, the net social wage for the working class in Greece was negative for the years 2002 to 2009, when the crisis was typically initiated. During the following

TABLE 1. State Taxes and Expenditures Used for Calculating the Net Social Wage Ratio.

(A) Tax category	Multiplied by	(B) State expenditure category	Multiplied by
(Taxes on production and imports—D29C)	Labor share	General public services	0
D29C: Total wage bill and payroll taxes	1	Defense	0
Current taxes on income and wealth		Public order and safety	0
Taxes on income		Economic affairs transportation	Labor share
Taxes on individual or household income including holding gains	Labor share	Environment protection	Labor share
Taxes on the income or profits of corporations including holding gains	0	Housing and community amenities	1
Taxes on winning from lottery and gambling	Labor share	Health	Labor share
Other taxes on nonemployee compensation (NEC) income	Labor share	Recreation, culture, religion	Labor share
Other current taxes		Education	Labor share
Current taxes on capital	0	Social protection	Labor share
Poll taxes	0		
Expenditure taxes	0		
Household taxes for licenses	Labor share		
Taxes on international transactions	0		
Other current net taxes	Labor share		
Capital taxes	0		
Total tax receipts	0		
Net social security contributions	1		
Labor taxes		**Labor benefits**	

Note: Net social wage ratio = (Labor taxes − Labor benefits)/GDP.

3 years, it became positive and marginally negative, whereas after the logic of a safety net was implemented, it turned back to the previous levels. A cause of this difference may be due to the fact that in my calculations I have used the data for wage and payroll taxes published by the Ministry of Finance in Greece because the relevant data were not available in Eurostat.[11] Thus, in comparison to Maniatis and Passas (2019) calculations, the amount of labor taxes as presented here is particularly smaller.

This picture, however, is consistent with my interpretation of the subject. The welfare state in Greece did not alter immediately after the crisis erupted; instead, it took at least 3 to 4 years of gradual reforms to depart from its older level of social transfers. During the years of growth (2002–2008), the level of social transfers was significantly higher, and it did not scale down until 2013. During the first years of recession, between 2009 and 2012, social security expenditures maintained their previous non-means-tested logic, and they fell at a slower pace than the total disposable income of the working class. Immediately after the implementation of the safety net, the level of exploitation was readjusted and even intensified. The welfare state's previous structure made it appear as generous during the first 3 years of abrupt recession, and most of its benefits were progressively confined and rationalized after 2012—for example, at the beginning of 2012, unemployment benefits were cut by 20 percent, public servants were deprived of an

[11]This also applies for many other countries of the EU. Presently, no explanation has been given for data unavailability in Eurostat concerning the level of direct taxes in several EU countries.

amount equal to 2 monthly salaries, and the minimum wage was also lowered by another 20 percent.

The implementation of a safety net operates as an advanced method for controlling the amounts concerning social welfare (education, health, social security). Its logic, as section 2 explains, suggests that its close association and interdependence with the rules of fiscal discipline provide a more flexible and effective mechanism of rapid adjustment to the changing requirements of neoliberal policy on fiscal expenditure. This type of managing scarce fiscal resources is intended to shorten the long hysteresis that occurs during the years of prolonged recession. Its main goal is to redistribute fiscal resources to those who are in the lower parts of the income climax, the majority of who are working-poor. As a consequence, the net social wage approach seems to confirm the changing character of the welfare state in Greece, which has readjusted its functions in order to augment the exploitation of the working people.

5. Conclusion

Between 2009 and 2012, the older state of social welfare in Greece was substituted by a reformed system of social protection. The implementation of this neoliberal safety net, by design, forms a system of benefits based on the principle of efficient allocation of scarce fiscal resources. What is more, it is a system for controlling the level of fiscal resources so that the income adjustment of the working class can be as immediate as possible. Within this framework, efficiency is identified by targeting (i.e., by using the process of detecting the most appropriate socioeconomic profiles of the beneficiary households toward which the particularly reduced amount of transfers is channeled). Thus, the role of the state declines to that of a mere assistant to the poor and the extremely poor population. What is more, the great part of social expenditures is exclusively absorbed as the cost with no significant effect on economic growth.

Among the main international institutions of economic policy, it has been commonly accepted that before the crisis, social spending in Greece was too high for European standards. This idea, I suggest, cannot remain undisputed. Doubts concerning this prejudice can certainly be raised, particularly in cases where the matter is approached in per capita PPS terms. From this point of view, social protection expenditures reveal a different image concerning the relative value of social transfers against the EU15 average. The level of fiscal adjustment imposed by the three PEAs might thus be questioned. It is shown that Greece, almost persistently in comparison with the rest of the Southern-European economies, occupies the worst and most devalued economic space.

Furthermore, during the period in question, the overall disposable income in Greece was substantially reduced. To capture the general impact of internal devaluation, an alternative measure of a poverty rate that is fixed in time has been herein constructed by using the SILC's microdata. Eight years of economic recession were enough to radically alter the whole picture of the income level in Greece. Between 2009 and 2017, the median disposable income in general and of those living in the risk of poverty fell, in real terms, by 39.8 percent and 45.2 percent, respectively. This level of economic adjustment alone constitutes a shift toward a new status of socioeconomic affairs.

Last, the net social wage approach shows that the adjustment toward the new status of the welfare regime was gradual and lagged by 3 to 4 years. Before the 2009 crisis, the net social wage ratio was negative, signifying the contribution of the overall welfare expenditures toward the exploitation of the working people. During the first years of economic recession, the relatively high level of non-means-tested spending of the previous regime was still maintained, consequently resulting in a positive net social wage. After the implementation of the safety net (2012/2013), the welfare state in Greece was slowly modified to the new, reduced economic conditions, and there are several signs indicating that this occurred so that the living standards of the working class could be maintained at a low level of income. It seems that the recession did not actually end and that the signs of weak growth were not related to the improvement of the living standards of the working people.

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