

The distributional impact of the crisis in Greece

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**POLICY
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aim of presentation

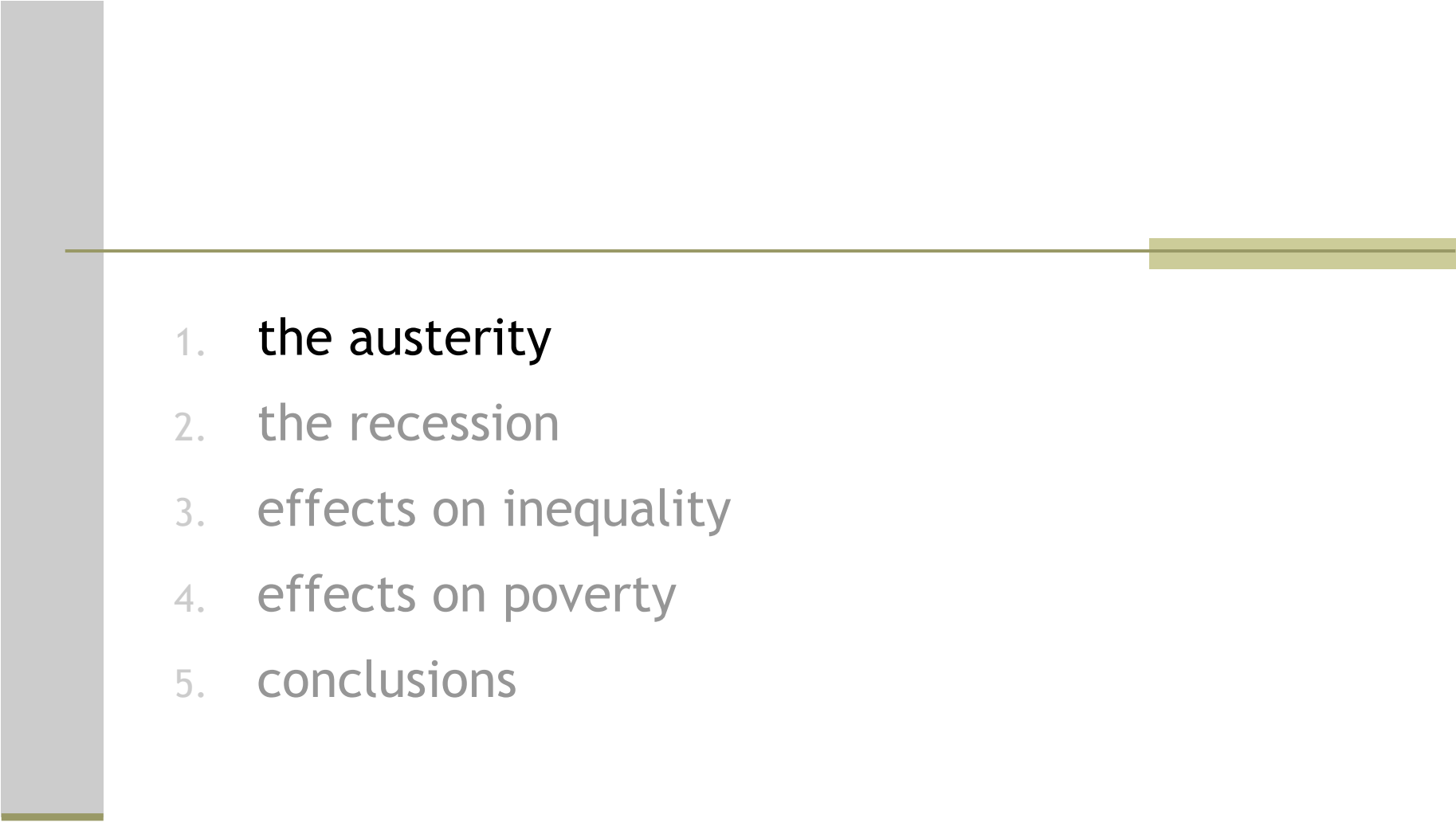
- ✓ we estimate (a) the effects of the Greek crisis on inequality and poverty and (b) how the cost of the austerity is shared between income groups
- we compare the income distribution in 2012 to that in 2009 (pre-crisis)
- we distinguish between the (direct) effects of the austerity measures and those of the wider recession
- we use the European tax-benefit model EUROMOD

a different presentation

- ❖ Figari F. “The distributional effects of fiscal consolidation in 9 EU countries”
- ✓ different dataset
 - GR: EU-SILC 2010
 - SSO: EU-SILC 2008
- ✓ different methodology: labour market adjustment
 - GR: match EUROMOD 2012 to LFS 2012 (Q1+Q2)
 - SSO: explicit simulation of labour market transitions from 2007 to 2011
- ✓ different baseline + counterfactual
 - GR: straightforward comparison of income distribution (2012 vs. 2009)
 - SSO: comparison of policy rules (2012 vs. 2008)

structure of presentation

1. the austerity
2. the recession
3. effects on inequality
4. effects on poverty
5. conclusions

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1. **the austerity**
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fiscal consolidation

	2009	2012
expenditure (€ million) (net of interest payments)	71,888	56,970
revenue (€ million)	50,686	52,393
primary deficit (€ million)	21,202	4,577
(as % GDP)	9.2%	2.4%

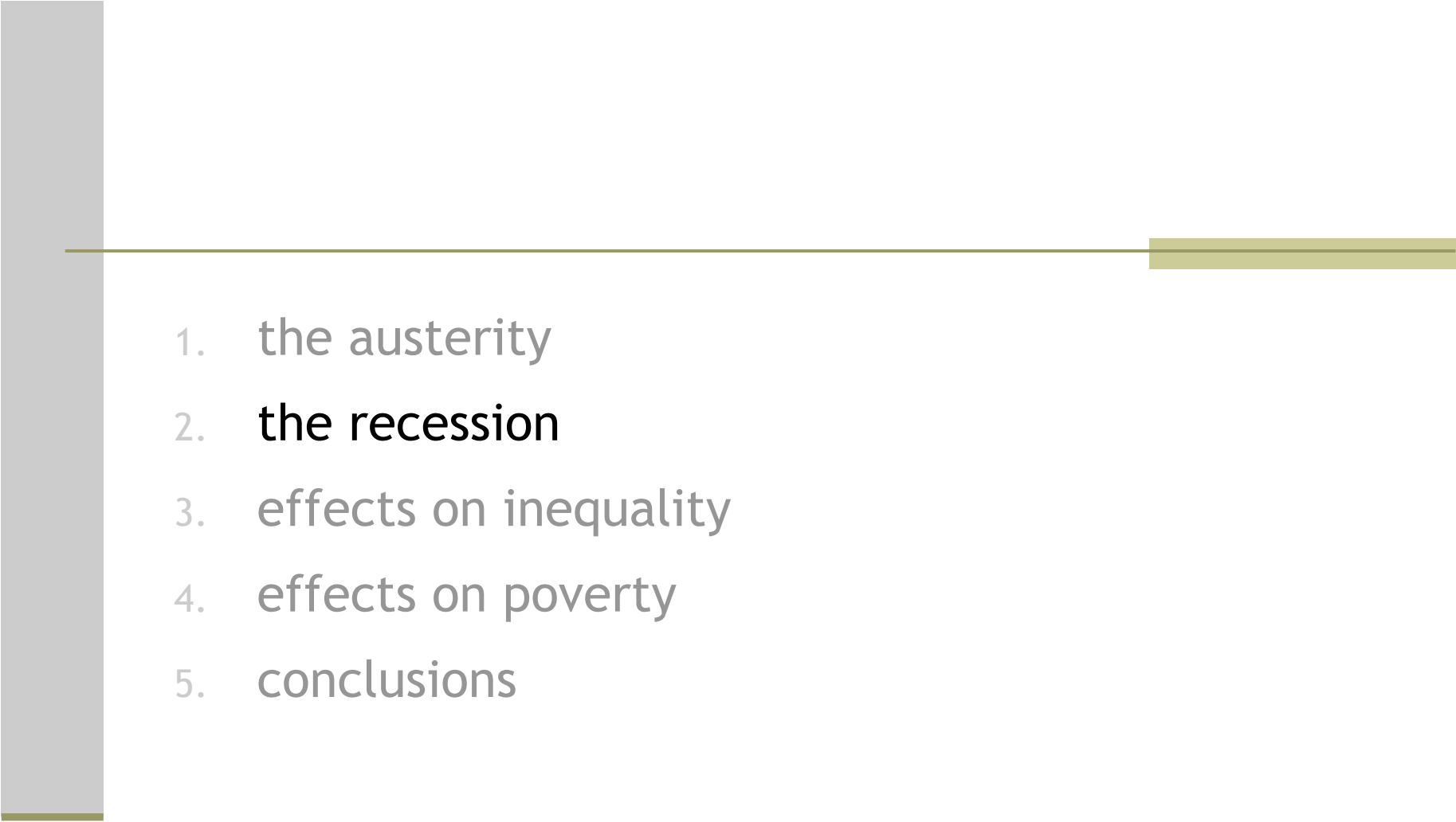
austerity policies

❖ revenue measures

- ✓ PIT + other direct taxes increased
- ✓ VAT + other indirect taxes increased

❖ expenditure measures

- ✓ public sector pay reduced
- ✓ pensions + other social benefits reduced
- ✓ funding of public services reduced
- ✓ investment spending reduced
- ✓ public sector employment reduced (a little)

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the wider recession

❖ GDP

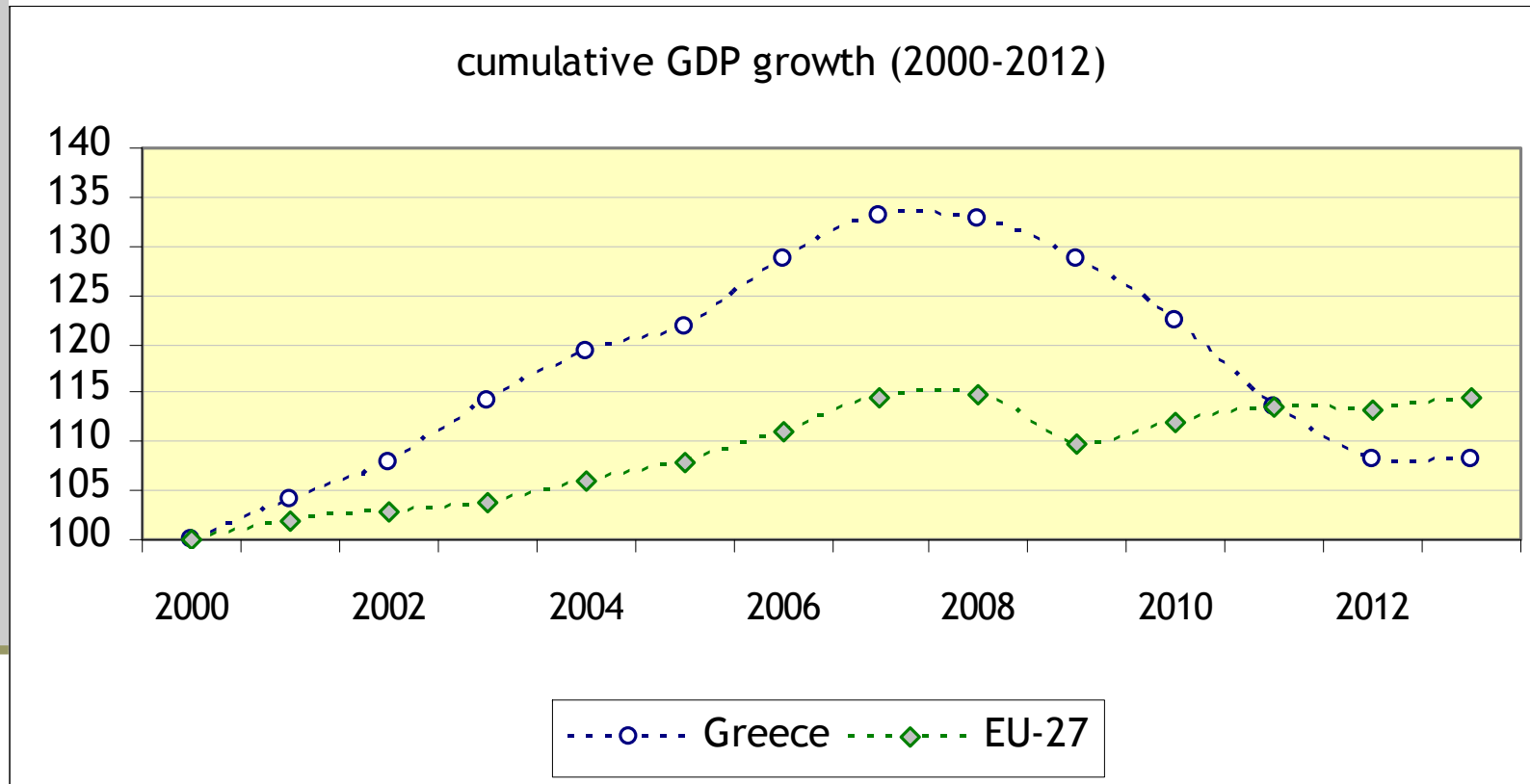
- ✓ cumulative loss in real terms: at least 18.6% since 2007

❖ unemployment

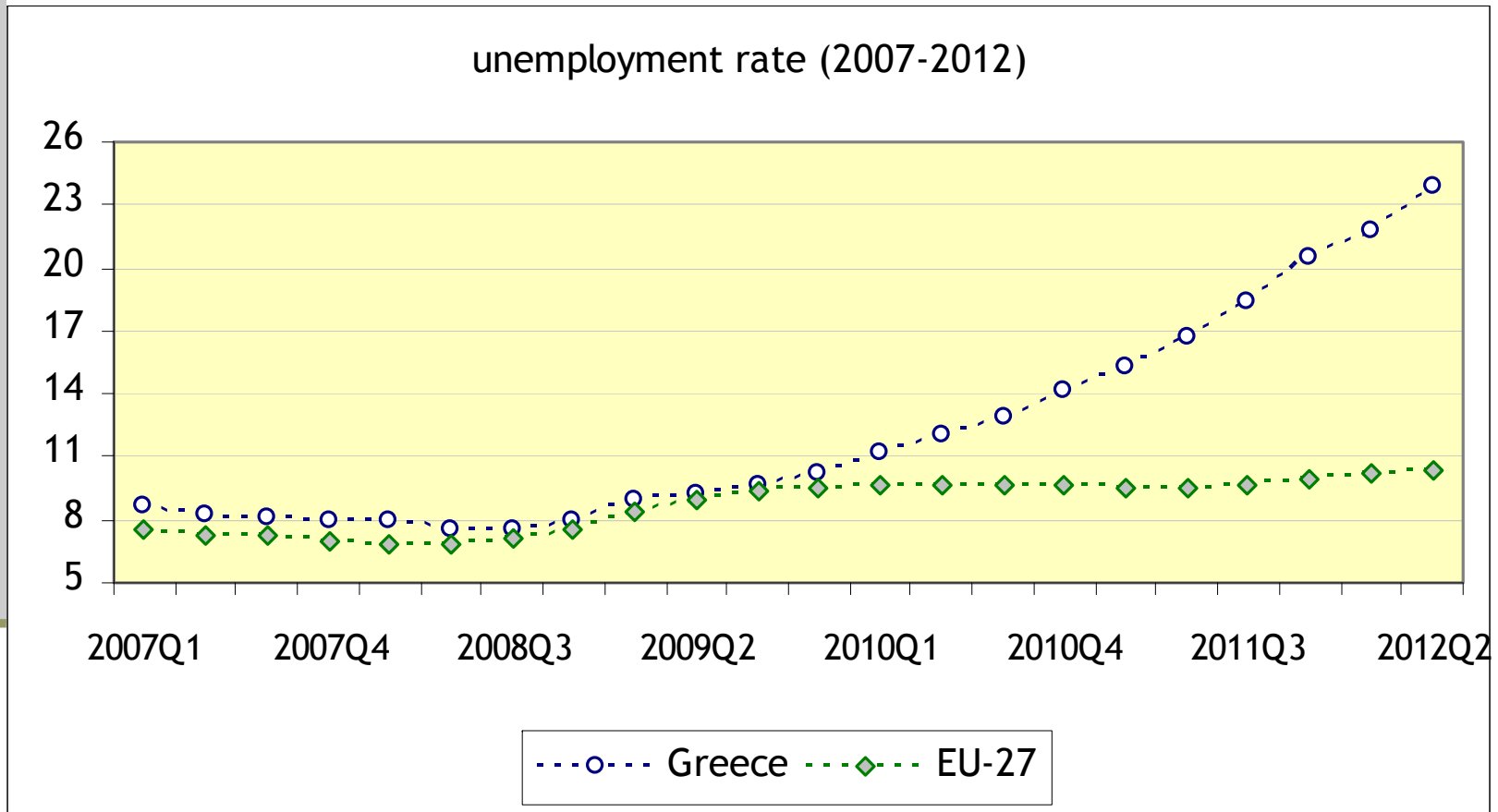
- ✓ sharp rise: from 7.3% (May 2008) to 25.4% (August 2012)

❖ private sector incomes

- ✓ wage cuts (employees)
- ✓ reduced earnings (self-employed, farmers)
- ✓ other private incomes (from property etc.)



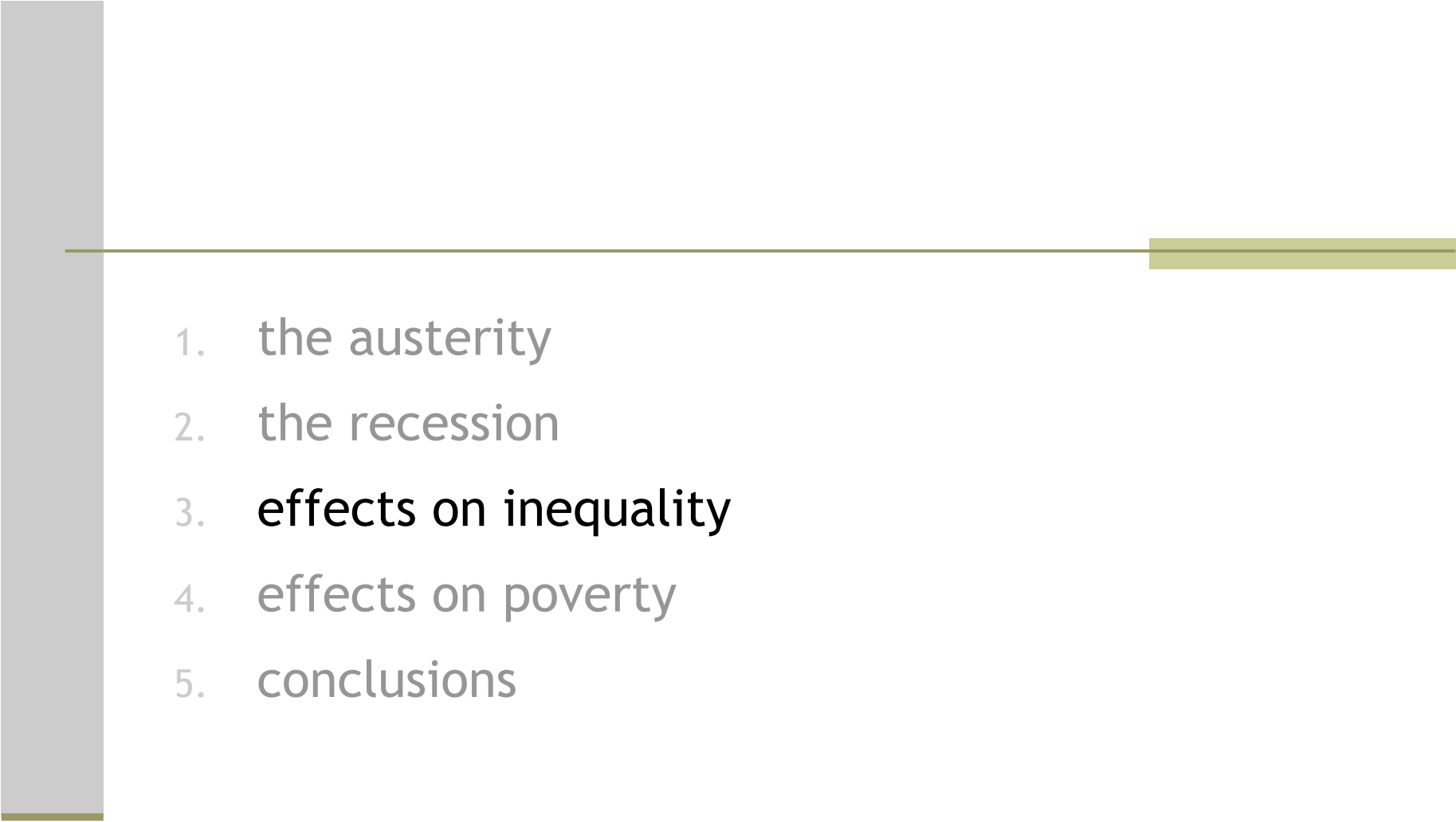
In 2000-2007, GDP in Greece grew more than twice as fast as in the Eurozone as a whole. Since 2007, the size of the Greek economy has shrunk by **18.6%**.



The (seasonally adjusted) unemployment rate in Greece has risen from 7.3% in May 2008 to 25.4% in August 2012.

	real gross earnings (2000 = 100)	
	2009	2012
civil service	122.7	90.5
public utilities	156.8	113.0
banks	117.1	97.5
other private sector	124.4	98.6
average earnings	123.3	95.0
minimum wages	119.7	90.4

In terms of average gross earnings, losses in 2009-2012 more than wiped out gains in 2000-2009. Real gross earnings of civil servants and minimum wage earners were in 2012 lower than in 2000 (by almost 10%). Some categories (e.g. workers in public utilities) have been relatively protected.

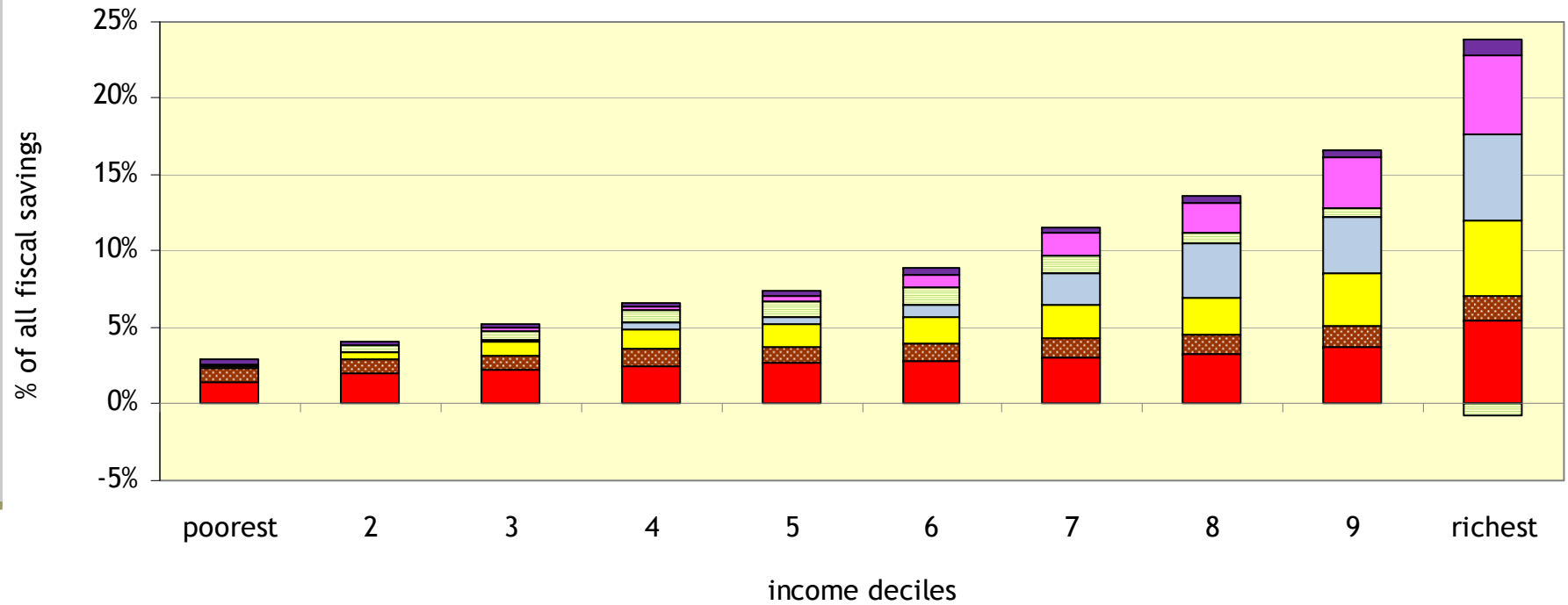
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	inequality indices	
	2009	2012
Gini coefficient	0.325	0.328
coefficient of variation	0.728	0.721
S80/S20 income share ratio	5.274	5.945



Individuals are ranked according to their household disposable income equivalised by the modified OECD equivalence scale.

burden of fiscal savings by income decile



VAT

property tax

pension benefits

public sector pay

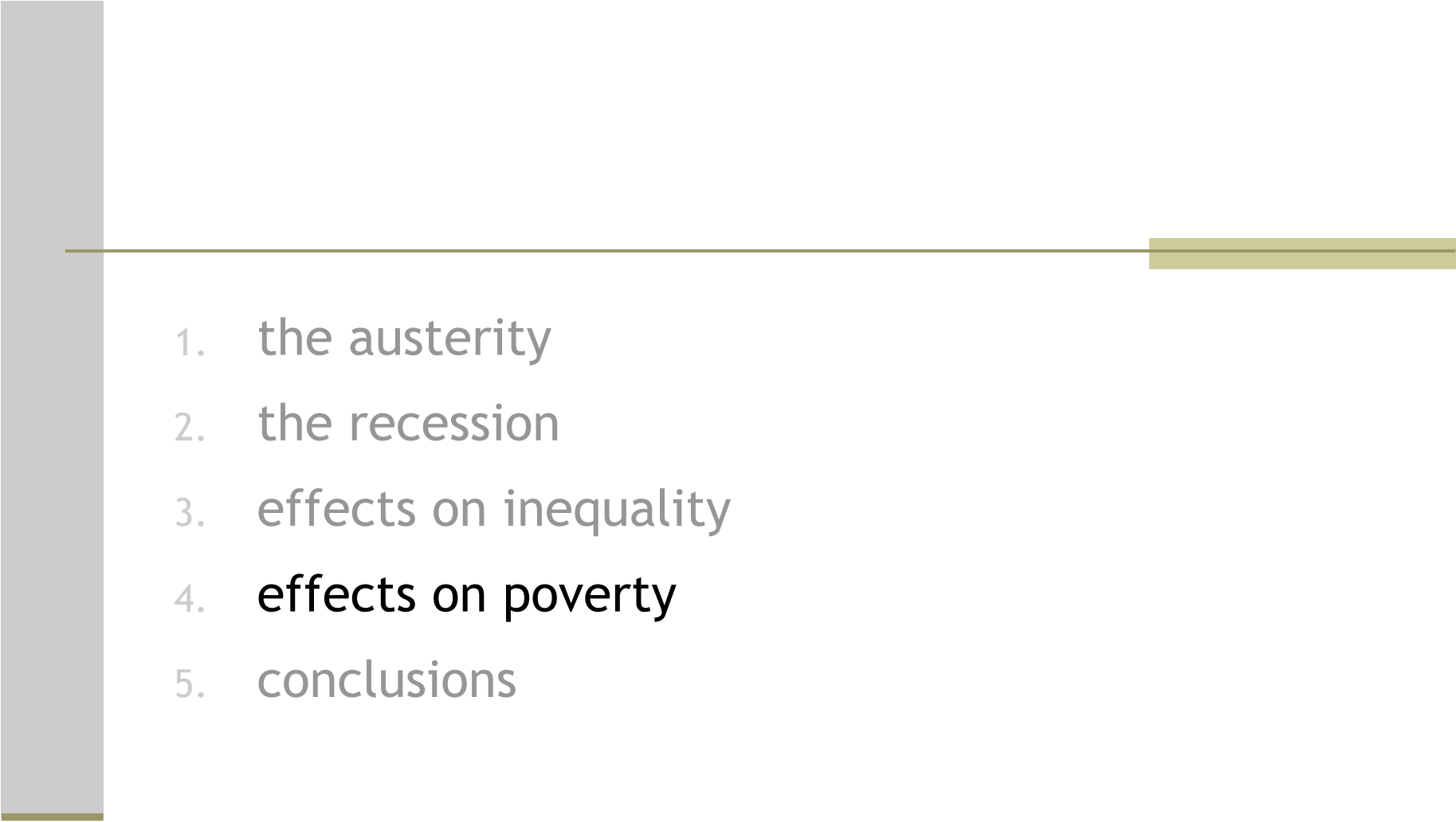
income tax

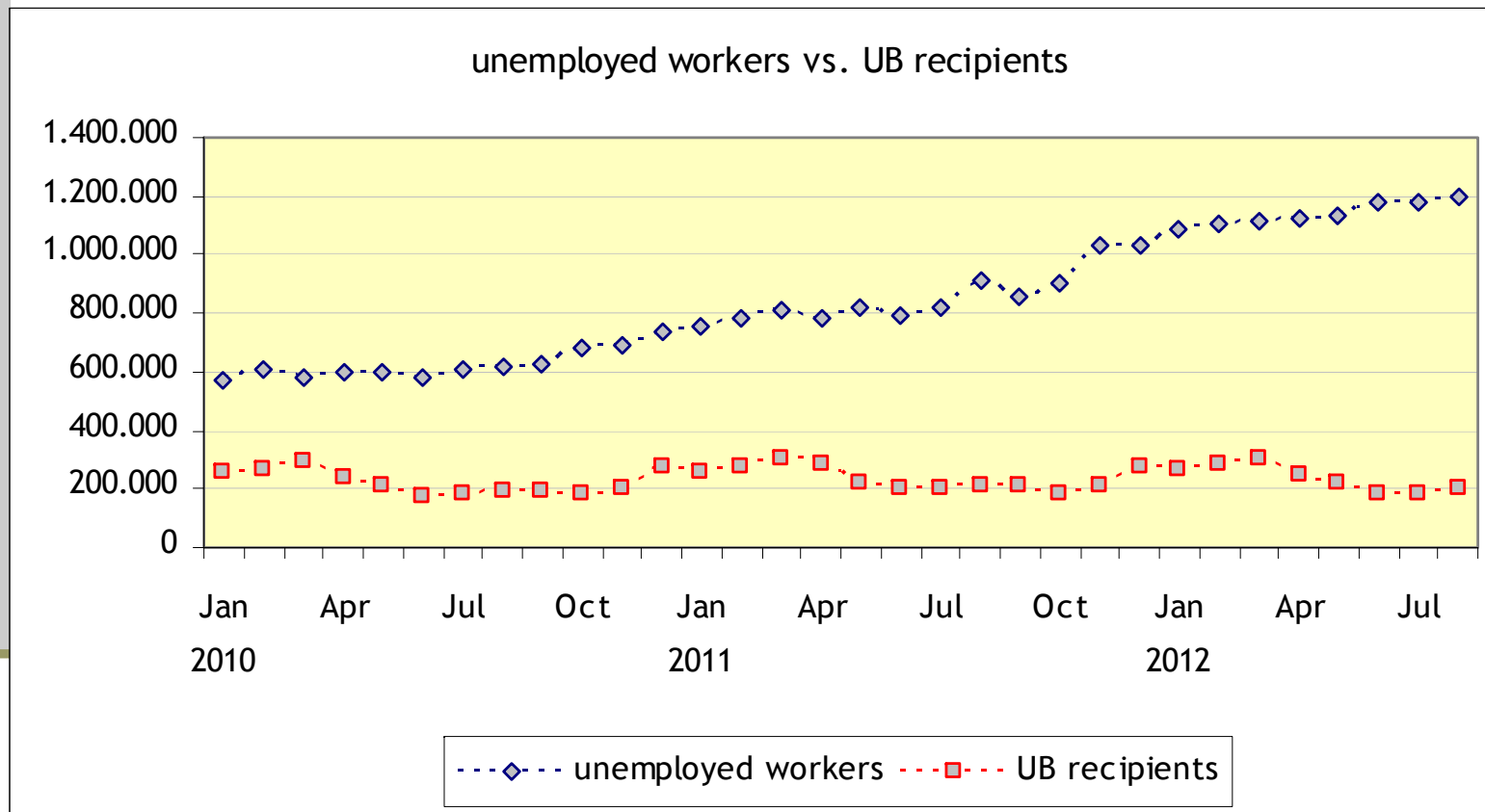
pensioners' solidarity contributions

self-employed contribution

	R-S index	effect
income tax changes	+0.0077	strongly progressive
pension benefit cuts	+0.0026	mildly progressive
public sector pay cuts	+0.0051	strongly progressive
pensioners' solidarity contribution	+0.0074	strongly progressive
extra social insurance contributions	+0.0004	slightly progressive
self-employed tax levy	-0.0008	slightly regressive
emergency property tax	-0.0026	mildly regressive

The 2010 VAT hikes (affecting consumption expenditure rather than disposable income) were also expected to have a clearly regressive impact.

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Unemployment benefit is contributory: new entrants to the labour market (and informal workers) are excluded. The maximum duration of unemployment benefit is 12 months: the long-term unemployed are not covered. As a result of that, in August 2012 only **16.8%** of unemployed workers received unemployment benefit. One million unemployed workers receive no unemployment benefit (very often, the only benefit that there is).

	relative poverty rate conventional threshold: 60% of median	
	2009	2012
unemployed workers	34.20	37.47
private sector employees	9.78	10.33
self-employed workers	17.30	20.36
pensioners	17.01	9.80
total	19.35	19.26

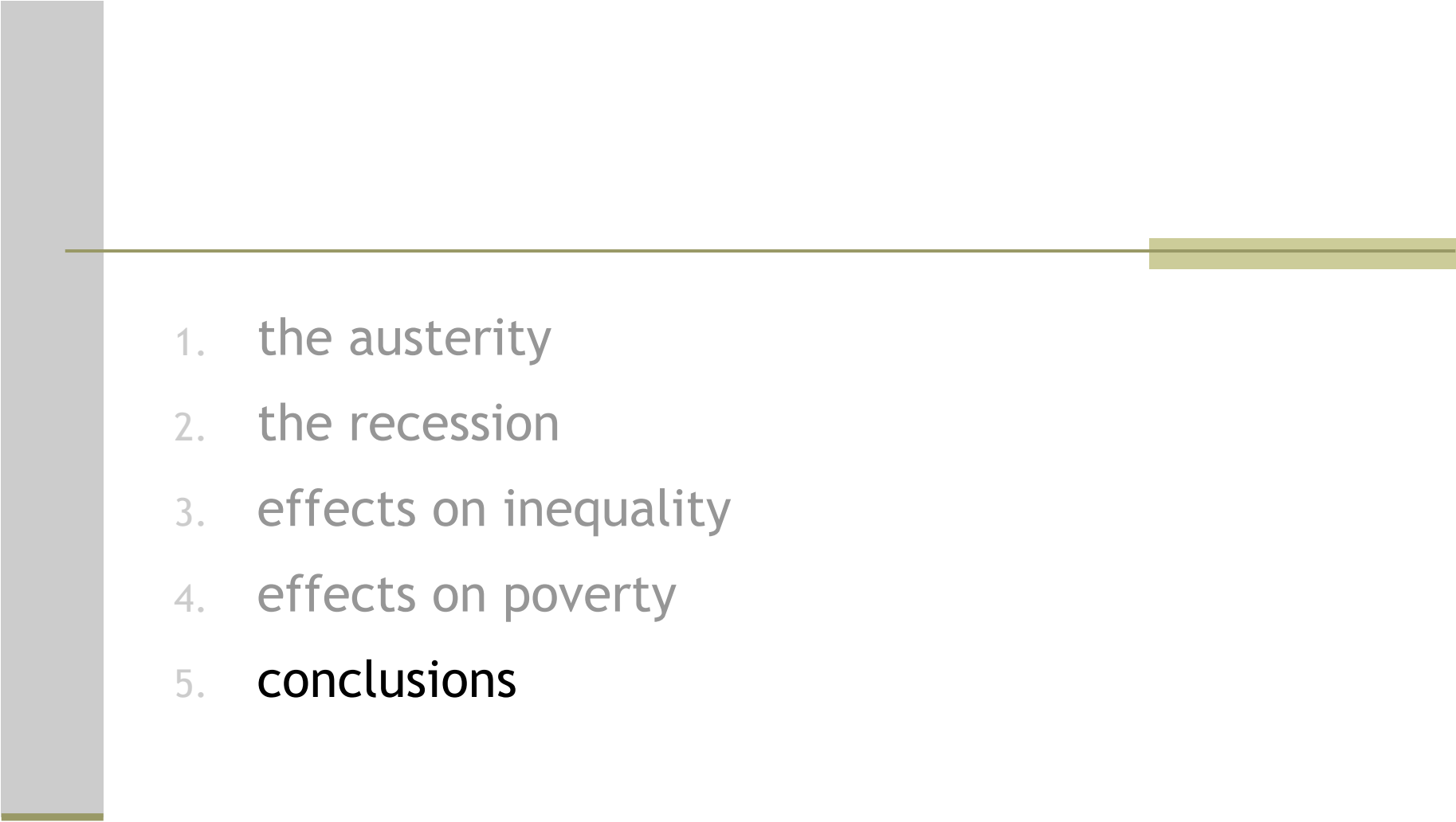
In 2012 the conventional poverty threshold for a person living alone was €492 per month (down from €614 in 2009).

	relative poverty rate fixed threshold: 60% of 2009 median (in real terms)	
	2009	2012
unemployed workers	34.20	57.31
private sector employees	9.78	22.67
self-employed workers	17.30	31.65
pensioners	17.01	27.46
total	19.35	35.39

In 2012 the fixed poverty threshold for a person living alone was **€667** per month (up from **€614** in 2009).

	extreme poverty rate reference budgets	
	2009	2012
unemployed workers		19.44
private sector employees		3.18
self-employed workers		11.88
pensioners		0.93
total		8.45

We estimate the extreme poverty threshold for a sole person living in Athens in 2012 at **€434** per month, or **53%** of national median equivalent disposable income.

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❖ inequality

- ✓ little change around the middle of the income distribution
 - (most) austerity policies reduced value of Gini index
 - wider recession unambiguously increased it
- ✓ relative income share of poorest (richest) decile fell (rose)
 - value of S80/S20 index increased

❖ poverty

- ✓ conventional threshold (60% of median): little change \approx 19%
- ✓ fixed threshold (60% of 2009 median in real terms): dramatic rise $>$ 35%
- ✓ extreme poverty estimate: 8.45% in 2012