



universität
wien

DIPLOMARBEIT

Titel der Diplomarbeit

„Structural Adjustment in Argentina and Greece “

Verfasser

Alexander Hudetz

angestrebter akademischer Grad

Magister (Mag.)

Wien, 2014

Studienkennzahl lt. Studienblatt:

A 057 390

Studienrichtung lt. Studienblatt:

Individuelles Diplomstudium Internationale Entwicklung

Betreuer:

Dr. Arno Tausch, Privatdozent

Contents

1.1 Poverty and Structural Adjustment	5
1.1.1 A short history of poverty in development thinking	5
1.1.2 A definition of poverty	9
1.2 Direct Effects of structural adjustment programs on poverty	11
1.2.1 Public sector employment	12
1.3 Indirect Effects	13
1.3.1 Private sector employment	13
1.3.2 Rate of Economic Growth	21
1.3.3 Public expenditure	23
1.3.4 Inflation and Expenditure Deflators	26
1.3.5 Real Exchange Rate	28
1.3.6 Macroeconomic Volatility	29
1.3.7 Distributional Effects / Inequality	30
1.3.7.1 Effects of inequality on other economic variables	34
1.3.7.2 Empiric Results	38
1.4 Asymmetric effects	40
1.4.1 Effects on human capital	42
1.4.2 Expectations and Confidence Factors	44
1.4.3 Credit Market and Household Consumption	45
1.4.4 The Labour Hoarding Hypothesis	46
1.4.5 Social Cohesion and Public Health	47
1.4.6 The design of structural adjustment in the light of asymmetric effects	49
2.1 Structural Adjustment in Argentina	50
2.1.1 Structural reforms during the period 1990 – 1998	50
2.1.2 Crisis Management in Argentina 1998-2002	54
2.1.3 Social consequences of Argentinian crisis	57

2.1.4 Concluding Remarks on the case of Argentina	61
3. Structural Adjustment in Greece	63
3.1.1 Short Chronology of events.....	63
3.1.2 World Value Survey	64
3.1.2.1 Important Values in Education.....	66
3.1.2.2 Political Institutions in Greece	67
3.1.2.3 Economic Institutions in Greece	71
3.2 Direct Effects of structural adjustment programs in Greece	73
3.2.1 Public Sector Employment.....	73
3.2.2 Decrease in wages:	78
3.2.3 Reforms of social transfers:.....	82
3.2.4 Public sector prices and taxes.....	85
3.2.5 Public Health.....	88
3.3 Indirect Effects	94
3.3.1 Private Sector Employment:.....	94
3.3.1.1 The Numbers	94
3.3.1.2 Interpreting the causes of the Greek employment crisis	102
3.3.2 Rate of Economic Growth.....	109
3.3.3 Public expenditure	114
3.3.4 Inflation and Expenditure Deflators	120
3.3.5 Real Exchange Rate.....	127
3.3.6 Macroeconomic volatility	129
3.3.7 Distribution of income & inequality	131
3.3.8 Poverty	135
3.4 Conclusion.....	140
4. Bibliography.....	144
5. Annex	148

5.1 Illustrations.....	148
5.2 Additional data	153
5.3 Abstract (English)	159
5.4. Abstract (German).....	160
5.5. Curriculum Vitae.....	161
5.6 Acknowledgements (German).....	163
5.7 Abbreviations	164

1.1 Poverty and Structural Adjustment

I will present a framework to analyse the interaction between structural adjustment programs and poverty. The nature of this framework could be termed macro-economic, although it expands to other disciplines to academic thought. My aim is to start from economics and expand my analysis to the immediate effects for poor people that they experience in daily life. Another direction of research where my framework could be useful are the social consequences of economic policy and processes.

How do economic shocks translate to the cohesion of a society and how do they effect the living standard of average citizens?

The framework is divided into three categories. The first are direct effects on poverty. It features measures identified in the structural adjustment programs of Argentina and/or Greece that influence poverty levels in a direct manner. The second part looks at indirect effects of structural adjustment on poverty. This part should ideally serve as a introductory guideline to interpret the relationship between poverty and macroeconomic shocks. The third part is concerned with a phenomena that I call in line with Agénor asymmetric effects. It adds necessary points how poverty levels develop over time to the analysis. Before I describe the impact of different channels or factors on poverty I give a short summary on poverty in development thinking. After that I tried to give a definition of poverty.

1.1.1 A short history of poverty in development thinking

This chapter summarizes the history of poverty in development thinking and it is particularly concerned with debt management. It draws on the work of Kunibert Raffer 2010: Debt Management for Development. In early development thinking poverty did not feature in a prominent role. The perception was that economic growth would (automatically) lead to development and that the poor would benefit from economic growth through the “trickle-down effect”. The “trickle-down theorem” expects the virtues of development to pass down from the rich to the poor and that the benefits of growth spread through all parts of the economy without government intervention (Raffer, 2010: 115).

Not only was it supposed to be unnecessary to use resources to support the poor in a direct manner, the more it was accepted that inequality had to rise in the first phases of economic development. (Raffer, 2010: 115) The scientists of this time derived this conclusion from a consequent application of orthodox economic growth theory.

According to classical economic theory investment is crucial for economic growth, particularly in the long term. In most macro-economic models investment equals savings. Very poor people need all their income for their daily consumption thus they have nothing left to save or invest. This equation led to the perception that the poor cannot contribute significantly to economic growth.

To put it differently the proportion of income that is saved rises with higher income. In this sense inequality is good for economic growth because only if some people are rich enough that they cannot use all their income for consumption, capital for investment will be accumulated (Raffer, 2010: 115).

Rising inequality leads thus to higher savings in absolute terms (even if very few save a lot and the great majority can save nothing) and this will start a period of economic growth. Then eventually the demand for labour and subsequently wages will grow. In this later phase of economic development inequality would sink and more and more people benefit from economic growth.

So in short when countries develop inequality increases at first and then after a peak it would ideally decrease. This relationship has been described by Simon Kuznets in 1955 and is known as the U shaped Kuznets-curve. Kuznets supported his argument by cross country and time-series data. Later tests on the empirical validity of this claim have come to mixed results (Acemoglu and Robinson, 2002: 183). After the model the rich would receive the benefits of economic growth but this would create incentives for the rich to innovate, to save and to accumulate and this would benefit the poor too. It should be noted that “classical, neo-classical and paleo-Marxist economists all agreed” (Raffer, 2010: 116).

In the scientific debate of the 1950's and early 60's ideas that the fate of the poor should not be a concern in early stages of development were common at the time. People arguing in favour of redistribution had to defend their views by showing that this would not hinder economic growth (Raffer, 2010: 116)

Development thinking was dominated by a very technocratic approach during the first decades after World War II. The focus was on the drivers of economic growth and the common view was and maybe still is in neoliberal theory that the richer one, the more he or she can contribute to economic growth. The poor are described as passive beneficiaries of overall economic growth that cannot play an active role for development and thus can be largely ignored for the design of development programmes. In the following parts of this diploma thesis we will see if this string of thought is still present in the design of the structural adjustment programs.

Around 1970's it became clear that the results of 2 decades of development efforts were disappointing and that a sole focus on economic growth was not sufficient. In 1969 the International Labour Organization (ILO) was created to tackle the problem of unemployment. A report of the ILO on Kenya proposed "Redistribution with growth". The report was the first to mention the informal sector in a positive and investing in the poor became acceptable. (Raffer, 2010: 116) Ultimately the idea that a better situation of the poor could have overall positive effects on the economy emerged into the basic needs approach (Streeten, 1993 in Raffer, 2010: 117).

Finally the basic needs approach was propagated by the International Bank for Reconstruction and Development (IBRD) under the presidency of S. McNamara. On the side McNamara gave credibility to the idea that investing into poor people made economic sense. On the negative side vague terms the IBRD used vague terms to describe the positive effects of its programs. In that line of thinking the conclusions of a working group calling for measures to alleviate the effects on the poor were approved by the IBRD as late as 1982 (Raffer, 2010: 117).

But the dominant view of the Bretton Woods Institutions during the decade of the 1980's was "that "structural adjustment" was in the very interest of the poor. Special measures to protect them would thus be superfluous if not harmful. Emphasizing human needs might obstruct needed reforms" (Raffer, 2010: 117). This position was upheld until the publication of UNICEF's report "Adjustment with a human face" (Cornia et al., 1987). The report included several examples that illustrated the negative effects of structural adjustment policies on poor people. During the 1980's per capita spending on health decreased by 25% in the poorest 37 countries and education expenditure decreased by 50% (Raffer, 2010: 121). The 1980's were a lost decade in the fight against poverty.

The negative social consequences in many indebted countries led to widespread criticism in the civil society. In 1997 the Structural Adjustment Participatory Review Initiative (SAPRI) was official launched. SAPRI was a joint review of the structural adjustment programmes by organizations of civil society (NGO's), debtor government and the IBRD. The joint review ultimately led to two separate report, one produced by the IBRD, the other by NGO's. The conclusions of SAPRI were highly critical but very little of the analysis was implemented in actual program design (Raffer, 2010: 122).

It took until 1999 that the negative effects of debt management on poverty were officially recognized. At the cologne summit the G7 admitted that initiative for highly indebted poor countries (HIPC I) had failed and introduced HIPC II. HIPC II explicitly aimed at fighting poverty as it proclaimed the Poverty Reduction and Growth Facility (PRGF). The PRGF replaced the Enhanced Structural Adjustment Facility (ESAF) of the IMF: With HIPC II the IMF has at least rhetorically embraced an anti-poverty focus. (Raffer, 2010: 123f)

At the end of this short history of poverty in development economics I should remark that this part (1.1.1) has focused on the position of the Bretton Woods Institutions. The Bretton Woods Twin of IMF and World Bank have been and are still the most important institution in regard to structural adjustment and thus of greatest interest for this diploma thesis.

Still other institutions and scientists have developed a number of important approaches towards poverty that should be mentioned at least mentioned briefly: The United Nations Development Programme (UNDP) publishes since 1990 the annually Human Development Report. The Human Development Index (HDI) established itself as maybe the most well-known indicator for well-being that goes beyond income and GDP. The HDR has also published other indices enriching the initial concept of the HDI among others with the dimensions of poverty, gender and inequality. Another influential definition of development is Amartya Sen's approach of development as freedom (Sen, 2001).

In 2000 the member of the United Nations agreed upon the Millennium Development Goals setting concrete goals in eight areas to be achieved until 2015. Although progress in some areas has been achieved it seems unlikely the MDG's will be achieved and discussion on a follow-up-approach are starting to take form.

1.1.2 A definition of poverty

The term poverty is not so easy to define because there is no general objective truth what poverty is. The same can be said about many other termini in social science. Poverty always depends on the society in which it exists and thus there is not one objective definition about poverty at a certain time in a certain society. But there can be a ruling or hegemonic definition of poverty which determines the policy versus the poor and most times there may be alternative definitions of poverty challenging the hegemonic definition. (Butterwegge, 2009:12)

Statistics are a useful tool to estimate the scope of poverty in a given region but it is impossible to tell where wealth starts and poverty ends. Relating to the subsistence minimum cannot evade this problem, as the minimum level of subsistence is as difficult to quantify (von Wiese, 1954: 42).

There are several reasons that the problem of poverty is often times underestimated by politicians and generally people living in relative wealth.

First the illustration of poverty in mass-media is dominated by images of absolute need in least developed countries. Natural disaster, war and famine are often associated with poverty and tend to overshadow poverty in richer countries.

Second in a capitalistic society it is expected that with enough effort everybody is able to work for his own fortune. The discourses of welfare mothers and workfare in the United States might serve as examples for the argumentation that the prime responsibility for poverty bear the poor themselves. In other words the poor are blamed that they are lazy, not willing to work and that they prefer to drink or to claim government benefits (Mead, 1989). Such a viewpoint largely ignores the institutional structures of employment policies and markets.

Third it is implicitly assumed that poverty in Vienna or Athens is less problematic than poverty in for example Kinshasa or Delhi. Nonetheless being poor in a society characterized by relative wealth applies its own social and material pressures and can be even more depressing. Butterwegge also indicates that solidarity for poor households is greater in communities where almost nobody has lots of property or monetary fortune.

Fourth poverty is connected to a stigma that reinforces itself. After people concerned by poverty have made bad experiences their habitus is seldom perceived as very open and emphatic and this in turn can promote social exclusion and addiction (Butterwegge, 2009: 14f)

It is common to distinguish between absolute and relative poverty. According to UNESCO “[a]bsolute poverty measures poverty in relation to the amount of money necessary to meet basic needs such as food, clothing, and shelter” This concept does not include broader quality of life issues such as cultural and social needs (<http://www.unesco.org/new/en/social-and-human-sciences/themes/international-migration/glossary/poverty/> [access: 8.5.2013, 16:31]). Similarly historian Gabriel Kolko defined poverty as the economic inability to maintain a minimum of medical treatment, nutrition, safety and shelter (Kolko, 1967).

For the purposes of this diploma thesis the concept of relative poverty is more important and thus if not otherwise indicated poverty relates to relative poverty in the dimensions listed below.

Relative poverty recognizes that poverty can only be understood in its social context. No one is poor by nature and poverty is never fully self-inflicted. Socio-economic forces are at play and the treatment of poverty within a society determines its effects. In this sense I advocate to treat poverty as a multidimensional problem. Important characteristics are:

- Miserable income and property
- Continued lack of goods and services that are necessary to survive or are perceived as indispensable so that the absence of these goods or services lowers the reputation of a person in society
- The necessity to rely on public support through the state or other actors such as family members. Begging is also included in this dimension.
- Marginalisation of concerned people in important spheres of society as the economy, politics, public administration, science and the media
- Negative attitudes and stigmatization towards the way of life of people concerned by poverty including a tendency to point at the failures of the poor while ignoring structural and societal determinants of poverty. (Butterwegge, 2009: 17f)

1.2 Direct Effects of structural adjustment programs on poverty

Structural adjustment programs are generally associated with cuts in public expenditure. Point 1.2 describes the most important measures of structural adjustment policies that effect poverty directly. I define direct effects as shocks/channels that result in in a straightforward increase or decrease of the income or assets of the affected people. Direct effects also effect the macroeconomic channels of point 1.3. For example if one group has lower purchasing power as a direct effect of structural adjustment , the reduced purchasing power of this group lowers overall private domestic demand.

The poor are most directly affected by cuts in public employment and lower wages. Structural Adjustment Programs often include reductions of the minimum wage rate and other legislative reforms aiming at a more flexible labour market. The aim of such policies is to reduce the wage level in order to boost international competitiveness. The policies add to the downward pressure on wages that is inevitable in times of economic recession because of lower demand.

With or without IMF involvement an economic downturn will result in increasing job losses and an increasing number of employees working for low wages in the formal economy. This shifts the negotiation power for new contracts and collective bargaining towards the employers. If wages in the formal sector are reduced, this will indirectly lower the going rate for work in the informal sector. (Agénor, 2005: 389)

A downward trend of real wages can be expected in any case of economic crisis, so the policies of structural adjustment are not solely responsible for lower wages. But the typical labour market policies of structural adjustment programs intentionally aggravate the negative trend on wages by either directly cutting salaries of public employees or indirectly by providing a legal framework that facilitates lower wages for private sector employees.

Another prominent part of structural adjustment programs that affects poor households are cuts in government transfers and subsidies and increases in public sector prices (Agénor 2004a: 359) Cardoso argued that structural stabilization efforts and austerity policies increase poverty because of the cut in social expenditures (Cardoso 1992 in Agénor 2004a: 403). The loss or the reduction of permanent income stemming from a job in public service or from government

subsidies rises the poverty level directly. Lower transfers to low-income households forces them to reduce their consumption.

The exact effect on a household depends on its expenditure pattern and to which extent it relies on monetary income. In case of least-developed countries subsistence agriculture often is important for poor households. For households that rely largely on agriculture, public services and transfers are not irrelevant, but a reduction of public transfer may affect the poverty of these households to a lesser extent. As people in cities have lesser access to fertile soil, they are more dependent on wages and monetary transfers. That's why I expect that the urban poor are more affected by direct effects of structural adjustment programs and that in at least short term urban poverty rates may increase stronger than rural poverty (Agénor 2004a: 359).

That said it is important to note that the biggest bulk of social expenditure typically goes to middle and upper-income groups. In many Latin American countries, social security and safety nets are reserved for employees in the formal sector (including public employment). If a big proportion of the poor work in the informal sector and have not benefitted from government transfers in the first place, a reduction in transfers has little direct effect on poverty levels.

But even if middle income groups are the main beneficiaries of government transfers, a reduction of the later can push middle income households towards poverty. Households that have several children in education could be especially affected if the children find themselves unable to find a job because of high youth unemployment and continue to live at home.

1.2.1 Public sector employment

Structural adjustment programs are often associated with privatization of public corporations and services. To take the example of public education. Governments trying to limit their expenditures have often cut the expenditures for education. It should be hard to find an economist who thinks that lower investment in education is a good thing for the long-term economic performance of a country since human capital has been identified as one of the main drivers of economic growth (Lucas Jr., 1988; Barro, 2001).

Nonetheless most attempts to reduce public expenditure have led to reforms of the education sector. The reforms have taken the form of privatization of public schools or universities, the layoff of teachers or a hiring freeze. A hiring freeze in the public sector is particularly painful

for young people who have finished their education and want to start working but do not find a job. For certain jobs as for example teachers the state is the most important employer. In this sense a hiring freeze in public sector employment rises unemployment for certain job profiles directly and the effect may be the largest for young people.

Public sector layoffs directly increase unemployment. Reduction in public employment have a multiplier effect. Large public companies or service institutions may be important clients of private companies. If the public enterprise is shut down, private suppliers will lose orders and may have to cut costs and off-set workers. In general reductions in public sector employment will tend to increase poverty and worsen the distribution of income, particularly when these reductions are targeted at low-level government employees.”

1.3 Indirect Effects

1.3.1 Private sector employment

The relation between wages and employment is a topic where classical liberal theory and Keynesian economics disagree. This chapter aims at clarifying the theoretical assumptions of both theories. This should make it easier to identify theoretical expectations that underlie certain policy action during the investigated economic crises.

The neoclassic theory treats employment like a normal good with a certain price that is determined in the employment market. As usual in neoclassical models the initial position is the equilibrium. In practice this would mean full employment which can hardly be expected for indebted countries requesting structural adjustment loans

However in the neoclassical model if productivity or demand for employment change the market price adjusts to the new equilibrium level. In this view unemployment is a sign that the employment prices could not fully adjust to the equilibrium price level, or were prevented from doing just that by government or union intervention (Flassbeck and Spiecker, 2000: 3).

If supply of workers is higher than the demand for work, the price for labour will sink and when the price of labour sinks, the companies will tend to a less capital and more labour-intensive production. Unemployment persists when there are too much workers seeking a job and not enough for work by the firms. Demand for workers could be low for example because the

productivity of these workers is low, and the main determinant of productivity of labour remains its price thus the wage level. The neoclassical conclusion is that the main reasons behind unemployment are too high wages and rigid labour markets that prevent the wages from adjusting to the equilibrium price.

Is it as simple as that: unemployment is a sign that wages are too high? Yes it is, at least according to Hans Werner Sinn, one of the most influential economists of Germany:

“Arbeitslosigkeit heißt, daß es ein Überschußangebot auf den Arbeitsmärkten gibt, und da es ein Überschußangebot gibt, sind die Löhne zu hoch. So einfach ist das.“(Sinn, 1997: 824)

As early as 1999 a special chapter of the IMF Annual Growth Report was dedicated to chronic unemployment in Europe. According to this report unemployment in Europe consisted of a cyclical and a structural component. Therefore a two-way approach was advocated: Demand-enhancing policies to reduce the cyclical component of unemployment and in addition structural reforms to improve labour performance. The IMF warned that relying too heavily on demand-enhancing measures to reduce unemployment would risk to create macroeconomic imbalances by which the IMF means inflation and/or fiscal deficits.

The core argument of the IMF in this document is, that the key objective should be to increase the flexibility of European labour markets. A series of adverse shocks and labour market rigidities were identified as the main causes for chronic unemployment. In the World Economic Outlook of 1999 this is called “the dominant view”. It is illustrated by a comparison of economic growth and labour cost in Europe and the United States between 1970 and 1998 (IMF, 1999: 88f)

During the next decade the dominant view did not change its core arguments concerning unemployment and labour market policies which can be seen for example in the first SAP for Greece in 2010. Rigid product and labour markets are stated as the causes for low employment and productivity levels (European Commission, 2010a: 6) The policies of this Structural Adjustment Program can be understood and are based on this dominant view on the causes of unemployment.

Structural Adjustment Programs usually aim at improving the flexibility of labour markets and at reducing structural rigidities. However, “market rigidities not only reduce production efficiency, they also stabilise and equalise labour incomes.” (EEAG, 2013: 77) That’s why the deregulation of labour markets have the negative “side-effect” of contributing to growing income inequality unless they are accompanied by measures that compensate for this effect.

The concrete policies in Argentina and Greece resulting from this standpoint on the causes of unemployment are presented in parts two and three.

In its 1999 Economic Outlook the IMF mentions **dissenting views on unemployment**. I will present some work of Heiner Flassbeck as an example for these alternative views on the causes of unemployment.

Flassbeck argues that the most important cause for unemployment is lack of aggregate demand and investment. He analyses the relationship between the development of wages and employment levels and challenges the argumentation of H.W. Sinn and the IMF in its 1999 economic outlook.

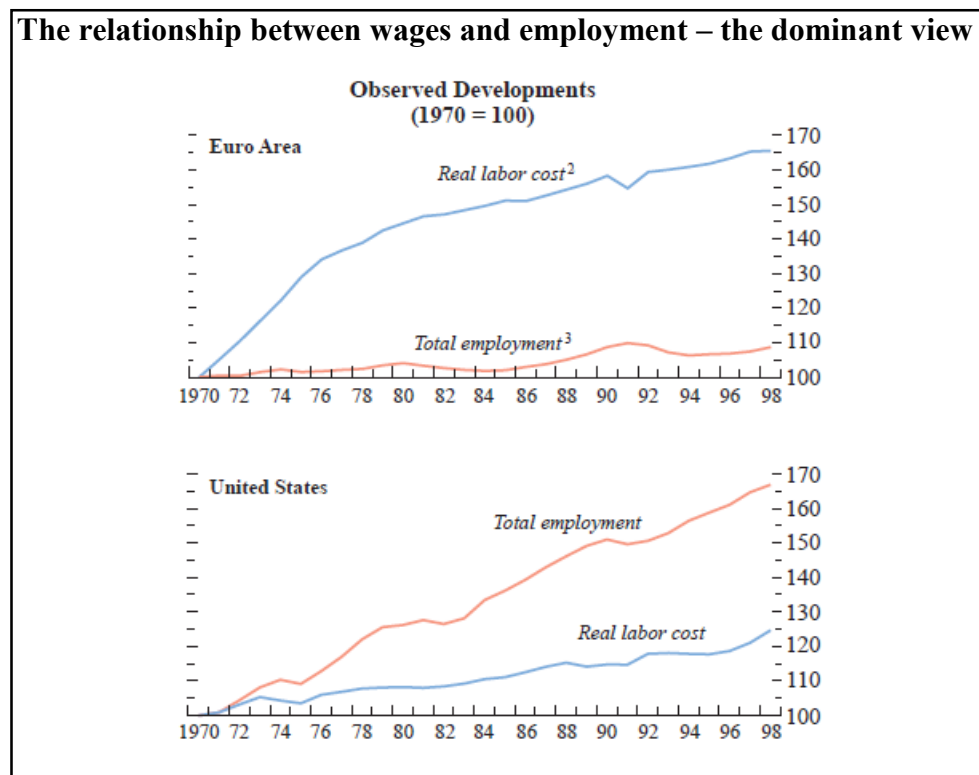


Figure 1: Employment and Real labour cost in Europe and the USA in the period 1970-1998; Taken from MF, 1999. *World Economic Outlook*. International Monetary Fund, Washington D.C.: 95)

In the 1999 economic outlook the main empiric proof for the neoliberal labour market theory is a comparison between Europe and USA. Figure 1 shows the core argument of the IMF: In the Euro Area the Real labour cost rose sharply whereas at the same time, the Employment rate stagnated. To the contrary in the United States the real labour cost increased slower than in the Euro Area, and thanks to this wage restraint, employment rates were developed much better than in Europe.

Based on this historic case liberal economists argue that the two countries faced a trade-off between wage increases and full employment:

“While real wage growth lagged behind labour productivity increases in the United States –as required to maintain full employment in the face of adverse supply shocks and the growth of the labour force – the real cost of labour in Europe continued to increase in line with labour productivity. In other words, the positive effect on aggregate labour demand from rising labour efficiency was „used“ in Europe to raise real wages (with little growth in employment), while in the United States it translated primarily into rising employment, with only a modest increase in the real wage.“ (IMF, 1999: 45; Flassbeck and Spiecker, 2000: 6).

The IMF report is silent about agency. Who decided that Europe would “use” its productivity to raise its wages and who was the genius in the US that insisted on the goal of full employment? The liberal economists generally blame union pressure and labour market rigidities. The implicit assumption of a central deciding body coordinating the wage policy in Europe or respectively at that time seems a bit stretched.

Even in today’s European Union the coordination of economic policies between the euro-member remains difficult, so it seems unfitting to present the historic data as if the Euro-area made an actual policy choice at that time. Also the influence and shape of unions differed in the different countries and can hardly be compared.

The correlation between real labour cost and employment seems clear-cut in the IMF 1999 illustration. But the picture seems a bit more pronounced if the decade 1970-80 is excluded and one looks at the same data beginning in 1980:

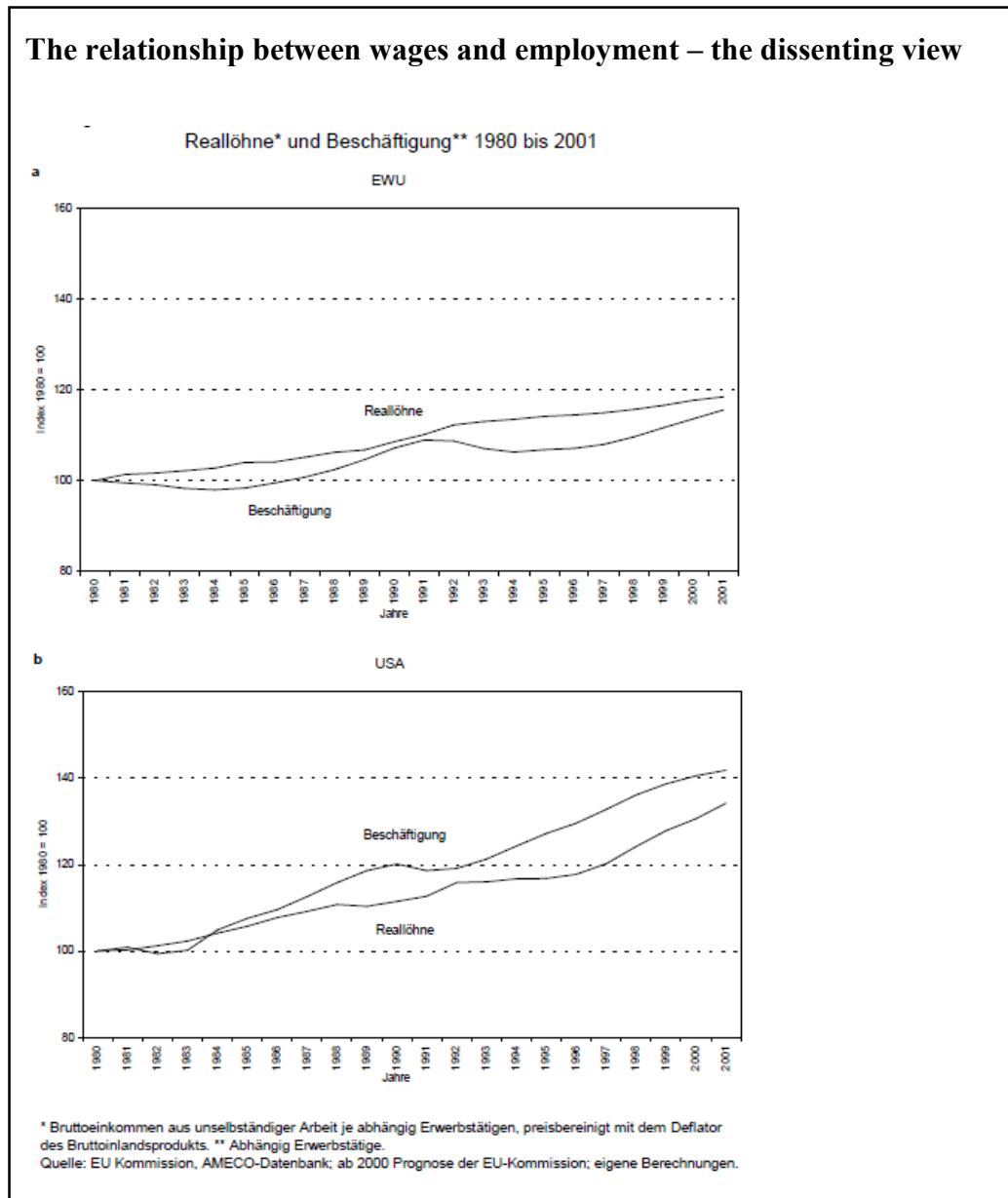


Figure 2: Employment (= Beschäftigung) and Real labour cost(=Reallöhne) in Europe and the USA in the period 1980-2001; Taken from Flassbeck, H., Spiecker, F., 2000. Löhne und Arbeitslosigkeit im internationalen Vergleich. Stud. Für Hans Böckler Stift. Den Bundesvorstand DGB Berl.: 10.

The stark contrast between the USA and Europe is mainly a product of the 1970's. Between 1970 and 1976 real wages increased by 20% in Europe and only by 7% in the US (Flassbeck and Spiecker, 2000: 9) Especially in the first half of the 1970's wages increased strongly in

Europe. But this was before the series of adverse supply shocks like the oil price crisis that according to IMF lowered the growth of labour productivity in Europe.

In economics the real wages matter. But in reality real wages are an endogen variable that depend on nominal wages and the price level thus inflation. In negotiations about the price of labour (be it between an individual worker and its employer or Unions and employer groups) always are about nominal wages. For these negotiations the expectations on the future development of the productivity and inflation matter the most. But the actual development of the real labour cost depends as much on power balance in wage negotiations as on the development of prices for goods and services. And they are determined on the relative markets and not on the labour market. This means that the real labour cost is also strongly influenced by the markets for goods and services (thus supply and demand in the economy as a whole) and not only on the labour. In this sense it seems critical to explain an unfavourable development of the real labour cost solely by labour market forces such as union pressure or inflexible wages (Flassbeck and Spiecker, 2000: 8ff).

According to Flassbeck and other “dissenting views” the relation between labour costs and employment is not as simple as in the neoliberal theory. According to them, labour market policies in form of unit labour costs do not so much influence employment levels directly. The critical variable that are influenced by unit labour costs are prices for goods and services and thus inflation.

Following this interpretation inflation is an indicator of wage development because companies tend to react to higher labour costs by increasing the prices of their products. After Flassbeck unit labour costs develop simultaneously to inflation and that empirical evidence verifies this thesis at least for big, closed economies (Flassbeck and Spiecker, 2001: 28)

This theoretical disagreement on the relation of wages, prices and employment levels are very important because they lead to different policy recommendations.

The **neoliberal model** is static where the level of employment is a result of a given productivity level and the price of labour. In such a theoretic framework that logic intervention to improve employment is to lower the cost of labour. It should be kept in mind that this assumes that the

choice how much labour is used in the production process of goods depends mainly on the labour cost. In other words it is expected that when the labour cost sinks, the industry will lean to a more work intensive way of production. It seems at least doubtful that in practice companies are willing or able to substitute capital, thus machines that generally take years to amortise their investment cost, by human labour.

International companies outsourcing their production towards countries with low labour costs is a famous example of globalization. It is a frequently used example to argue for lower wages. Indeed it is undoubted that lower wage levels are the prime motivation behind this process. But the important point here is that this example does not support the neoliberal assumption that lower unit labour costs lead to more labour-intensive production technologies. If this would be the case, companies that relocate their production sites in countries with lower wage levels, would not only relocate production they would also introduce a more labour-intensive technology than the one they used in the country with high wage-levels. But in practice the opposite case is observed. International companies export the same production technologies they used in the first place or use even more capital-intensive technologies in their new sites (Flassbeck and Spiecker, 2001: 67).

If companies do not create more employment when they transfer their production sites to countries with lower wages, why should they create more employment when the unit labour costs sink because of the policies of structural adjustment programs? In my view assumption that unemployment can be reduced through the prescription of lower wages has serious flaws. First lower wage levels have a negative effect on aggregate demand. Second it is unlikely that companies respond to lower unit labour costs in the way the neoliberal theory expects. Instead of using more labour intensive technologies, companies could keep their established production technology and maintain the level of employment and happily take the lower unit labour costs as a bonus. This would be a welcome possibility to increase productivity and profits without doing much. Third the neoliberal argument fails to grasp the rationale of companies if it only considers prices. The individual choice of a company how to produce and how many workers it will hire is not purely about unit labour costs. They play an important role, but capital-intensive have advantages that go beyond its costs. Ultimately modern machines are able to produce faster and in some case more exact than human workers.

I resume that increased labour market flexibility and lower wage levels may help companies in the short term and could limit the risk of bankruptcy but the ultimate goal of reducing unemployment will not be achieved.

The **Keynesian model** emphasizes that labour must not be treated as a normal good, because labour income is a strong determinant of aggregate demand. As a consequence when price of labour sinks, the demand for labour sinks too (UNCTAD, 2012: 25). Reason being the purchasing power of the private sector depends to a large part on the real level of wages. The prospect of declining wages inclines sinking future private domestic demand. Logically the expectations of future economic growth sink and most important investments will go down as well. If nobody invests, no employment will be created and employment levels will sink. A 2012 ILO report summarizes “Lower domestic demand implies lower demand for employment” (Spiezia et al., 2012: 12)

Economics remains a social science and none of this models can solely explain the observed fluctuations of employment levels in different countries and regions of the world. To simplify the matter one could say that the neoliberal model is suited to explain productivity and wage differences between different national economies. Not surprisingly liberal policies aim at boosting exports to exploit the competitive advantage from reduced labour cost in relation to competitors in the world market. But this scenario only holds if not all competitors lower their wage levels simultaneously.

The Keynesian models focus more on the domestic dynamics of labour costs. The impact on the demand side of the economy decides on the impact of labour market policies. Private consume is in virtually all countries an important driver of economic growth and how much households do consume depends to a large part on how much they earn via wages. The higher the proportion of the employed population, the more important is this relation.

No Country exports all of its production and there almost no completely closed economy. Which effects are more important depends on the specific economic structure of a country. Which effects have been more important in the case of structural adjustment is difficult to answer empirically. This diploma thesis approaches this questions by identifying the policies

concerning labour market and to discuss them in combination with observed employment development.

1.3.2 Rate of Economic Growth

The economic growth rate is one of the most important indicators and almost certainly the most quoted stylized fact in news journals. But neither is economic growth in form of the Gross domestic product an end in itself, nor do all income groups benefit in the same rate from economic growth rates. Instead of trusting the infamous “trickle-down effect” more recent studies speak of the structural composition of growth. The idea that a pro-poor growth is necessary is necessary and reflects this idea and has been adopted by the International financial institutions (See Chapter 1.2).

The aim of any structural adjustment programme should be either restoring economic growth in times of recession or improving the long term structural conditions for growth. The IMF views economic growth as top-priority of its programs.

“Our primary objective is growth. In my view, there is no longer any ambiguity about this. It is toward growth that our programs and their conditionality are aimed [..]”

Michel Camdessus, IMF Managing Director _Statement before the United Nations Economic and Social Council in Geneva, July 11, 1990.” (Przeworski and Vreeland, 2000: 385)

It is not easy to compute the effect of a specific structural adjustment program on growth, because it is impossible to say how the economy would have developed without IMF funds.

This diploma thesis makes no attempt to compare the cases of Argentina or Greece with what would have hypothetically happened without structural adjustment. There has been a series of economists trying to quantify effects of structural adjustment programs on economic growth. Ultimately the long literature on this subject remains inconclusive with most authors finding zero effect.

This literature is reviewed in a paper of Przeworski and Vreeland who themselves even find clear negative effects of SAP's on economic growth. They find that "[IMF] programs reduce growth while countries remain under and do not return benefits that would compensate the losses once they leave. [...] Our results indicate that countries that do not enter into IMF programs grow faster than those that do even when both groups face high domestic deficits or foreign reserves crises" (Przeworski and Vreeland, 2000: 403). These results are controlled for selection bias, specification of growth equations and samples but the analysed data ends in 1990.

To conclude this point so far no study has found robust evidence that structural adjustment programs had a positive effect on economic growth. In this sense the historic record of SAP's must be considered a failure by the standards set by the former managing director Camdessus.

The effect of structural adjustment on economic growth is not the main focus of this diploma thesis. Still if IMF programs have a negative effect on economic growth they would worsen poverty and improve it in case of a positive effect (Easterly, 2000: 7)

Supporters of austerity policies argue that short term negative effects on economic growth have to be accepted and that the long-term benefits of structural adjustment outweigh the short-term negatives. I do not agree with this argument mainly because of the asymmetric effect of growth on poverty. Economic recession increase poverty significantly whereas periods of economic growth have a more limited effect on poverty (Agénor, 2004a: 369) This asymmetric effect on poverty leads me to the conclusion that policy responses during economic should aim at keeping the periods of recession as short and as smooth as possible. In other words on a macroeconomic level it is more difficult to lift people out of poverty than to prevent them from becoming poor.

This effect depends on the elasticity of the income of the poor towards economic growth. Easterly finds that adjustment programs lower the growth elasticity of poverty strongly, growth elasticity meaning "the amount of change in poverty rates for a given amount of growth" (Easterly, 2000: 3). According to Easterly each additional IMF loan agreement reduces the growth elasticity by about 2 points.

This result suggests that structural adjustment disproportionately hurts the poor. A possible explanation is that programs have a negative distributional effect on poverty. I try to explore the reasons for this effect in the case studies of Argentina and Greece. The causes for the limited

impact of growth rates on poverty during structural adjustment could be increases in regressive taxes such as taxes on consumption or reductions of progressive government spending like social insurance expenditure (Easterly, 2000: 3)

Easterly himself, maybe because he writes for the World Bank, suggests that his results can either be interpreted as up- or downside of structural adjustment (Easterly, 2000: 26) Indeed a lower growth elasticity in times of economic crises means that the poor are less affected by the consequences but only relatively to other poor people in countries hit by recession and not under structural adjustment. Poverty absolutely increases under recession. To point to a smoothing of the negative effect on poverty during continued recession as a merit of IMF programs is not appropriate. As the promotion of economic growth is the main goal of structural adjustment programs, continued recession during the program period means that basically the program has failed. Lower sensitivity of poverty to the negative effects of program failure is a small consolidation price and does not improve the living conditions of the poor.

If structural adjustment programs lower the growth elasticity of poverty, they reduce the chances of poor income groups to benefit from overall good economic performance in the future.

The normal state of an economy remains one with positive growth rates and in this case the lowered impact of growth on poverty is bad news. IMF programs are not exclusively implemented during periods of negative growth rates and end when economic growth turns positive. To the contrary many countries have experienced several subsequent adjustment programs. Argentina is a good example. During more than ten years of IMF involvement the majority of the years boasted positive growth rates. The IMF turned from a lender of last resort in cases of liquidity problems to a development agency strongly influencing the policy of its “clients”.

1.3.3 Public expenditure

The Oxford dictionary defines austerity as “difficult conditions created by government measures to reduce public expenditure” (<http://oxforddictionaries.com/definition/english/austerity> [access 03.06.2013, 13:39h]).

Cuts in public expenditure are the most common element of IMF programs (Guajardo et al., 2011). Consequently the empiric literature shows that IMF participation has led to significantly lower public investment (Conway 1994 cited in Garuda, 2000: 1033).

Similarly to economic growth, the economic literature remains divided on the effects of cuts in public expenditure.

In **Keynesian economics** a reduction of public expenditure is associated with a short term reduction in domestic demand and consequently a negative effect on overall economic growth (Guajardo et al., 2011). Fiscal austerity policies in combination with tight monetary policy is widely expected to have a negative effect on economic growth, at least in the short term. Because lower public expenditure lowers overall demand in the short term, IMF programs can have an immediate negative effect on economic growth. Conway found empiric results supporting this argument (Conway 1994 cited in Vreeland, 2002: 121)

Neoliberal authors have argued that the reduction in public expenditure produced by austerity policies can be out-weighed by positive effects on private demand & investment. Lower overall government spending may reduce the future need of a state for financing by taxes. This raises the future disposable income of households because without spending cuts the government would have to impose higher taxes in the future. Another often quoted justifications of austerity measures is to increase confidence of investors. By raising investor confidence and future disposable income of households fiscal austerity policies may improve private consumption and investment, even in the short term. This outcome is called expansionary fiscal contraction (Guajardo et al., 2011: 3).

The net effect of public expenditure cuts depends on the specific design of any fiscal reform and its effect on consumer & investor confidence. This means that virtually any outcome is theoretically possible depending on the relative importance of the different factors. As consequence empirical analysis is important to estimate the effect of austere government policies on aggregate demand or growth.

There is a long empirical literature relying mostly on case studies that supports the expansionary fiscal contraction hypothesis. For example Alesina and Perotti find that fiscal reform can be

associated with rapid output growth especially when implemented by reducing government spending (Alesina Perotti 1997 cited in Guajardo et al., 2011: 3)

However a more recent IMF working paper finds that the selection technique to identify fiscal reforms in these studies may be biased towards supporting the expansionary fiscal contraction hypothesis. The standard approach to identify expenditure-reducing fiscal reforms is to use a statistical concept as the cyclically-adjusted primary balance (CAPD). This technique is error-prone because cyclically adjusted fiscal indicators are not exclusively influenced by policy changes. Other non-policy changes important for economic activity such as for example a stock market boom can also lead to a change in the CAPD (Guajardo et al., 2011: 4).

The IMF working paper of Guajardo et al. does not make use of statistical methods to identify cases of fiscal austerity. Instead the authors analyse political documents to identify exclusively fiscal reforms that were driven by a motivation to reduce budget deficits. (Guajardo et al., 2011: 4) This assures that reforms that cut public expenditure in an attempt to smooth the business cycle in an overheated economy are excluded from the analysis. This limits the data sample to cases that were implemented in a context similar to structural adjustment programs.

The results show that the bias of previous literature using statistical methods to identify fiscal reforms might have been quite large. The estimates of Guajardo et. al 2011 “imply that a 1 percent of GDP fiscal consolidation reduces real private consumption over the next two years by 0,75 percent, while real GDP declines by 0,62 percent.” (Guajardo et al., 2011: 13). This working paper indicates that the method using the CAPD underestimates the negative effects of prudent government spending. In my view this puts the expansionary fiscal contraction hypothesis in serious doubt.

Still the confidence of investors which is an important point in the expansionary fiscal contraction hypothesis does have an impact. The results of Guajardo et al. also show that the negative effects on private demand are smaller in countries with high-perceived sovereign default risk. This are typically countries where the small confidence of investors and financial markets result in risk premiums for government bonds. Meaning that the loss of investor confidence itself bears costs for the economy. If IMF programs can reassert investor confidence by cutting budget deficits this could indeed mitigate the negative effects on private demand. Unfortunately participation in IMF programs often does not lead to an immediate boost in

investor confidence. Even in countries with high perceived risk of default the overall effect of public expenditure cuts on private demand and economic growth remain negative (Guajardo et al., 2011: 29)

The Role of International trade

Another result of this working paper has important implications for the subject of this diploma thesis. The potential mitigating effect of international trade is significantly lower in countries with fixed or pegged exchange rates. This is the case for both Argentina and Greece in the following case studies of this diploma thesis. The strategy of IMF programs generally is to boost external competitiveness in order to improve exports. If fiscal contractions reduce domestic, a boost in exports could indeed be instrumental to reinitiate growth.

But an export-led growth model does only work in certain conditions. First the size of a country matters. The bigger the domestic market the bigger the relative weight of negative effects on domestic demand on overall economic growth. The best chances that increases in exports outweigh negative domestic demand seem to have very open and small economies. Second the external competitiveness and thus the ability to boost exports is only meaningful in relation to other competitors on the international market. If all countries in an economic region reduce cut taxes for international companies no country gains because the competitiveness in relation to its neighbours remains the same. This phenomena is known as “beggar thy neighbour” policies. In historic science the policies of mercantilism in Europe are famous for causing this effect.

The trade within the European market is much bigger than the trade of EU-member with 3rd countries. This suggest if all EU-members implement austere fiscal policy it has an overall negative effect on economic growth. This problem is treated in greater detail in literature about economic imbalances, for example in Herr et al., 2012: “From Crisis to Growth? The challenge of debt and imbalances”.

1.3.4 Inflation and Expenditure Deflators

The poor are more vulnerable to inflation than higher income groups (Agénor 2004a: 363). They usually spend a higher part of their income for consumption in its general meaning, as poor persons typically are not able to save or invest much their income.

The effect of inflation on a certain household depends on the composition of the household's expenditure. One result of this observation is that the overall inflation does not fully reflect the consequences for poor households. Most important for poor households is the behaviour of prices of goods and services that consume a large part of their income. Typically poor households spend large parts of their income for food staples and other goods necessary for daily life.

In additions to groceries poor households are especially vulnerable to higher housing costs. Prices for real estate and the housing market are not very prominent features of structural adjustment programs. But the running costs for housing can be affected by austerity policies. In addition to part 1.3.3 on public expenditure it should be mentioned here that prices for energy in form of for example heating costs affect poverty to a significant extent. The urge to cut public deficits in case of structural adjustment is likely to result in higher prices for public services. In many countries the providers of electricity and energy are at least partially owned by the state. Higher prices for energy directly lower the purchasing power of poor households because spending for electricity and heating can hardly be avoided (Agénor, 2005: 385).

To sum up my argument poor households are most affected by higher prices for goods and services that account for a large part of their expenditure like food staples and costs for housing. The behaviour of these goods and services has a direct effect on poverty because it affects the purchasing power of poor households. As a result an empiric analysis of the effect of inflation on poverty has to include the prices for goods of prime importance for the poor and should not use the overall inflation as the only indicator.

After stressing the importance of expenditure composition, overall inflation still does matter. Poor households are more vulnerable to inflation than higher income groups because their income is mostly defined in nominal terms. They also have lesser access than higher income households to assets that offer insurance against inflation. Such assets are for example real estate property, gold and other financial assets (Agénor, 2005: 385).

That inflation disproportionately hurts the poor has not been unnoticed by the IMF. In fact the opposite is true. The goal to contain inflation is a top-priority of Structural Adjustment Programs and serves as important argument in favour of austerity policies.

The IMF portrays inflation as a tax on the poor (Agénor, 2005: 373). Price stability easily stands on top of the macroeconomic ratio behind IMF policy recommendations. Supporters of structural adjustment like to label its policies as being pro-poor because they limit inflation (and support economic growth).

Economists of the IMF describe inflation as a regressive and arbitrary tax which burdens disproportionately low income brackets. In addition the dominant view in the IMF is that higher inflations diminishes economic growth, with that respect hurting the poor as well.: 4;10). I would like to note that if inflations limits growth this will hurt all income brackets. The argument of Ames is not false but it does not include questions of distribution.

The same authors point to the danger of inflation to argument against Keynesian type progressive government spending. I will allow myself one more time to use Brian Ames, a former IMF division chief and advisor:

“Sacrificing low inflation (through faster monetary growth) to finance additional expenditure is generally not an effective means to reduce poverty because the poor are most vulnerable to price increases” (Ames et al., 2001: 17).

Indeed a stable and controlled inflation rate has positive long-term effects on poverty and the overall economy as well. But to keep inflation at a low rate in times of economic recession has costs that worsen poverty in the short run (for example cuts in wages and social programs). Thus this is one of several examples where structural adjustment programs face a dynamic trade-off between short-terms costs and longer-run benefits (Agénor, 2005: 386).

1.3.5 Real Exchange Rate

Structural Adjustment Programs usually contain policies aiming at a depreciation of the real exchange rate. A lower real exchange rate favours consumers of non-tradable goods like for example food and housing. However the positive effect of a decreasing real exchange rate for urban poor can be off-set by rising prices for imports. When the real exchange rate depreciates, import prices rise and at the same time, national goods get cheaper abroad. Because of that simplified mechanisms, a depreciation boosts exports, especially the export of agricultural products (Agénor, 2004a: 364). Thus it can be expected, that a decreasing real exchange rate favours rural poor households. Urban poor should benefit from a decreasing real exchange rate,

as long as the higher prices for imported goods and services do not absorb most of the positive effect. Another qualification should be made to the cause of the depreciation. If the depreciation of the real exchange rate is mostly an effect of a decrease in wages, poor households actually see their real income decline. Agénor hints that more indirect macroeconomic effects can accompany a depreciation of the real exchange rate. Most important in this context is that the demand for labour could sink when higher prices for imported productions technologies like machinery lead to reduced investment (Agénor, 2004a: 364f)

This leads us to the instruments that influence the real exchange rate. The exchange rate is determined by dynamics on financial markets and can be influenced by fiscal and monetary policies. Typically structural adjustment programs used a devaluation of the nominal exchange rate to decrease the real exchange rate and boost exports. However the case studies in this diploma thesis have in common, that a structural adjustment program **without nominal devaluation** has been implemented. Argentina had pegged its currency to the US-dollar and Greece would have to leave the European Monetary Union before devaluating its currency.

Without the access to the major monetary policy instrument available, structural adjustment in this two countries is (has been) focused on fiscal policies. This may explain in part, why the implemented policies have been especially austere. Consequently one of the guiding questions behind this diploma thesis is, if the export-led consolidation strategy of structural adjustment programs is sustainable without nominal exchange rate devaluation.

1.3.6 Macroeconomic Volatility

Macroeconomic volatility effects the poor through various channels including investment and growth, precautionary saving, credit and market effects and distributional effects. Most authors assume that IMF involvement and the agreement on a program of structural adjustment have a stabilizing effect on an economy. The IMF-approval serves as a kind of quality label for policies proposed by governments in payment difficulties. A calming effect on investors and debtors is assumed as well as a certain quality of crisis management because of the experience and qualification of IMF staff members. The poor track record of the IMF casts a doubt on this assumption (Raffer, 2010). However many authors including Agénor and Easterly assume a positive effect of structural adjustment on macroeconomic volatility (Easterly, 2000; Agénor, 2004a: 366).

Critics may want to say, if no other success are visible, the IMF arguments with the stabilizing effect of structural adjustment programs. This includes the assumption that developing countries are in high risks of falling into macroeconomic chaos without the helping hand of international financial institutions.

1.3.7 Distributional Effects / Inequality

The topic of inequality in economics appeared quite early. In fact David Ricardo cited the distribution of wealth as the central question of political economy (Cowell, 2008: 1). But the successors of Ricardo seem to have forgotten the question of distribution for quite some time. The question of the determinants of production have gotten much more attention. Until today a big part of economic research circles around economic growth. Many economics and international institutions as well claim that supporting economic growth is the best way to fight poverty. Questions of inequality have long been overshadowed by growth analytics but receive more and more attention in recent years.

Classical economists and Marxism mainly discuss the problem of functional income distribution. That is the share of the factors capital, land and labour in the production processes. On the level of income this perspective analyses the functional sources of income. In classical economic theory the competitive theory of factor pricing determines the division of income between wages, profit and rent (Atkinson, 1997: 298). Also Marxist and Kaleckian theories are mainly concerned with functional distribution, although they modify some critical assumptions of classical theory. For example Kalecki assumes imperfect competition. He incorporates market power and monopolies in his theory. In classical economic theory that assumes perfect competition the prices adjust to the equilibrium level where aggregate supply of a good is at least as great as its demand (Cowell, 2008: 3).

In contrast for Kalecki monopolistic pricing plays a very important role in the functional distribution of incomes (Cowell, 2008: 4). Monopolistic pricing appears when companies are able to charge more than the equilibrium price because of their market power. For example if a company is the only producer of a specific product it can sell for more than the production costs (including a standard producer profit) and the customers will still (have to) buy its products because there are no alternatives for a cheaper price. Monopolies can have various reasons such as scarcity of resources, legal restrictions or illegal arrangements between

producers. If a company invents a new technology it will also have some sort of monopolistic power until other companies reduce the innovation gap created by the new technology. In Marxist theory monopolistic power is an integral part and reason for the exploitation of labour by the owners of capital (Cowell, 2008: 4)

Competitive theory has been criticised by Kaleckian economists and other schools of thoughts like the Cambridge theory based on accumulation relationships. Nonetheless Atkinson notes that the ideas of competitive theory still form the main ingredients of the theory of distribution (Atkinson, 1997: 298) This means that in mainstream economic theory the discussion of income distribution starts from the side of functional distribution. However what really matters for people in daily life is the personal distribution of income that is the distribution between persons or between households (Cowell, 2008: 2).

Classical economic theory talks mainly about the functional distribution of income between the classical factors of production land, capital and rent. How the functional distributions connects with the personal distribution of income is typically not spelled out. The division of national income between wages and profits do not tell us directly what determines the share of the top 20% or the bottom 20% of income recipients. “The factor distribution is certainly part of the story, but it is only part, and the other links in the chain need to receive attention”. (Atkinson, 1997: 298)

The aspect about income inequality that has received the most attention, both from the public and scientists, is the rising dispersion of earnings. Wage differentials clearly are an important determinant of income distribution. However, it is interesting that in Great Britain 1985 the GINI-Coefficient for households without income from work was virtually the same as for households for those with work income.(Atkinson, 1993). This is an indication that incomes from capital and especially incomes from government transfers have to be taken into account. From a policy perspective, the redistributive impact of government transfers is very important. Although there is some debate about the impact of income policies on the indicators like the GINI-coefficient, most time-series data on income inequality in a specific country make it possible to identify clear episodes of rising or falling inequality.

The Kuznets curve is one of the most well-known stylized facts about inequality. It describes a trade-off between development levels and the degree of inequality in a society (Tausch, 2010).

In the 1950's Simon Kuznets worked on long waves of economic growth. His model has only two sectors, a traditional sector (read agriculture) and a modern sector with industrial production. Inequality depends on the share of these two sectors in overall production. He expected inequality to rise in the initial stages of economic development when industrial production starts to replace agriculture as the dominant sector. The Kuznets curve first expects a rise in inequality with rising industrialisation. When more and more people get access to employment in the modern sector, inequality is expected to sink. In the 1950's Kuznets expected income inequality to sink in the last quarter of the nineteenth century in Great Britain and somewhat later in the United States and Germany (Atkinson, 1997: 300f)

Today it can be confirmed that the predications of Kuznets were not fulfilled, to the contrary inequality within countries generally rose in the first decade of the new millennium, with sharp increases in some regions. "After several decades of apparent stasis from the late 1970s onwards there has been a remarkable increase in the dispersion of incomes in many countries." (Cowell, 2008: 8). The rise in inequality in recent decades cannot be explained by the functional distribution of income. The degree of inequality increased no matter what functional source of income. The dispersion of incomes derived from assets (including rents and capital gains) rose as did inequality in labour income. The rising inequality in labour income has been driven by a dispersion in wage rates in industrialised countries (Gottschalk and Smeeding, 1997; Gottschalk and Smeeding, 2000).

What explanations exist for the rising dispersion of wage earnings since the 1980's? Studies answering this question can be divided in two groups. The first group of studies explains rising differences in wage rates by technological progress that leads to productivity growth in some sectors of the economy. Consequently the wages in the sectors with technological progress grow faster than in the rest of the economy. (Acemoglu, 2002) I am tempted to see similarities with this explanation residing on a modern sector with growing wages and the model of Kuznets mentioned before.

A second group of studies highlights the role of international trade and globalisation as a driver of income diversification (Krugman and Venables, 1995; Bergh and Nilsson, 2010)

Before giving details on the consequences of income inequality, I will give a short overview of the most important basic theories explaining income inequality. Therefore I will follow the influential article of Atkinson, 1997.

In economic theory the basic explanation of income inequality is supply and demand for different occupations and skill sets. But in most developed countries wage dispersion increased not only between different job groups but also within narrowly defined occupational groups. This is just one example that shows that the skill-based theory does not tell the full story.

Another explanation emphasizes government regulation and unionisation. After a study of Gosling and Machado decline in unionisation accounted for 15%-20% of increases in wage dispersion (Gosling and Machin, 1995: 180). Another string of explanations focus on personal status and social reputation. In this sense a variety of social norms influence collective and individual bargaining and result in men earning more than women or beauty norms influencing the level of individual income. Another form of social norm is a sense of fair wage. Unemployed workers may not want to undercut wages for the employed population. Such a decision could hinge on social reputation but also on individual rational as game model experiments have demonstrated.

For a variety of reasons social norms can change in the way that it becomes socially more acceptable to work for a lower wage and/or to accept widening wage differences within a company. I would like to add migration to the discussion about social norms.

When migrants arrive in richer countries than their country of departure, they may accept lower wages than the residual population. If jobs have a low remuneration and a low social reputation as well, these jobs are often occupied by immigrants. The point is that people with different background may have different social norms that determine their acceptable wage. In this sense migration could lead to increased income inequality when migrants accept less money for the same job and also are offered less than the residual population (Atkinson, 1997: 311)

In case of economic recession not only demand for labour sinks, this could change social norms regarding fair wages, workplace standards and income inequality.

1.3.7.1 Effects of inequality on other economic variables

Which effect inequality has on poverty depends to a large part which effect rising or decreasing inequality has on other variables such as economic growth. Today it is common to include inequality in calculation on the positive effect of economic growth. For example the UNDP provides a inequality adjusted Human Development Index.

Rising inequality can offset the poverty-reducing effect of economic growth. From 1990 to 1999 Latin America as a whole displays a 10% decline in absolute poverty, defined as people living below 2\$ PPP. However inequality has risen in all countries of the region. Without rising inequality much more people would have escaped absolute poverty. Agénor speaks of potential 90 million people that could have left absolute poverty instead of the actual 45 million (Agénor, 2004a: 356). Bruno, Ravallion and Squire estimate that a one percentage increase in the GINI index is typically associated with a 4 percentage rise in poverty (Agénor 2004a: 366). This illustrates the importance of distribution for the fight against poverty. A fact that is receiving more and more attention, both from scientists and international institutions.

Another important point is if inequality affects the performance and participation of poor households in the overall economy. A statistical way to answer this question is to measure the income volatility of poor households. In order to do this a measurable indicator of poverty needs to be defined. One solution are poverty lines.

The World Bank defines poverty lines as cut-off points that distinguish the poor from the non-poor:

”It is possible to set monetary or non-monetary poverty lines. A relative poverty line is for example 50% or less of the mean income. Absolute poverty lines are 2\$ income a day or a minimum calory intake by day. “

(<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20242879~menuPK:435055~pagePK:148956~piPK:216618~theSitePK:430367,00.html> [access: 13.06. 2013, 11:34])

The two most common used techniques in empirical literature to identify the poor are aggregation methods. One variation employs “income standards” and the other “being poverty

measures” (Foster and Székely, 2008: 1144f). The most common income standards using a relative definition of poverty are the lowest 20% or the lowest 10% of income.

The method labelled “poverty measures” by Foster and Székely sets a poverty line to identify poverty and then tries to measure the extent of poverty. Influential authors like for example former World Bank director of research Martin Ravallion use absolute poverty lines of 1\$ or 2\$ income per day to identify poverty and combine them with the most common measures of poverty, the headcount ratio and the per capita poverty gap.

These two techniques share have the advantage that they are relatively easy to measure and thus the availability of data is relatively good. In most countries statistics about monetary income exist because they are necessary to collect taxes. Multiple poverty line indicator are available at the World Bank database.

But there are also some methodological disadvantages that could result in a bias towards underestimating the negative effects of inequality. The most important methodical flaw may be that these techniques set an abrupt cut-off between poor and non-poor whereas the consequences of poverty increase fluidly with decreasing income (Foster and Székely, 2008). If people with income below the relative poverty line have a hard time to benefit from overall economic growth, there is no reason to think that it is significantly easier (to profit from economic growth) for people with income just above the poverty line.

But statistically the fate of the households just above the poverty line is rendered invisible because they are aggregated in the same group as middle and high incomes. The effect of these standard empirical methods is that the negative consequences of inequality for poor households systematically underestimated. In defining an abrupt cut-off between poor and non-poor households, incomes just slightly above the limit are ignored for the calculation of the effects on poverty.

Imagine a situation with two households with the same number of children and the same level of education. One family earns 10 euros less than the poverty line and another family has 20 euros more or in other words has an income 10 euros above the poverty line. In this case we can expect that these two families face about the same economic situation and about the same chances to profit from economic growth. But statistically one will be treated as poor and the other as non-poor households. If the households just above the limits are aggregated to the

control group of non-poor households, they lower the average for the group of non-poor households. Consequently the difference between benefits from i.e. economic growth between poor and non-poor households will be smaller than in a calculation with a more realistic fluid distinction between poor and non-poor households.

Foster and Székely 2008 propose an alternate measure to track the effects on low incomes. They use general means in order to avoid a clear cut between a poor and a non-poor group of households. Basically they calculate the volatility of two kinds of general means of income. Their method is being “based on a comparison of growth rates of a bottom-sensitive general mean $\mu\alpha$ and the ordinary mean μ ” (Foster and Székely, 2008: 1151). If the growth rates for the bottom sensitive mean $\mu\alpha$ is higher than for the ordinary mean μ , you look at a case where poor households benefited more than the average from economic growth. Contrary if $\mu\alpha$ is lower than μ income growth was concentrated at middle and high incomes. In such a situation economic growth does not lower poverty. Their results show that the growth elasticities decline significantly when more weight is given to the lowest incomes.

If income for middle and high incomes grow faster than low incomes during an economic recovery, the personal distribution of incomes changes to the disadvantage of poor households. In other words inequality increases. Supporters of Structural Adjustment Programs could argue that a widening gap between the rich and the poor does not automatically mean that the situation of the poor gets worse. The real income of poor households can develop positively even in periods of rising inequality. Economists would probably judge such a scenario as a positive outcome because in absolute terms the poor have more to spend.

Sociologists may raise the objection that poverty must always be considered in its context. Poverty in rich countries does nurture its own social hardships. If poor households increase their income slightly while the rest of the population experiences significant income gains, the integration of poor households in the economy and the society effectively diminishes.

At least in theory this argument is shared by the Bretton Woods Institutions. The IMF himself set the goal of pro-poor growth.

An even worse scenario is when the overall economy starts to recover economic crisis but poverty still increases or stagnates at the same level. Easterly calls such a period of positive economic growth with stagnating or increasing poverty a perverse outcome. (Easterly, 2000:

12) Chapter 1.4 about economic growth already described that according to the findings of Easterly structural adjustment programs decrease the growth of poverty. When Easterly includes inequality in his regressions, the result start to get even more alarming for the IMF.

The sample of Easterly shows that the likelihood of a perverse outcome is strongest in countries with high inequality and a high number of adjustment loans. In other words the possibility that poverty increases even in times of economic growth is especially high in countries that have high IMF involvement combined with high inequality Both high inequality and adjustment programs seem to diminish the ability of poor households to benefit from economic growth. (Easterly, 2000: 12)

The effect of inequality and structural adjustment on pro-poor economic growth

Table 3: Poverty elasticities with respect to growth for different Gini coefficients and adjustment loan intensity			
	Average number of adjustment loans per year during survey spell		
GINI coefficient	0	0.5	1
30	-3.8	-2.7	-1.7
45	-2.9	-1.9	-0.9
60	-2.1	-1.0	0.0

Figure 3: Higher inequality (measured by the GINI coefficient) and a greater number of structural adjustment programs reduce the impact of economic growth on poverty; Taken from Easterly, W., 2000. *The Effect of of IMF and World Bank programs on poverty*. World Bank.: 12

The right column shows countries that used IMF lending during the entire survey spell (1980-1998). At all inequality levels the poverty elasticities are significantly lower for countries with SAP compared to countries without or only little SAP.

On the bottom right we see that the combination of a highly unequal country and adjustment loans disconnects poverty levels and economic growth. A growth elasticity of 0.0 means that economic growth has no power at all to reduce poverty. Easterly mentions Colombia 1995-96 as a historic example/case study (Easterly, 2000: 14) I will return to possible explanations of Easterly's findings in Chapter about Asymmetric effects.

I interpret the findings of Easterly that the famous credo of economic growth being the most efficient way to eliminate (for example World Bank's Dollar and Kraay, 2002) does not hold for countries with high initial inequality and implementing structural adjustment programs.

1.3.7.2 Empiric Results

Before concluding this point about Inequality I like to give a small overview of different studies and their empiric results concerning the connection between economic growth, inequality and poverty.

I already mentioned Easterly who finds that both Inequality and Structural Adjustment loans lower the growth elasticity of poverty. He uses a poverty line of 2\$ in his paper. There is a number of papers who use similar poverty lines and absolute measures of poverty in their analysis. The result of studies like Ravallion and Chen suggest that 1% of economic growth reduces poverty by about 2%. Such a negative growth elasticity of the headcount ratio could/ and often is interpreted in the sense that economic is an efficient way to fight poverty (Foster and Székely, 2008: 1145). It should be kept in mind that such correlations are obtained from absolute definitions of poverty. They must not be applied to relative poverty in middle- or high-income countries.

There is a list of studies who find that inequality does not disproportionately hurt the poor. They claim that the growth elasticity of poverty is practically equal to one. It seems that most studies coming to this conclusion typically use the bottom quintile of income to identify poverty. For example Dollar and Kraay's influential article of 2002 says "that on average the income of the poor rise equiproportionately with average incomes" (Dollar and Kraay, 2002: 196).

To qualify this seemingly optimistic results, poverty – inequality elasticities are highly sensitive to how poverty and inequality is measured. The headcount index for example is not very sensitive to changes in distribution. Using more distribution-sensitive indicators to measure the effect of anti-poverty policies may well lead to quite different results. Also the growth elasticities of poverty depend on the initial distribution of income and thus may change over time as the personal distribution of income evolve.

Araar and Duclos conclude their paper with stressing that the effect of changes in inequality on poverty are very much context specific (Araar and Duclos, 2010: 389). That should always be kept in mind interpreting elasticities of empiric studies.

Further evidence that the distributional effects of Programs vary substantially depending on the initial situation before entering Structural Adjustment comes from Garuda. He analyses the effect of SAP on GINI-Coefficients and the lowest 20% of incomes. Most interesting about this work is that he estimates propensity scores. "Propensity scores are the "implied probabilities" described in Conway's work, measuring the probability that a country would request Fund assistance in a given year based on its economic circumstances" (Garuda, 2000: 1036). Garuda forms groups along this propensity scores serving as an indicator of the initial economic situation when agreeing to a Structural Adjustment Program. He finds "somewhat dramatic" changes in program results along propensity scores.

Indicators for income distribution improve on average 10%-20% for countries with low propensity scores. But for the sample group with the highest propensity scores meaning the countries facing the worst economic conditions and the highest external imbalances the results are completely different:

"In the highest band of propensity scores, however, Fund program countries actually show statistically significant relative worsening of income share and increases in GINI coefficients relative to the control samples." (Garuda, 2000: 1044)

In this sample group income distributions got worse by an alarmingly high averages of 10% - 15% compared to countries that did not enter Structural Adjustment Programs. There could be several reasons for the huge country to country differences how income distribution changes under Structural Adjustment Programs. First the IMF the debtor country agree on principal conditions but the actual implementation remains the responsibility of the national government. So implementation and how strict the conditions of Structural Adjustment Programs are, can be different in each case. Second how the policies to meet IMF conditions are designed in detail has an influence on the outcomes. Third the policies of Structural Adjustment Programs generally follow neoliberal solutions and strategies to ameliorate the economic situation. Whether this can be described as a one-size-fits-all solution is not the focus of my diploma

thesis. But it is possible that the set of instruments generally used in Structural Adjustment Programs have different impacts depending on the context in which they are applied.

The benefits of wearing a pullover depend on whether it is warm or cold outside. In the same way the effects of Structural Adjustment Programs depend on the situation of poor households. This contains various dimensions of personal life and the overall economic development. For example informal- and formal sector employment, the importance of government transfers for the incomes of the poor and the trade balance meaning the importance of importing and exporting sectors.

1.4 Asymmetric effects

After describing specific channels through which structural adjustment affects poverty I turn to another topic that is important for the analysis of Structural Adjustment Programs. Effects of Structural Adjustment programs can be asymmetric (Agénor, 2004a: 369). I will apply this term used by Agénor to describe that poverty may respond different in times of economic crisis than in times of recovery to the channels described in part 1.3.

The size of the impact of the channels describe above on poverty can vary significantly whether the change of the channel is positive or negative. One consequence of this observation is that an observed negative correlation between economic growth and poverty can be misleading if much of the data stems from associations observed in periods of economic recessions. Because the relation between growth and poverty is asymmetric, estimations about the potential of growth-oriented policies to reduce poverty can be easily overly optimistic (Agénor, 2005: 389f)

To start with maybe the most important example the impact of economic growth on poverty rates is larger when the growths rates are negative than when they are positive. In other words on year of economic crisis pushes more people into poverty than on year of economic recovery than lift out of poverty, when assuming symmetric growth rates. For example one year with -5% GDP growth followed by a year with +5% GDP growth will very likely result in more people being poor than before.

This sort of behaviour of poverty is known from the “hysteresis” thesis (Agénor, 2004a: 360). The hysteresis theorem says that under certain circumstances there is no natural level of unemployment. This theory is mainly concerned with union pressure and collective bargaining and has been critiqued as being too strong and empirically only valid for Europe in the 1970`s (Blanchard, 2006: 24).

My intention here is not to reflect on the arguments and implications of the hysteresis theory. Its purpose here is mainly as reference and background to understand the behaviour of poverty rates under asymmetric effects. This seems suitable because Agénor uses the linkage as well and there is little to no other literature explicitly speaking of asymmetric effects on poverty.

What is the behaviour known from hysteresis Agénor is speaking about? I assume the point is that in case of hysteresis unemployment does not return to any particular value or natural equilibrium level. Instead the value is determined by the entire series of shocks to the economy. (Blanchard, 2006: 24)

Most often hysteresis relates to the case of Europe in the second half of the 20th century where the whole history of labour market developments has led to different labour market characteristic than in the United States. That was seen as the reason that unemployment in Europe remained higher than in the United States even under comparable long-term positive economic growth.

Thus the notion of asymmetric effects assumes that poverty rates do not return to any particular level. This means if an economic crisis leads to a massive rise in poverty it is not a given or even unlikely that poverty returns to the pre-crisis level even if in case of a positive economic recovery.

This points to the existence of negative long-term effects of economic recessions on the situation of lower income households. If a economic shock results in a significant change in the scope and nature poverty, these changes will persist in the period of recovery and influence the living conditions and perspectives of the poor.

Agénor mainly discusses five dimensions of asymmetric effects but I argue that asymmetric effects do not stop here but have an even deeper effect on poverty and the society as a whole. I

hope at this point of my research project that especially the case study of Greece will illustrate this point.

The economic literature is rich on observations that process of economic growth may accelerate itself through the accumulation of human and physical capital. Country's with low levels of human capital will also offer low return to investments in education. This hinders the evolution of an economy towards more productive sectors needing a skilled labour force. On the other side if a skilled labour force is in place this may attract businesses that have a high return on capital investment. This can create a situation of self-accelerating economic growth (Agénor, 2005: 382)

The assumption of asymmetric effects leads to the following uncomfortable question. If economic growth reinforces itself, does the process of economic shrinking also reinforce itself? This thought is in contingent with the thoughts of John Maynard Keynes who advocated a positive output shock through public investment to avoid that the economy rests in a low-growth, low employment equilibrium (Galbraith, 1988). Poverty may reinforce itself in a process comparable to hysteresis because there is no natural equilibrium level of poverty. The effects I will describe in this section may create a series of negative of shocks resulting in an irreversible negative effect on poverty.

1.4.1 Effects on human capital

A fall in real income has an irreversible effect on the human capital of the poor (Agénor, 2005: 426).

If one or more household member struggle to find employment opportunities they may urge their children to leave school and instead contribute to the household's income. The rationale behind this crisis-coping strategy may be that firms prefer to hire young rather than old or long-term unemployed persons. The majority of young people who leave school in response to an economic crisis, will not return to school when the economy recovers. This means that their human capital will rest smaller than it could have been without the urgent need to contribute to the household income. As strong evidence exists that the level of a person's education is highly affected by the education level of its parents, the negative effect on human capital will be dragged on to future generations and thus having a long-term negative effect on human capital in a society.

Even if households are aware that education is beneficial of the long-term income perspectives of their children, expenditures on education may be cut in favour of inescapable consumption for nourishment and housing.

Staying in education is expensive and may simply be no longer affordable for poor households. These may also affect gender inequality when household's cannot afford that all their children pursue their desired level of education. If a household decides that it can only afford to pay education for one of multiple children, this may discriminate the chances of girls to attain higher levels of education.

That highly indebted countries face budget constraints that limits their possibilities to invest in public education adds to the asymmetric effect. Lower public spending on education lowers the quality of the educational system. Poor households are most affected because they depend the most on cheap public educational services and they cannot afford private education. This increases inequalities in education opportunities between different income groups.

Structural Adjustment loan require governments to cut their spending. In most cases the following austerity policies target the education system. Spending on education promises mostly long-term benefits for a government whereas it is an area where governments can cut expenditures in a relatively short term.

One of the first expenditures that will be in question in times of budget constraints are scholarships and other transfers to student from poor backgrounds. Non-monetary actions to promote equal chances in the education system like for example extra teachers for pupils with learning difficulties will be applied less frequently when the overall financing of school and universities declines. This measures have in common that they affect poor households the most.

How the statistical indicators of education respond to structural adjustment programs and economic crisis in general depends on the characteristic of the affected country. Especially important is the existing level of education in society and the value different income groups give to education. It also depends how the access to higher institution of educations like universities is managed.

If universities are largely available for all income groups of the society, university attendance may eventually rise during periods of economic crisis. At first glance such an observation would

put the explanations of asymmetric effects elaborated in this point in question. But it should be noted that some of the described effects on human capital work long-term and the results will not be visible immediately but still affect multiple generations.

An immediate increase in indicators of educational participation during economic crisis can be related to the discouraged worker syndrome. If very little jobs are available and the possibility to find employment is judged very small by pupils and students, the rationale decision is to stay within the educational system rather than being unemployed. An overall very dire employment market and high (youth) unemployment rates can restrain young people from entering the employment market.

Such a situation not only affects individual decisions but also raises costs for the society as a whole. Education is expensive and in most cases financed by taxes. If universities are only attended to avoid the necessity to find a job, the state has to finance courses that are maybe not necessary. Also if people do not wish to enter the job market, this shrinks the virtual pool of tax-payers.

When the employment possibilities small for young people over a longer period like in my case study of Greece, a rationale individual strategy would be to seek an as high grade of education as possible and then migrate to another country where more employment possibilities for individuals with high human capital exist.

The result is that an indebted country experiences human capital flight through emigration and destination countries add well educated people to their potential workforce without having to come up for the costs of education. As a consequence the indebted countries has burdened its budget to educate its citizens and is no able to earn the benefits.

1.4.2 Expectations and Confidence Factors

The potential effect of positive shocks to an economy depends on expectations of agents. Both, consumers and companies, will be less optimistic during recessions. Companies will restrain from investments that include a good proportion of risk. Consumers will only make the most-necessary purchases and will refrain from expensive consumer goods.

Lower expectations and confidence decreases the potential of policy interventions and positive exogenous shocks. Lowering the costs of credits and employment will have a limited effect, if the perceived degree of uncertainty over future profits is too high for companies to invest or to hire new workers (Agénor, 2004a: 370)

The interventions of Structural Adjustment Programs aim at restoring the confidence of investors and creditors (European Commission, 2010a: 6). If the austerity measures fail to positively influence the perceived expectations of future economic development, they will not only fail to have the intended effect but the effects may turn negative.

To use the policy of lowering the costs of lay-offs to boost labour market flexibility as an example. The intention of this policy is to provide incentives for companies to hire more workers. The assumption being, when companies do not face the risk to maintain workers through periods with lower work, they will hire more workers when receiving orders. At the same time if a company has a pessimistic perception on its business in the future, it will likely take advantage of the higher labour market flexibility to lay-off workers instead of hiring new ones.

That means that low confidence and expectation factor can cause an increase in lay-off and thus unemployment as a short term effect of structural adjustment policies.

1.4.3 Credit Market and Household Consumption

One important part of structural adjustment programs that will not receive much attention in this diploma thesis is the credit market. Policies to decrease interest rates and to limit constraints on the accessibility of credits aim mainly at banks and other actors on financial markets. Due to a lack of space and because poor households are not much involved in financial markets, I will not treat these policies in detail.

However it should be noted that a higher risk of bankruptcy that accompanies economic recessions will cause higher interest rates and banks will be more cautious to give away credits. Constraints on credit market and higher interest rates will have an asymmetric effect on investments and economic output. Small and medium firms which tend to use more labour-intensive production technologies, are likely to be the most affected by credit crunches (Agénor,

2005: 427). This will indirectly affect poor households. If poor households are indebted, they will also be directly affected by higher interest rates.

The consumption of poor households is asymmetrically affected when the credit markets dry up. Without much spending power poor households cannot gather assets like real estate, company shares or gold that could be sold in times of crisis. With little income or assets poor households will also be the first having requests for credits declined.

Because of asymmetric information problems and high transaction costs, poor households also have little access to the private insurance market that would provide a form of risk sharing. This leaves poor household with the only option to let their consumption fluctuate with income (Agénor, 2004a: 371).

1.4.4 The Labour Hoarding Hypothesis

I assume that on average income rises with skills and education. From that perspective unskilled workers are more likely to be poor. This is important because human capital of a person influences the probability to maintain or lose its job when its employer decides to reduce the number of employees.

In periods of recessions unskilled workers will be the first to lose their jobs, because companies try to “hoard” their highest skilled workforce. (Agénor, 2004a: 371f) One reason is that the turnover costs of employees rise relatively to their skill set. Hiring, training and firing costs are usually higher for workers in positions that require high human capital than for unskilled workers. Another reason is that unskilled workers are easier to replace and the in-job learning time is usually shorter. ‘

If the economic downturn is perceived to be temporary companies will try to maintain their skilled workers through the bad times because good employees are assets that are necessary for most companies to be profitable in the long-term.

Though in a recession period the wages for skilled workers can be higher than their marginal product. When the economy recovers, companies will search ways to compensate for their losses occurred during the recession. Agénor claims that a probable strategy to do that is to

substitute unskilled workers by investments in fixed capital like new production technologies (Agénor, 2005: 428)

The asymmetric effect on poverty seems clear. Unskilled workers are the most affected by rising unemployment during recession. They are the first to lose their jobs and they will find it more difficult to find employment when the economy recovers than skilled workers. Not only may companies aim at introducing less labour-intensive technologies, also the continuous state of being unemployed reduces the chances to find a new job.

I already noted that unskilled workers are likely the first to lose their jobs and that the insurance and consumption-smoothing strategies will likely not be available for unskilled workers. As a result unemployment of unskilled workers and poverty will increase simultaneously during a recession and are likely to persist.

A recent article found in “The Economist” supports this argument. Recent evidence suggests that bandwagon behaviour exists in labour markets. Employers are more reluctant to hire people that have been unemployed for a long time. Qualification are not the only aspect that matters, employers may simply be reluctant to hire workers others have already passed over (The Economist, 2013).

A recent field experiment sent 12.000 fictitious cv's to apply for 3.000 job openings. The only difference in the applications was how long the fictitious person had been unemployed. The researchers found that the call-back rates declined steadily with the duration of unemployment. The study contain an asymmetric effects as the observed effect was larger in cities with tight labour markets (Kroft et al., 2013).

1.4.5 Social Cohesion and Public Health

Agénor concentrates on macroeconomic explanations of asymmetric effects. I propose to enlarge his thoughts by sociological and political aspects.

I lined out that economic recessions will hurt the human capital of the poor and that they will have to concentrate their spending around daily needs. This means that poor households need to cut spending for expendable needs. In a rather technical vocabulary economist typically point to spending on health care as one type of spending that is cut down to afford nutrition of housing.

My point is that public health will likely suffer during strong recession and harsh austerity policies. If the health of individuals or the society as a whole declines during an economic crisis, the effects will persist when the economy eventually recovers. So my argument is that public health should be included in the explanations of asymmetric effects.

When the spending power of poor households declines they will likely purchase cheaper groceries of lower quality.

Another field that deserves attention are the effects of psychological illness that occur with stress and unemployment. The magnitude can range from higher depressions to more suicides in a society. At least it is safe to say that the capability to perform well in work declines when individuals experience long-term unemployment and disintegration from a daily work routine.

Besides individual expenditure for health care, there is an important structural component to public health. Structural Adjustment Programs usually include some measures to reform the public health care system. The IMF usually advocates to cut cost and/or for the privatization of health care. Critics have long argued that this disfavours poor households because they cannot afford the same quality of health care than middle- and high- income households.

Another problem already mentioned is that unemployment of unskilled workers could likely rises disproportionally during periods of economic recession.

The negative effects on overall health in a society are especially high in the case of widespread long-term unemployment. In countries without a developed health system, the health of unemployed will suffer because of lacking funds to pay for drugs and health care facilities. Countries where most people have health insurance, long-term unemployment can be a serious threat to the structures of the health care system.

For example in European countries health insurance is usually paid by the employer. Unemployed persons receive health insurance through public transfers as health insurance is normally included in unemployment-benefits. But unemployment benefits are only paid for a certain amount of time and if a person's rests unemployed for too long, its health-care insurance may eventually expire.

The case of Greece is a perfect example of such a situation. Insurance is typically covered by the state for one year. As a large amount of persons is unemployed for longer than year, the part

of people who fall out of the social safety net introduced by the welfare grew significantly. In Greece about 40% of the population have no health insurance (QUELLE fehlt noch, Ziffer wurde im ORF Weltjournal genannt)

Such a development will have a serious impact that cannot be reversed by a few years of positive economic growth.

1.4.6 The design of structural adjustment in the light of asymmetric effects

Asymmetric effect have neither received much attention in the literature or the design of structural adjustment programs. This section will provide some thoughts how structural adjustment programs should be designed in the light of structural adjustment programs.

The reforms of structural adjustment programs have the goal of lower public spending and higher tax revenue. Such measures are contagious, as they have negative short term effects on the people affected. If policies are not designed carefully in order to prevent poor households from bearing the heaviest costs, structural adjustment programs will likely have an asymmetric effect on poverty. “Cutting unemployment benefits, increasing the retirement age, cutting minimum wages, reducing severance payments or periods of notice for dismissals, for example, clearly go against the short-term interests of workers and the unemployed; they impoverish people who are already low down in the distribution of incomes.” (EEAG, 2013: 76)

2.1 Structural Adjustment in Argentina

This part features an analysis of structural adjustment in Argentina. A large number of economic analyses about the lessons from the Argentine crises has been published, an overview of some of the most important studies is to be found in the introduction of Teunissen and Akkerman, 2003. The intent of this chapter is to identify what lessons can be drawn from Argentina in respect to the case-study of Greece that is presented in part 3 of this diploma thesis. I will compare specifics of Argentina with the current situation in Greece. This includes some remarks about the structural adjustment programs in Greece, but it should be noted that the information on which these remarks are based, can to be found in part 3 of this diploma thesis.

In the Decade 1990 – 2000 Argentina received several credits from the IMF and implemented a series of reform packages with the approval and collaboration of the IMF. The arguably most important feature of Argentinian policy during that time was the implementation of a hard peg of its domestic currency to the US\$. Argentina is a viable example of the implantation of structural adjustment policies without using nominal currency devaluation. The structural adjustment programs in Greece have been implemented under similar although not identical conditions. Greece has not been able improve its primary balance through monetary devaluation because it is a member of the Eurozone.

2.1.1 Structural reforms during the period 1990 – 1998

After a decade of high inflation and economic stagnation, the Convertibility Law pegged the Argentinian currency to the U.S. dollar.

“The new peso (set equal to 10,000 australes) was fixed at par with the U.S. dollar and autonomous money creation by the central bank was severely constrained, though less rigidly than in a classical currency board” (Takagi, 2004: 11).

The hard peg was part of a larger convertibility plan of market-oriented structural reforms. The government’s decision to implement the convertibility plan can be interpreted as an attempt to bring inflation under control and improve the at the time poor economic performance of Argentina.

Initially the results of the convertibility plan were very good. In the years following the adoption of convertibility Argentina was considered one of the most successful emerging economies.

The Argentinian GDP grew by 41% during the period 1991-1998 (Teunissen and Akkerman, 2003: 32). The growth rate of the GDP averaged 6% during that period and Argentina was able to attract capital inflows in the form of portfolio and direct investments (Takagi, 2004: 11). The convertibility plan achieved its primary objective of decreasing inflation. Argentina escaped a situation of hyperinflation with a monthly inflation rate of 27% in February 1991, the monthly inflation rate decreased to 2,7% in May 1991. The annual inflation rate returned to single digits in the summer of 1993 and inflation remained low for the rest of the decade. The fiscal balance of the federal government improved too. During the period 1991-1998 the budget deficit averaged less than 1% of GDP (Takagi, 2004: 11)

However the low budget deficit of the federal government masked some important fiscal weaknesses. Not enough attention was paid to the accumulation of debts by the provincial governments. The provinces were an important part of the public sector in Argentina. The combined spending of provinces was comparable to that of the federal government when excluding federal transfers to the provincial administrations (Takagi, 2004: 33) The periodic recognition of off-budget liabilities, including the court-ordered payments of past pension benefits, which averaged over 2 percent of GDP a year during 1993–99, contributed, to a faster than expected accumulation of public debt (Takagi, 2004: 12) The off-budget expenditures were debt-financed and explain why the debt-to-GDP-ratio doubled between 1992-2001 despite moderate fiscal deficits (Takagi, 2004: 80)

The IMF supported Argentina with advice and money throughout the period that the convertibility regime was in place. Argentina was repeatedly praised for the adoption of structural reforms (Teunissen and Akkerman, 2003: 1). Argentina's structural reforms generally consisted of the typical neoliberal agenda of international financial institutions. Many of the structural reforms implemented in Argentina reoccurred in similar fashion in the Greek structural adjustment programs.

The structural reforms in Argentina featured privatisation, reduction of public employment , cuts of public sector wages and pensions, reform of the welfare system, administrative decentralization and the deregulation of labour and product markets, and the opening of the

domestic market to foreign trade (Villalon, 2007: 140; Teunissen and Akkerman, 2003: 9; Takagi, 2004: 29) All this mentioned policy elements can be identified in the structural adjustment programs for Greece (cc part 3 of this diploma thesis).

The fiscal policy reforms in these two countries contains more overlapping policy elements. In both countries tax reforms broadened VAT tax bases (Takagi, 2004: 30; European Commission, 2010b: 43). In both, Argentina and Greece, widespread tax evasion was a major problem. The efforts to improve tax compliance in Argentina consisted of the computerization of tax-agency operations, systematic audits and an emphasis on large taxpayers (Takagi, 2004: 30) Greece established a large-taxpayer unit and has scaled up audits for large income earners and self-employed. Greece also has had deficits in regards to the computerization of the tax-administration. The installation of a new IT-system that interconnects all tax offices has been planned (European Commission, 2011a:34)

Unfortunately not only the approach, also the results towards fighting tax evasion have been similar in Argentina and Greece. The results of the actions against tax evasion made under the first structural adjustment program have not been satisfactory (European Commission, 2011a: 34). Tax compliance in Argentina did not improve despite the efforts made during the 1990's (Takagi, 2004: 30)

Labour market reforms in both countries were based on an export-led growth strategy. In both cases currency devaluation was not available as a policy tool to improve external competitiveness. Without this option a decrease of unit labour costs was identified as the most important policy tool to increase the competitiveness of respectively Argentinian and Greek products in international markets. To achieve a lower price for the exported goods and services wages had to be “flexible downwards” or to put it in other words, the labour market reforms in both countries had the target to lower domestic wages (Takagi, 2004: 31).

The reforms to increase labour market flexibility were implemented identical expectations during the structural adjustment processes. In both cases it was hoped that increased labour market flexibility would improve competitiveness and lower unemployment (Takagi, 2004: 31; European Commission, 2010a: 22). These expectations are rooted in neoliberal economic theory. However the situation when a country is on the brink of bankruptcy is more complex

than most standardized economic models. For example lower nominal wages also lowers tax bases which complicates fiscal consolidation efforts.

In both cases the reforms did not translate into lower unemployment. In both cases IMF staff members blamed remaining labour market inefficiencies and rigidities for the undesired results. It seems the standard argument of the IMF has not changed very much in the last decade. This citation is from the IMF internal evaluation office's report on Argentina.

“The fact that rapid growth in Argentina did not translate into reduced unemployment in the 1990s suggested that labour market inefficiencies remained”
(Takagi, 2004: 31)

The next citation originates from the fifth review of Greece's structural adjustment program 2010.

Despite recent reforms aimed at enhancing the dynamism of the labour market, serious shortcomings in the wage bargaining system remain. The economy is contracting more than envisaged at the onset of the Programme in May 2010. Despite a considerable reduction in per capita income, downward rigidities in wage-setting systems have prevented the necessary adjustment of private sector wages, thus contributing to a sharp increase in unemployment (European Commission, 2011a: 35).

In both cases the argumentation is similar. Rising unemployment despite the implementation of structural reforms in the labour market, serve as prove that the reforms have not removed enough rigidities and the market is still not flexible enough to perform well. Neither in Argentina nor in Greece has the IMF considered that its own structural reforms produce negative (side)-effects that result in increased unemployment and/or to a more unequal distribution of incomes.

2.1.2 Crisis Management in Argentina 1998-2002

After three years of economic recession Argentina defaulted on its debt in December 2001. The government abolished the convertibility regime with the US\$ in early January 2002 (Takagi, 2004: 3). A number of studies have investigated the causes for following economic and social crisis. Some prominent explanations of the crisis emphasize are summarized in (Teunissen and Akkerman, 2003: 2-10).

Joseph Stiglitz blamed the IMF for encouraging Argentina to implement fiscal austerity policies. Stiglitz called the convertibility regime, pegging the Argentina currency to the dollar as a system doomed to failure. In Mark Weisbrot's and his colleagues' view Argentina got stuck in a debt spiral. The combination of inherited debts and the loss of revenue caused by the beginning recession in 1999 caused an increase of interest rates. At the same time the budget deficits grew and Argentina was not able to recover. Guillermo Perry and Luis Servéns have emphasized the characteristics of Argentinean policies that made the country particularly vulnerable to external shocks (Teunissen and Akkerman, 2003: 2ff). Michael Mussa, until 2001 director of research at the IMF, concluded that "1) the Fund failed to press Argentina hard enough on fiscal policy, especially during the period of rapid economic growth from 1995-97,14 and (b) that it went on too long providing financial support to Argentina." (Teunissen and Akkerman, 2003: 109)

The Argentinian economy contracted strongly in 2001 and 2002. In 2002 the annual GDP growth was minus 10,9% (world bank data access 20.12. 2013). After four years of economic recession Argentina had declined over 20% compared to the level of 1998 (World Bank, 2003: 1).

The Argentinian Case demonstrates the importance of fiscal policy when the exchange rate is fixed at a certain rate or pegged to another currency. With the currency regime limiting the use of monetary policy, fiscal policy was effectively the only tool of macroeconomic management. The convertibly regime also prevented the central bank from acting as a lender of last-resort. As a consequence the public lending capacity depended on a sufficiently low public debt level. The credibility of the government guarantee that local currency would be exchanged for U.S. dollars at par also stood and fell with fiscal solvency (Takagi, 2004: 23f).

For Greece, as a member of the Eurozone, fiscal policy was just as important as for Argentina during the convertibility regime. In the Eurozone monetary policy is managed by the European Central Bank (ECB) and the ECB had long ruled out the possibility of serving as a lender of last-resort. It is true that during the public debt crisis in Europe the ECB changed its policy in this regard and opted to serve as a lender of last-resort. Nonetheless the crisis in Europe has highlighted the importance of fiscal discipline for countries within the Eurozone.

The European Union has been aware of the crucial role of fiscal policy for the project of currency union. In response the Maastricht or Eurozone convergence criteria were created. But violations against the convergence criteria were tolerated for several years. Greece manipulated its accounts to achieve compliance with Eurozone entry criteria. The manipulations were carried out with connivance of the European authorities (Fouskas, 2013: 136f).

It seems the European authorities tolerated the weak fiscal policy of Greece due to political reasons. Similarly the IMF tolerated the weak fiscal policy of Argentina during the convertibility regime. The internal evaluation office resumed that the IMF's analysis of fiscal policy in Argentina focused too much on flow variables like the primary public deficit, underplayed the role of provincial finances and overestimated the sustainable debt level of Argentina. Moreover available analytical tools were not sufficiently deployed (Takagi, 2004: 22,24)

Among the IMF staff there was fear that open discussion of the convertibility regime would undermine its viability in a self-fulfilling prediction (Takagi, 2004: 22) I suspect that the reluctance of the European Union to punish Greece for its weak fiscal policy and high government deficits during 2001-2009 originated from the same fears.

The case of Argentina could have served as an example that a strategy of delaying-the-action would not work and would be costly in the end. "Delaying the action required to resolve a crisis can significantly raise its eventual cost, as delayed action can inevitably lead to further output loss, additional capital flight, and erosion of asset quality in the banking system." (Takagi, 2004: 6)

Unfortunately Greece is on the way to experience the same sort of additional costs. The EC/ECB/IMF staff member acknowledged in the third review of the structural adjustment

program of 2010 that “the success of the programme and the orderly adjustment of the Greek economy depend crucially on a strong recovery from 2012 onwards” (European Commission, 2011b: 9) At the time the economic growth of Greece in 2012 was projected at 1% and at slightly above 2% in 2013 and 2014. Actually the economic recession has continued in Greece. According to Eurostat the real GDP growth rate of Greece was -6,4% in 2012 and is currently projected at -4,2% in 2013 (Eurostat; last updated 19.10. 2013). Despite the clear failure to reach the economic growth targets in 2012 and 2013, Greece and the Troika have not significantly changed their strategy. All indications point to the fact that the austerity policies have not produced the intended results, no alternative strategies have been developed so far. Current discussions over a third structural adjustment program for Greece include a continuation of austerity policies (IMF, staff, 2013: 60f)

The report on Argentina by the IMF’s internal evaluation resumed that the critical failure of the IMF’s crisis management in Argentina consisted in not having an exit strategy, including an contingency plan, in place, as it was known that the implemented strategy was risky (Takagi, 2004: 5) The IMF as part of the Troika has repeated its mistake in Greece. The EC/ECB/IMF staff member have repeatedly pointed to the risky nature of the structural adjustment strategy in Greece but no alternative strategy has been developed.

Another lesson the internal evaluation office of the IMF drew from Argentina was that structural conditionality could not compensate institutional weaknesses rooted in the political system and a lack of domestic ownership of underlying reforms (Takagi, 2004: 6) The domestic ownership of the Greek structural reform plan was put in doubt by the Troika (European Commission, 2012: 1) The design of the structural adjustment programs for Greece did not follow the IMF’s own recommendation that have been formulated as lessons learnt from the Argentinian crisis:

“The IMF should have a contingency strategy from the outset of a crisis, including in particular “stop-loss rules”—that is, a set of criteria to determine if the initial strategy is working and to guide the decision on when a change in approach is needed.” (Takagi, 2004: 7)

The monitoring of the structural adjustment program has noted several risks, delays and shortcomings regarding the implementation and results of the structural adjustment reform. But no consistent procedure, to determine if the program strategy was working, has been

implemented. The evaluation of the Greek structural adjustment program in part 3 of this diploma thesis indicates that in the case such “stop-loss rules” would exist, they would have come to the result that the implemented strategy has not been working.

As a result the population of Greece has experienced five years of continued recession. Unemployment and poverty levels have been soaring to historic levels and the public debt level remains very high.

The scope of this diploma thesis makes it not possible to discuss consequences of a “Grexit”, an exit of Greece from the Eurozone in detail. The case of Argentina suggests that the short term costs of such an exit would be very high but could possibly improve the medium and long-term economic prospects of Greece. However it is uncertain if Greece could replicate the relative economic success of Argentina following its sovereign debt default. No superficial conclusion should be made in this case.

2.1.3 Social consequences of Argentinian crisis

The structural reforms that have been implemented during the convertibility regime in Argentina produced in the short solid economic growth and stable inflation. But in the medium-term negative socio-economic developments appeared. During the period of the convertibility regime poverty and unemployment levels increased and the inequality of incomes widened (Villalon, 2007: 140). The socio-economic conditions had worsened during ten years of structural adjustment reforms until December 2001. At that time Argentina declared default on its sovereign debt and a large economic and social crisis developed.

In 2000 the World Bank conducted a poverty report for Argentina. At this point of time the economy was in recession but the crisis had not yet turned into a full scale depression. The World Bank conducted another report in 2003. The first report makes it possible to assess the degree of poverty after ten years of structural reforms under the convertibility regime. The comparison of these results with the second report of 2003 gives an overview of the deterioration of living conditions in Argentina after the sovereign debt default.

“[In Argentina] poverty rates fell from 40% in 1990 to a low of 22% in 1994. However, since 1995 poverty has grown slightly as a percentage of the population, and income distribution has deteriorated” (World Bank, 2000: iii). After a decade of very high inflation poverty rates decreased during the first years of the convertibility regime. However poverty remained elevated compared to the level registered prior to the “lost decade” of the 1980’s. In 1980 poverty levels. Compared to the low urban poverty rate of 8% in 1980 (referring only to Buenos Aires), the lowest poverty rate reported during the convertibility regime (22%) does not seem that impressive (World Bank, 2000: 3). Poverty in Argentina was measured by a biannual survey of 30.000 urban households (World Bank, 2003: 3)

From 1995 to 1998 economic growth began to stagnate. External shocks in form of the crisis in Mexico, Russia and Brazil decreased the competitiveness of Argentinian exports. The fixed exchange rate made the Argentinian export-led growth model vulnerable to those external shocks. When Mexico and Brazil depreciated their currencies, the products of Argentina got more expensive in comparison to the two regional competitors. The convertibility regime made it impossible for Argentina to respond to this development with a nominal devaluation of its own currency.

As a result urban poverty was as high as 29% in 1998 with 7% living in extreme poverty¹. (World Bank, 2000: 3f). Another source reports that in 1998 28% of the Argentinian population lived below the poverty line (Teunissen and Akkerman, 2003: 29). In 1998 vast regional differences regarding the distribution of poverty existed. In the North West and the North East of Argentina poverty rates reached almost 50%. The poorest provinces have also benefited less from the improvements made during the first three years of the convertibility regime. In contrast when poverty rates increased in the period 1994-98 urban poor affected stronger, as poverty rates in cities increased at a faster pace than in the poor regions in the North of Argentina (World Bank, 2000: 15).

¹ “Trends for poverty are based on the use of a poverty line, and the standard headcount and poverty gap measures. For this report, we use the Government's official poverty line calculated based on the 1986/87 Income and Expenditure Survey, updated using price indices for its food and non food components. This poverty line is equal to about \$160 per male adult, per month, in 1998. The extremepoverty line, or indigence line, is based on the food consumption portion of the poverty line, and is equal to \$69 per month in 1998” (World Bank, 2000: 4)

The World Bank identified several characteristics distinguishing the group of the poor from the rest of the population. The poor lived in younger households, had significantly more children and were twice as likely to be unemployed than the non-poor. The poor also had on average less years of schooling and were more likely to work in the informal economy (World Bank, 2000: 8).

The crisis years of 1998-2002 had a strong negative impact on poverty. The share of the population living in poverty as estimated by the World Bank increased from 29% in 1998, already a high mark by itself, to 57,5% in 2002. The poverty rate increased by 50% in only four years. Excluding wars the relative size of the Argentinian economic crisis was the largest recorded at that time. The parameters measured the impact of the crisis were more severe in Argentina than in other countries experiencing economic crisis during the 1990's (World Bank, 2003: 2). During the Argentinian crisis the poverty elasticity was much higher than in the previous decade. Assuming a negative economic growth of 11% the poverty elasticity was estimated by the World Bank as high as 4,1 for the year 2002 (World Bank, 2003: 4).

The World Bank explained the sudden rise in poverty by “the collapse of the convertibility plan, major exchange rate devaluation, and default on external debts in January 2002” (World Bank, 2003: 4) More critical sources have noted that the decrease in public expenditure had a negative impact as well. The negative effects of the structural reforms particularly the disappearance of social safety nets have been blamed too for the widespread social hardship (Villalon, 2007). “The excluding character of the policies of the 1990s was a central factor in the deterioration of the social tissue” (Teunissen and Akkerman, 2003: 75) At the least the IMF was unable to contribute to a mitigation of the crisis effects. “[The IMF] was unable to provide much help and basically stood by as the crisis unravelled (Takagi, 2004: 5)

During the crisis 1998-2002 extreme or absolute poverty increased from 7% to 28%. Extreme poverty was defined by the World Bank as “those without sufficient incomes to buy a basic basket of food” (World Bank, 2003: 4)

From a macroeconomic perspective unemployment and higher prices had the largest negative effect on poverty. The currency devaluation resulted in higher basic food prices because basic foods in Argentina played an important role on import and export markets. The fact that poor people spend a bigger proportion of their income for nutrition was confirmed during the

Argentinian crisis. The poverty line calculated on a basket of basic foods augmented by 29% from April 2001 to April 2001. During the same timespan the overall consumer price index increased by 18%. (World Bank, 2003: 5) The divergence of the two indicators demonstrates that people with low incomes are stronger affected by a rise in basic food prices.

From 1990 to 1998 wage gains were strongest for skilled and highly workers while real wages for unskilled works actually declined during this period of structural adjustment reforms. The clear beneficiaries were the richest 10% who increased the real income by almost a third during this period representing the strongest rise of any income decile. (World Bank, 2000: 5; 24).

The fact that higher income households benefited more from the structural reforms than relatively unskilled workers is demonstrated by an increase of the income gap between the richest and poorest households. During the structural adjustment reforms between 1991 and 1998 the inequality of the income distribution got bigger, particularly in the latter five years.

The data of the poverty assessment 2000 by the World Bank indicates that the structural reforms in the period 1990-1998 resulted in higher income inequality. Although the data is somewhat limited as only urban areas are covered. The Gini coefficient was already at a high level in 1990 and reached the value of 0,46. In the next decade inequality stagnated at this level until 1994 and then increased to a Gini coefficient of 0,49 in 1998. The quintile share ratio comparing the highest 20% and the lowest 20% of incomes increased in similar fashion. From 1994 to 1998 the quintile share ratio 20/80 increased from 11,31 to 14,28% (World Bank, 2000: 5)

The World Bank estimated the poverty elasticity in respect to GDP growth per capita and change in the GINI-coefficient. The results confirm that higher income inequality reduces the poverty-reducing effect of economic growth (World Bank, 2000: 18)

The trend of rising income inequality accelerated during the crisis years. The Gini coefficient rose to 0,532 in the year 2002. The quintile share ratio (top20%/bottom20%) peaked in May 2002 at 27,2. From October 2001 to May 2001 the real incomes of the poorest 10% fell by 47%. Interestingly after May 2001, until October 2002, both the indicators for inequality and the real income of the lowest 10% of the income distribution improved significantly. Real incomes of

the poor increased by 79% in this period. (World Bank, 2003: 6) Increased public spending and particularly the implementation of a welfare programme contributed to this quick turnaround.

“It is impossible to identify exactly what caused these sudden movements, but the implementation of the Government's Plan Jefes program, which provides income supplements of A\$ 150 /month to about 2 million people might explain part of this the sudden improvement.” (World Bank, 2003: 6)

Indicators based on income do not grasp all effects of the Argentinian crisis on people's wealth. Changes in the value of assets are excluded from statistics about the distribution of incomes. The government froze bank accounts when declaring default on its sovereign debt. People who were unable to withdraw their fund, had their savings eroded by inflation. Deposits held in dollar were converted to pesos. Declining real estate prices and default on bonds reduced the value of assets. These developments did not concern the very poor so much as they most poor are not able to hold bank deposits or bonds in the first place. But these factors certainly affected many non-poor households, particularly the middle class were saving in banks serve as an important personal risk insurance. (World Bank, 2003: 7)

The economic crisis did not only decrease the real incomes of the lowest households. It created also a great number of “new poor”, households who prior to the crisis belonged to the middle-class.

2.1.4 Concluding Remarks on the case of Argentina

The IMF has been critiqued for its role not only by numerous scientists but also from its own internal evaluation office. A wide range of studies have been written on the design of the structural adjustment and its negative effects on both economic and social indicators. The IMF did not preside over the structural adjustment program on its own but in cooperation with the European Commission and the European Central Bank. Still the IMF played a significant role backing the program with technical assistance, its reputation and money.

It is interesting to resume, that the design of the structural reforms in Argentina and Greece not only follow the same strategic approach but consist in important areas such as the labour market

and fiscal policy of basically identical policies. Important recommendation of the IMF's internal evaluation office derived from the failure of the IMF's mission in Argentina have not been integrated in the design of the structural adjustment program for Greece.

The case of Argentina proved that it is necessary to have a contingency plan in place from the outset including a set-of-criteria to determine if the initial structural adjustment strategy is working or not. This has not been the case in Greece. A Greek exit of the Eurozone was openly discussed in the summer of 2012 when political instability resulted in two rounds of elections. This uncoordinated discussion involving politicians of several European countries added to already existing uncertainty around Greece and had a negative effect on the progress of reforms as well as Greece's economic performance. Up to date no methodological contingency plan or a significant change in the direction of structural reforms in Greece has been discussed.

3. Structural Adjustment in Greece

3.1.1 Short Chronology of events

Greece is a member of the European Union since 1981. Since 1992 the country is also a member of the Schengen area and since 2001 a member of the Eurozone. After introducing the euro the GDP growth rates of Greece have been positive until 2008. In fact average economic growth in Greece between 2001 and 2009 has been close to 4%, thus significantly higher than the average growth rate of 2% in the European Union as a whole (European Commission, 2010a: 3).

But it should be noted that strong evidence points to the fact that the Greek government at that time paid the investment bank Goldman Sachs to manipulate its accounts to achieve compliance with Eurozone entry requirements (Fouskas, 2013: 136). The actual economic growth rates may not have been as high as reported. From current perspective “the economic growth registered from the mid-1990s until break-out of the debt crisis in 2009–10 was entirely debt-driven”(Fouskas, 2013: 136f).

The economic decline in Greece during the global economic crisis worsened the financial imbalances of the Greek government. As a consequence the costs of debt-financing on financial markets exploded.

In the wake of the U.S. sub-prime crisis the spread of the Greek ten-year government bond yield over Germany almost tripled from an initial level of 25 basis points (b.p.) in the summer of 2007 to 65 b.p. in August 2008. During the next seven months the interest rate for Greece increased sharply and peaked at 285 b.p. in March 2009. At that time the global credit crunch crisis was at its peak and the position on financial markets deteriorated for several countries of the EMU periphery. This development was followed by a phase where the global economy appeared to partially recover, in part thanks to massive public spending in several important world economics. Mainly thanks to the relaxation of the global crisis the spread of the Greek ten-year government bond yield returned to a level in the range between 120 b.p. - 130 b.p. and stayed there until mid-november 2009. Still the financing costs of the Greece state remained constantly higher than that of other southern European countries.

Greece held elections in October 2009 resulting in a government change. The newly elected government had to announce that the previous government had substantially undervalued the Greek government deficit, increasing the estimated deficit from 6,5% to 12,7% of GDP for 2009. (Arghyrou and Tsoukalas, 2011: 174) Later the European Commission evaluated the Greek deficit for 2009 at 13,60% of GDP (European Commission, 2010a: 6)

The announcement of the proposed public deficit for 2010 started a period of rising spread yields. The trend accelerated in February 2010 in order to reach an enormous 586 b.p. on 22 April 2010. (Arghyrou and Tsoukalas, 2011: 174f) Practically unable to access credits on the open market the Greek Government submitted a request for financial assistance to the European Union and the IMF. Following this request a joint EC/IMF/ECB mission visited Greece from 21 April to May 3. “On 2 May 2010 the mission concluded a staff level agreement for a joint euro area / IMF financing package of EUR 110 billion and supporting economic policies” (European Commission, 2010a: 1)

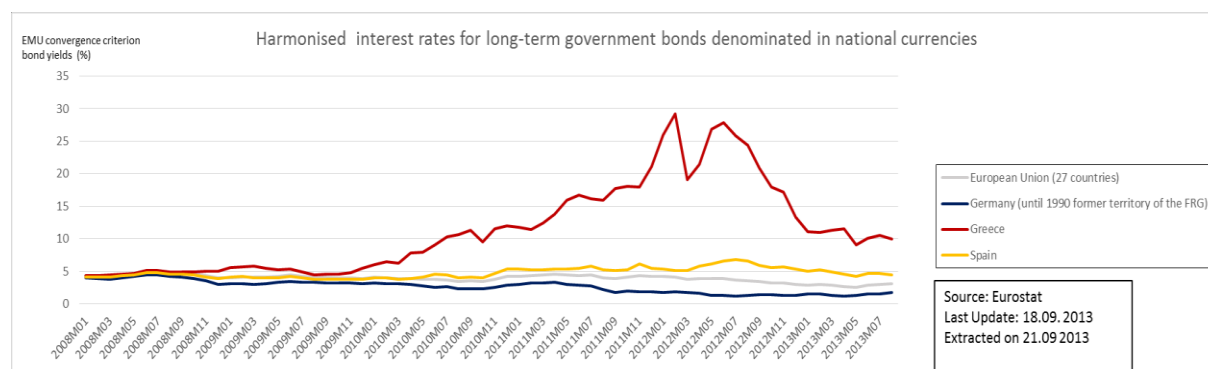


Figure 4 Harmonised interest rates for long term-government bonds denominated in national currencies; own illustration, data source: Eurostat

3.1.2 World Value Survey

The third part of my diploma thesis analyses the structural adjustment program for Greece focusing on its effects on poverty. Before I start my analysis based on the channels affecting poverty outlined in part 1, I will give some insight to the state of Greek society before the economic crisis. I use data of the World Value Survey of 1999 to give some insights regarding the pre-existing values of the Greek society.

The aim here is to clarify some prejudices about describing the Greek population as lazy and living beyond its means. The economic crisis in Greece cannot be explained by culture and a

comparison of the values in Greece and Germany should be a good way to illustrate this point of view.

The results of the World Value Survey are useful to identify some of the political and economic institutions that shape the Greek society. It is true that culture relates to social norms which can account for differences in the design of institutions. But at the same time social norms reflect institutional differences. For example to which extent people trust each other or are willing to corporate are mostly an outcome of institutions and not an independent cause that can be explained by culture (Acemoglu and Robinson, 2012: 57). If social norms and values are an outcome of political and economic institutions the World Value Survey should be able to shed some light at the state of the institutions governing the Greek society before the economic crisis.

The survey data for Greece is from the year 1999 with a sample size of 1142. I compare the data for Greece with the survey data for the same year in West Germany where 1037 people answered the questionnaire. This means that the samples for these two countries stem from the same year and are similar in size. However the samples differ in age structure of the sample. In Greece 42% of the respondents were between 15 and 29 years old, while in West Germany only 17,5% of the respondents were the same age. The age group of 30-49 years is practically the same size in both country samples, with 431 and 438 counts respectively. The sample of West Germany includes 423 respondents over 50 years old, the sample of Greece counts only 194 seniors. Because younger people responded to survey in Greece the percentage of people with higher education is much higher than in West Germany. In order to avoid biased results because of the differences in age and education, most of my graphics include the variable *“X025.- What is the highest educational level that you have attained?”*

World Value Survey – Data sample for Germany and Greece							
VALUES SURVEY DATABANK							
Selected countries/samples: Germany West [1999], Greece [1999]							
BASE=2179		Education level (recoded)					
Weight [with split ups]		Total	Lower	Middle	Upper	Don't know	No answer
Age	15-29	30.3 %	10.1 %	32.2 %	46.0 %	-	31.8 %
	30-49	39.9 %	30.1 %	47.7 %	37.4 %	100.0 %	44.8 %
	50 and more	28.3 %	59.2 %	18.4 %	14.8 %	-	14.3 %
	No answer	1.5 %	0.5 %	1.8 %	1.8 %	-	9.0 %
	Total	2179 (100%)	589 (100%)	926 (100%)	650 (100%)	2 (100%)	11 (100%)
	Base for mean	2134	586	909	638	0	0
	Mean	41.2	52.9	38.0	34.4	-	-
	Standard Deviation	16.20	16.91	14.15	13.21	-	-
Source: Values Surveys Databank							

Figure 5: WVS Age and education of the respondents; own illustration; data source: World Value Survey Databank

3.1.2.1 Important Values in Education

If culture would account for differences in economic performances, it could be through the transmission of different qualities from parents to their children. But the comparison between Germany and Greece shows little differences in child values. Famous attributes associated with capitalism and economic growth are hard work and to save money. In both samples about one quarter of the respondents mentioned these attributes as important values for a child. The connection between religious or cultural affiliation towards hard work has been first made by Weber's protestant ethic. (Weber, 2006). Work is an important value in Greek society with the majority of the people quoting work as very important in life. The scores are higher than in Germany, so there is no evidence for the cliché of the lazy south-European in the World Value Survey, at least in the case of Greece. The distribution of answers for the question if persons who do not work turn lazy is virtually the same in Greece and Germany. The notion that work is a way for women to be more independent also finds broad support in Greece.

As a mirror image of work, leisure time has the same importance in these two countries. In Greece 43% judge leisure time as very important compared to 39% in Germany. But this slight

difference is in fact a result of the already mentioned different age structure of the two samples.
(See *Figure 6*)

Importance of leisure time in life

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

<div>BASE=2135</div> <div>Weight [with split ups]</div>		Country/region									
		Germany					Greece				
		Total	Age recoded (3 intervals)			Total	Age recoded (3 intervals)				
			Total	15-29 years	30-49 years		50 and more years	15-29 years	30-49 years	50 and more years	
Leisure time important in life	Very important	38.8 %	34.2 %	46.3 %	35.8 %	27.3 %	43.2 %	53.5 %	37.8 %	29.7 %	
	Rather important	46.6 %	50.0 %	46.8 %	52.4 %	48.8 %	43.4 %	38.9 %	47.9 %	44.3 %	
	Not very important	12.9 %	14.2 %	5.0 %	10.7 %	21.8 %	11.7 %	7.2 %	11.9 %	22.4 %	
	Not at all important	1.7 %	1.6 %	1.8 %	1.1 %	2.1 %	1.7 %	0.4 %	2.3 %	3.6 %	
	Total	2135 (100%)	1032 (100%)	181 (100%)	431 (100%)	420 (100%)	1103 (100%)	475 (100%)	436 (100%)	192 (100%)	

Source: Values Surveys Databank

Figure 6: WVS importance of leisure time in life; own illustration; data source: World Value Survey Databank

3.1.2.2 Political Institutions in Greece

Institutions set incentives for certain actions. That's why social norms are an outcome of institutional incentives. In other words different economic and political norms result in different social norms. For example the trust towards the justice system depends to a great degree on its legal foundation, its equal enforcement and the justice system's independence from the political system or the interest of leading political figures. What does the World Value Survey say about Greek institutions?

In 1999 over 60% of the people in the WVS sample of Greece said that for their personal life politics are not very important or not important at all. Surely it is not the best sign for a democracy when the majority of its citizens are not interested in politics. However the scores were not any better in Germany. Maybe a bit more telling is the satisfaction with the political system for governing the country. On a scale from one to ten Greece has a mean of 4,80 while the German political system fare slightly better with 5,40 points out of possible 10 points.

The satisfaction with politicians is not so different in Germany and Greece, but the articulation of disagreement takes very different form. In Greece the importance of direct political action is much higher than in Germany. Joining strikes, demonstrating in the strikes or even occupying a building or a factory are considered a real option by the majority in Greece but no so in Germany. The only political action Germans are as ready to join as Greeks is signing a petition.

Attendance of lawful demonstrations				
VALUES SURVEY DATABANK				
<i>Selected countries/samples: Germany West [1999], Greece [1999]</i>				
BASE=2077		Country/region		
Weight [with split ups]		Total	Germany	Greece
Political action: attending lawful demonstrations	Have done	35.9 %	22.6 %	47.5 %
	Might do	40.8 %	43.6 %	38.3 %
	Would never do	23.4 %	33.8 %	14.2 %
	Total	2077 (100%)	970 (100%)	1107 (100%)
Source: Values Surveys Databank				

Figure 7: WVS Attendance of lawful demonstrations; own illustration; data source: World Value Survey Databank

With almost half of the Greek population having attended a demonstration in 1999, any political leader in Greece should have expected that very unpopular policy measures would be with mass demonstrations. However the possibility of social unrest did not find much attention in the design of the structural adjustment program. Massive attendance to demonstrations and strikes is exactly what happened when the Structural Adjustment Program required the implementation of strict austerity policies. As a result there have been delays in the implementation of policy reforms by the Greek government.

The fact that the structural adjustment program for Greece did not anticipate political factors has led to unrealistic goals for the Greek government. Ultimately the power of the Greek Government to implement unpopular reforms has been lower than expected by the staff member of IMF/EC/ECB. The Greek politicians showed a schizophrenic attitude towards the structural adjustment program. On one side Greece crucially depended on the financial resources and most politicians perfectly were aware of this situation. But when elections are held in time of deep economic crisis it is difficult to maintain a rhetoric that would please foreign authorities like the European Union and the IMF and the national voters at the same time. As a result questions over the ownership of the first adjustment program 2010 by the Greek Government arose several times during the implementation of the program (European Commission, 2012a: 1)

What else can be said about the organisation of the civil society in Greece? In the WVS-sample 8% of the respondents are members of political parties and also 8% mention their membership

to labour unions. NGO lobbying for ecological actions and/or animal rights are supported by 11% of the respondents in the sample.

After 2 years of structural adjustment the European Commission recognized that the program needs a consensus of the whole Greek society (European Commission, 2012a: 4) but it is doubtful such a consensus has existed so far.

Structural adjustment programs consist to a considerable part of the implementation of economic policies that can be termed neoliberal. This make it interesting to look at the support for neoliberal values in the Greek world value survey. The WVS asks the participants to place their view on various issues on a scale from 1 to 10. Here the rate 1 means the participant agrees completely with the sentence on the left and 10 means they agree completely with the sentence on the right. The attitude towards neoliberal ideas are among other reflected by the following questions:

- People should take more responsibility vs The Government should take more responsibility
- The state should give more freedom to firms vs The state should control firms more effectively
- Unemployed should take any job vs Unemployed have a right to refuse a job

All three questions show a wide distribution of answers in Greece with all means ranging from 5 to 6 points. This means the Greek do not support strongly the position that people should take more responsibility in opposition to the government. The question of firm regulation has a mean of 5,70 for the Greek sample. This shows a tendency toward state regulation of private companies. Especially people with lower education are strongly in favour of more state regulation. On the contrary to the German sample, the results for Greece show that a majority thinks that Unemployed have some right to refuse a job. Unemployment benefits is a point where the structural adjustment reform called for stricter legislation. The WVS leads to the conclusion that Greece society in 1999 has a neutral or slightly negative opinion of neoliberal views. It is not likely that the opinion towards neoliberal and austere policies have changed strongly in the following ten years.

Interestingly the Greek have a much more pronounced opinion when asked about absolute poverty and the importance of eliminating big income inequalities. 84% in Greece think that it is very important to guarantee basic needs for all. A score remarkably high, also compared to the 72% in the German sample. In this question we can truly speak of a consensus in Greek society.

Also 70% in Greece think it is important or very important to reduce big income inequalities. This is a good example where social norms are not independent but an outcome of institutions. Inequality in Greece has been and is still much higher than in Germany. So the strong wish of the citizens in Greece to reduce income inequalities does not simply reflect personal conviction but is an outcome of the unequal distribution of incomes in Greece.

Importance of the state guarenteeing basic needs for all											
VALUES SURVEY DATABANK											
Selected countries/samples: Germany West [1999], Greece [1999]											
BASE=2150			Country/region								
Weight [with split ups]			Germany				Greece				
			Total	Education level (recoded)			Total	Education level (recoded)			
				Lower	Middle	Upper		Lower	Middle	Upper	
Importance of guaranteeing basic needs for all	Very important		71.9 %	58.4 %	55.4 %	61.0 %	61.8 %	84.1 %	85.1 %	82.8 %	84.9 %
	2		22.1 %	33.4 %	36.3 %	30.9 %	29.4 %	11.9 %	10.9 %	12.7 %	11.5 %
	3		4.8 %	6.7 %	6.5 %	6.8 %	7.2 %	3.1 %	1.0 %	3.6 %	3.0 %
	4		1.0 %	1.4 %	1.6 %	1.1 %	1.6 %	0.7 %	2.0 %	0.6 %	0.5 %
	Not at all important		0.2 %	0.2 %	0.2 %	0.2 %	-	0.2 %	1.0 %	0.2 %	-
	Total		2150 (100%)	1019 (100%)	484 (100%)	452 (100%)	83 (100%)	1131 (100%)	101 (100%)	466 (100%)	564 (100%)
	Base for mean		2150	1019	484	452	83	1131	101	466	564
	Mean		1.40	1.50	1.50	1.50	1.50	1.20	1.20	1.20	1.20
	Standard Deviation		0.63	0.68	0.70	0.69	0.70	0.54	0.66	0.56	0.50
Source: Values Surveys Databank											

Figure 8: Importance of the state guarenteeing basic needs for all; own illustration; data source: World Value Survey Databank

Attitude towards inequality										
VALUES SURVEY DATABANK										
Selected countries/samples: Germany West [1999], Greece [1999]										
BASE=2138		Country/region								
Weight [with split ups]			Germany				Greece			
Importance of eliminating big income inequalities		Total	Total	Education level (recoded)			Total	Education level (recoded)		
				Lower	Middle	Upper		Lower	Middle	Upper
	Very important	41.6 %	22.6 %	25.4 %	21.9 %	10.6 %	58.5 %	65.3 %	59.7 %	56.3 %
	2	28.4 %	34.7 %	34.9 %	35.7 %	28.6 %	22.8 %	16.8 %	22.1 %	24.5 %
	3	21.4 %	29.4 %	27.8 %	29.9 %	36.4 %	14.3 %	9.9 %	14.6 %	14.9 %
	4	6.2 %	10.0 %	9.1 %	10.3 %	13.4 %	2.9 %	4.0 %	2.1 %	3.4 %
	Not at all important	2.3 %	3.2 %	2.9 %	2.2 %	11.0 %	1.4 %	4.0 %	1.5 %	0.9 %
	Total	2138 (100%)	1007 (100%)	476 (100%)	448 (100%)	82 (100%)	1131 (100%)	101 (100%)	467 (100%)	563 (100%)
	Base for mean	2138	1007	476	448	82	1131	101	467	563
	Mean	2.0	2.40	2.30	2.40	2.90	1.70	1.70	1.60	1.70
Standard Deviation	1.04	1.02	1.04	1.00	1.13	0.92	1.07	0.91	0.91	

Figure 9: WVS Attitude towards income inequality; own illustration; data source: World Value Survey Databank

Considering this information it appears difficult to establish a consensus in Greek society for the policies of the structural adjustment programs.

3.1.2.3 Economic Institutions in Greece

The economic crisis has shown that Greece does not have a good tax administration. The structural adjustment programs call for reforms in this area but progress has been slow. WVS suggests that cheating on taxes is indeed a problem in Greece. If one only looks at the question “Do you think it is justifiable to cheat on taxes?” one might suggest Greek citizens are loyal tax-payers as 30% give 1 out of ten points meaning it is never justifiable to cheat on taxes. The overall mean for the Greece sample is 3,30. Interestingly enough the group of high incomes, is the group with the biggest share of people saying it is sometimes o.k. to cheat on taxes. But it should be remarked that this score is already higher than the mean of 3,20 in Western Germany, where 55% of the participants answered the question with one out of ten points. It is important that this question inquires rather theoretically about a moral justification for cheating on taxes. The answers must not necessarily correspond with the actions of the participants in real life. Normally participants tend to whitewash things in interview situations.

Because of the reluctance of people to admit that they cheat on taxes in interview situations, the WVS includes another question. “What do you think, how many of your compatriots do cheat on taxes?” The answers to this question paint a more realistic picture on the extent of cheating on taxes in Greece. The results should have worried the Greek finance department. However ten years later when the structural adjustment program was signed, the tax administration in Greece was still in a miserable condition.

The structural adjustment programs also highlight the bad economic condition of public transport companies. The WVS shows that though the majority says it is not justified to avoid a fare on public transport the score is about one point higher than in the German sample. Unfortunately the question if the Greek’s think that their compatriots avoid fares on public transport has not been posed. But I suggest that the results would have been similar to the results regarding the cheating on taxes.

Cheating on taxes				
VALUES SURVEY DATABANK				
<i>Selected countries/samples: Germany West [1999], Greece [1999]</i>				
BASE=2142		Country/region		
Weight [with split ups]		Total	Germany	Greece
Compatriots do: cheating on taxes	Almost all	24.5 %	12.4 %	35.4 %
	Many	52.8 %	53.9 %	51.7 %
	Some	20.6 %	30.2 %	12.0 %
	Almost none	2.1 %	3.5 %	0.9 %
	Total	2142 (100%)	1013 (100%)	1129 (100%)
Source: Values Surveys Databank				

Figure 10: "Do you think compatriots are cheating on taxes?"; own illustration; data source: World Value Survey Databank

This is just a small excerpt of the questions regarding the rules of economic life in Greece. My aim is to illustrate that the Hellenistic State has indeed a problem to hold its citizens accountable. Social norms are determined by incentives. If people think it is very unlikely they are held accountable for cheating on taxes, widespread tax evasion is likely. The criticism regarding the tax collection mechanism put forward by the staff member of EC/ECB/IMF are supported by the results of the World Value Survey.

How to describe the average citizen of Greece with the information provided by the World Value Survey? The stereo-type Greek sees work as an important part of life and it is more probable she is a member of a human rights organization than a member of a political party. She thinks that the state should guarantee the basic needs to survive for everyone and she would attend demonstrations or take part in strikes when she feels it is necessary to take political action. She has a rather neutral opinion towards neoliberal ideas but wishes the government would reduce big income inequalities. With rising income also increasing the probability Greek citizens to cheat on taxes.

After this introduction to Greece I will analyse how the structural adjustment programs affect poverty in Greece.

3.2 Direct Effects of structural adjustment programs in Greece

3.2.1 Public Sector Employment

The structural adjustment program for Greece aims to reduce public expenditure. This has been a frequent element of the IMF's structural adjustment programs. The EC/ECB/IMF mission made it clear that reforms of the public administration needed to be a priority in the structural adjustment program.

The reduction of the public wage bill figures as part of the fiscal adjustment policies in the structural adjustment program of 2010. When the terms for the first adjustment programs were agreed, the government already started to introduce measures to “curb its wage bill via prices and quantities” (European Commission, 2010a: 20). In other words wages of government employees are reduced and the government plans to reduce the number of its employees.

The Greek government announced the first measures to cut public wages in November 2009, at the same press conference the government announced the excessive government deficit for 2010. The measures implemented before the adoption of the structural adjustment program included a pay freeze for public wages over EUR 2'000 per month and a 1,5 % pay increase for wages below that level.

Another package in January 2010 included “ a 10% cut in allowances paid to public sector employees, with the exception of family allowances, payments for children, allowances for postgraduate degrees and performance-linked bonuses” (EPSU, 2010: 15). Taking into account taxation regimes the 10% cuts of allowances reduced the real wage of public employees by an average 5,5 %. In March 2010 allowances were reduced by an additional 2% and the 14th month salary of public employees was reduced by 60%. Employees of public owned companies saw their salary cut by 7% and their 14th salary was reduced by 60% too. This measures were backdated to 1 January. The government expected that this two packages adopted with law 3833/2010 would **reduce public wages by 8% in nominal terms and 10% in real terms.** (EPSU, 2010: 15)

After agreeing to the terms of the structural adjustment program the Greek Parliament adopted the law 3845/2010 in May 2010. It further reduced Easter, summer and Christmas bonuses and allowances to civil servants. For the public wage bill it was calculated this measure would result in net savings EUR 1'500 million for a full year (European Commission, 2010c: 60).

Allowances were reduced another 8% in addition to the 12% cuts of March 2010, bringing the total reduction of public wages to 20%. The bonuses paid at Easter and in the summer were set at a flat rate of EUR 250 and the Christmas bonus was set at EUR 500. These fixed amounts were only paid to all employees earning less than 3'000 per month. Wages in public owned companies were cut at similar rates. These additional measures cut public wages by an estimated 7%, thus the total reduction of nominal public wages in 2010 being 14%. (EPSU, 2010: 15f)

The reduction of real income for public wages was even higher because of taxes and inflation. The economic adjustment program of 2010 expected an average decline in real wages of 14,5% in 2010 compared to the year 2009, "if one considers that the allowances used to be taxed at a lower tax rate and, from now on, will be included in the normal income bracket and thus taxed at higher rate" (European Commission, 2010a: 16) In June 2011 the plan to decrease public wages even further was put forward. "The average wage is expected to be reduced by 17 percent, although there is substantial variation between the government departments. Bonuses will be provided to officials involved in tax collection and expenditure control". (European Commission, 2011a: 23).

In addition to these payment cuts the government announced the adoption of the rule of 1 recruitment for 5 exits. The rule of replacing only 20% of retiring employees was included in the budget for 2011 (European Commission, 2010b 42). In February 2011 the third review of the structural adjustment program 2010 expected that through the 1/5 rule Greece would reduce the number of public employees per 20'000 per annum until 2013 (European Commission, 2011b: 24). But the rule was not strictly put in effect by the Greek authorities and the actual numbers are much smaller than the EC/ECB/IMF mission expected at this point. According to the fifth review of the program "the rule of 1 recruitment for 5 exits (1 for 10 in 2011) is official government policy and it was enshrined in law [but] the staffing plans that would contribute to [...] prepare the reallocation of staff have not been prepared" (European Commission, 2011a: 53).

53'336 employees exited the public service in the year 2010. For the first half year of 2011 the number of hirings are estimated to have been 10'832. Thus the rule of replacing only 20% of exits in the public sector is already exceeded with 6 months left to hire people. At that pace there would have been 21'664 entries in public service. That's 16'331 more hirings than under a 1-10 rule and 10'998 more than under 1-5 rule. (own calculation based on European Commission, 2011a: 53)

This is not the only policy measure of the structural adjustment programs in Greece where ambitious goals in the form of austerity policies are set but not achieved. Another example is the announcement of the fight against corruption in the public administration. In December 2010 the structural adjustment programs includes the savings of EUR 100 million through fraud-reducing measures and the establishment of the single payment authority (European Commission, 2010b: 84). However already in the next program review the savings this anti-corruption measures are re-estimated at a value of EUR 0! (European Commission, 2011b: 44)

Allow me to emphasize this point. The Greek government adopted a law with "fraud-reducing measures" and estimates the potential savings of EUR 100 million. The European Commission, the European Central Bank and the International Monetary Fund confirmed and approved this policy measure in the second review of the structural adjustment program members. That's in December 2010, I suspect just the right time to include the savings of EUR 100 million government expenditure in the 2011 budget. Only two months later in the next review of the program it is acknowledged that there will be zero savings, inflating the government balance by a net EUR -100 million.

The program set one additional conditionality requirement in the area of public wages. The government has been obliged to introduce a unified and transparent public wage scale structure (European Commission, 2010a: 10) Another prominent element on the agenda has been a local government reform.

Familiar element of IMF structural adjustment programs in the past, the fourth review of the SAP 2010 includes a privatisation plan (European Commission and Directorate-General for Economic and Financial Affairs, 2011: 32) The government set up a fund to accelerate privatisation (European Commission and Directorate-General for Economic and Financial Affairs, 2011: 31).

The privatisation plan includes a number of companies that provide basic needs for the Greek citizens and important key economic infrastructure, for example airports, and ports to the Mediterranean Sea. To mention just a few the government's privatisation plans included among others, the companies Thessaloniki Water (EYATH), Athens Water (EYDAP), Public Gas Company (DEPA), Athens Intl Airport, Railway Operator (TRAINOSE), Offshore Gas Storage Fac., Hellenic Defense Systems (EAS), Hellenic Motorways, Hellenic Goldmines, Hellenic Petroleum (ELP) and the Hellenic Agricultural Bank (ATE). However the privatisation efforts proceeded slower than the Troika (joint mission of EC/ECB/IMF) expected.

In part technical and legal hurdles in the responsibility of the Greek government caused the slow process of privatisation. But another important cause was that the authorities found it difficult to find potential buyers. In the context of rapid economic decline private investors had little to no interest in Greek assets. In this respect one element of the SAP, fiscal consolidation, undermined other elements of the SAP, for example privatisation.

The economy of Greece would be in a difficult position with or without austerity policies. But the huge cuts in public expenditure without doubt deepened the economic contraction. The Troika was aware that the implemented pro-cyclical policies would have an adverse effect on demand in the short term. However after five years of economic crisis in Greece it is safe to say that fiscal consolidation caused a longer than expected period of low private demand. To make matters worse exports as well did not develop as well as the Troika projected.

On the one side privatisation of important industries may improve the financial situation of the government at least in the short term. There is vast literature about the question if and to what extent private ownership improves the efficiency of companies but that is not the main concern of my diploma thesis.

On the other side privatisation has a negative effect on poverty, if the private owners charge higher prices for goods of basic need like water and energy. The danger of rising consumer prices is particularly strong in non-competitive markets or when state sells companies enjoying a natural or de-facto monopoly. In the case of Greece this concern seems valid for the privatisation of water suppliers, energy companies and the area of public transport.

The wage cuts of civil servants and employees in state owned enterprises have a negative effect on poverty. This direct intervention caused an average 15% lower income for 768'000 people in public employment (number of 30 June 10; European Commission and Directorate-General for Economic and Financial Affairs, 2011: 29f). 15% lower income alone increases the potential of people affected by poverty. But bear in mind the effect has been intensified by rising consumer prices and higher unemployment rates in the overall economy.

Consider for example a household with one member working in the public administration and one in a private company. If the one working in the private sector gets unemployed the household has a 15% lower wage from one member and unemployment benefits from the other member to spend. As long-term unemployment is high in Greece, it is not unlikely that one member sees its unemployment benefits expire after one year (as a result social insurance expires as well). In such a case income sources of the household are basically reduced to public employment of one member who potentially fears to be released too. This scenario is hypothetical but not unrealistic. It is outlined to illustrate how the measures in the area of public sector employment described in this section increase poverty in a direct way.

In addition the wage decreases in public sector employment has an impact for wage development in the private sector. I will return to this point in part 3.1.2. *rate of economic growth*.

Public employment services need to be adequately staffed to fight against rising unemployment rates. The obligation to reduce employees make it practically impossible for the Greek administration to provide effective job search support. In fact in Europe unemployed to staff ratios remain the highest in countries with high unemployment rates.

To put that in context the authorities of EC/ECB/IMF obligated Greece to reduce employees in public administration by at least 20%. In a period of rising unemployment this must necessarily mean more work for a stagnating or sinking number of staff in public agencies. The result is a lower quality of public services including the area job search support. By contrast, in Germany, a new law states that the ratio of staff to long-term unemployed should be 1 to 75 for jobseekers under age 25, and 1 to 150 for older jobseekers (Spiezia et al., 2012: 49)

The following graph shows that Greece (EL) does spend much less than most other European countries for labour market policies despite having the highest rates of unemployment.

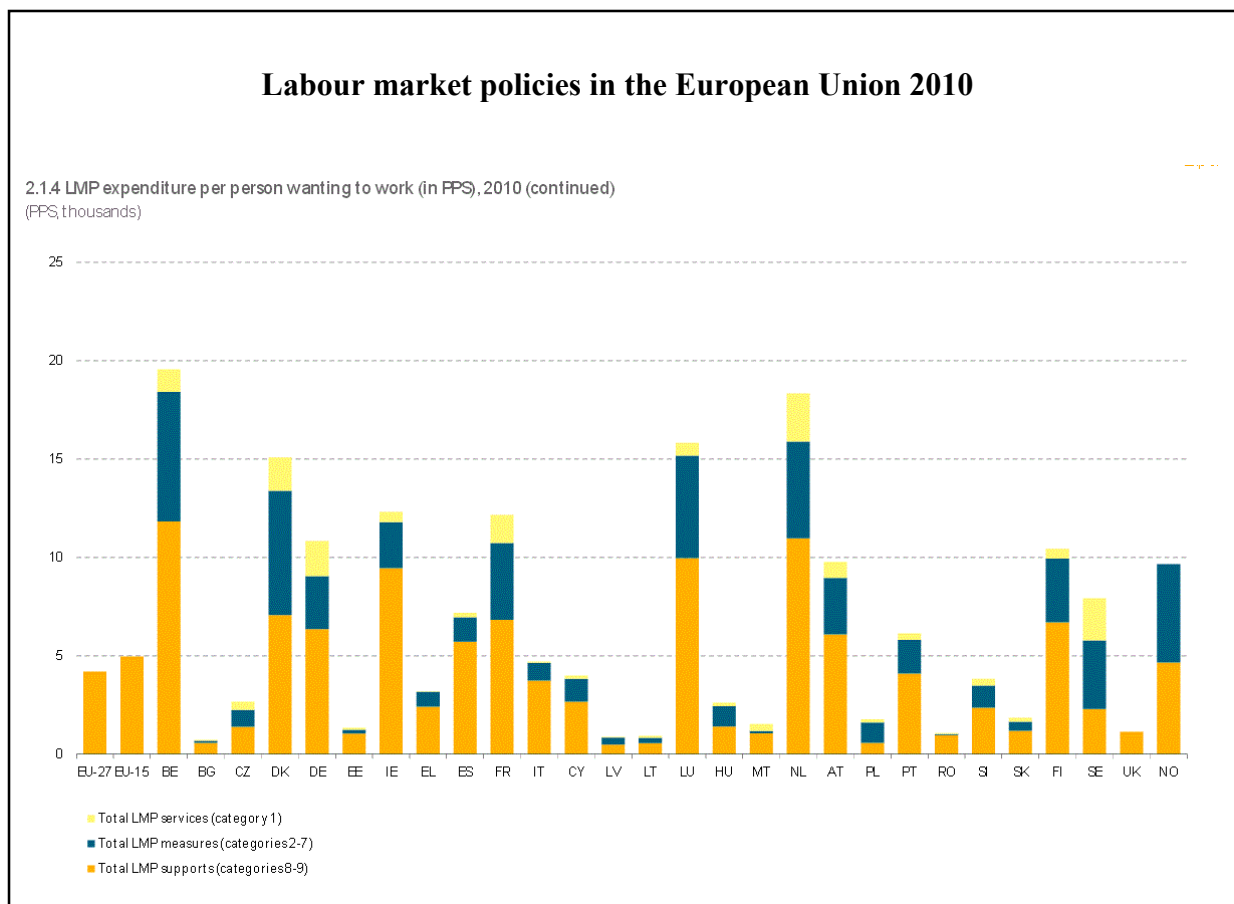


Figure 11: Labour market policies in the European Union; Taken from European Commission/Eurostat, 2012, p.20; EL= Greece

The rule of one hiring for five exits (later 1/10) forces people to adjust their expectations of getting a job in public employment. One likely result is that students who planned to apply for a government either decide to remain in education or that they will not be able to find a job after graduating. Job profiles who typically work in public employment like for example teachers are particularly concerned. As a result the structural adjustment policies concerning public sector in Greece contribute to asymmetric effects on human capital laid out in part 1.4.1.

3.2.2 Decrease in wages:

The Structural adjustment program required the Greece government to take a number of legal actions resulting in a lower real wage level in the private economy. That was by design, because the Troika and the Greek government agreed on a labour market strategy based on theoretic

assumptions of such people as Hans Werner Sinn. In very short form the strategy is based on the assumption that the main cause for unemployment is that demand for labour is low because of too high wages.

To put it differently the Troika and the Greek government assumed that unemployment in Greece has risen at an alarming rate because legal standards and collective bargaining agreements required employers to pay wages much higher than the equilibrium wage in respective to the difficult economic circumstances.

The Greek government negotiated with labour unions, the result were a nominal freeze of minimum wages in 2010 plus the first half of 2011 and limited increases in 2011 (1,5%) and 2012 (1,7%) (European Commission, 2010c: 12). It was expected that the reduction in public salaries would create spill-over effects to the private economy which would accelerate the trend of declining unit labour costs.

In fact the unit labour costs in the private economy decreased faster than projected by the structural adjustment program 2010 (European Commission, 2010b: 5). But this did neither stop the regression in economic output nor a massive increase in unemployment numbers. The reaction to this disappointing development has been to argument that the wage cuts have not been sufficient and that further cuts would be necessary. For example part-time workers saw their 7,5% premium on remuneration and overtime abolished by law (European Commission, 2011b: 34). Consequently the terms of the Second economic adjustment program in 2012 has included a legislation of an additional decrease in minimum wage standards. In addition negotiations over wages have been decentralized.

“The wage floors in the National General Collective Agreement (NGCA) have been reduced by 22 percent, or even by 32 percent for those younger than 25. This is important as the level of minimum wages and of other wages regulated by NGCA became more binding as the average wage declines. Thus, the reduction in the minimum wage creates additional room for downward wage adjustment to be decided by employers and employees in each firm or sector.” (European Commission, 2012a: 38)

This statement exemplifies the labour market strategy of the Troika and the Greek government. The level of youth unemployment in Greece has been higher than the overall unemployment

rates, thus the wage cuts for youth are reduced by the highest rate. Due to the assumption that labour market frigidities keep companies from hiring because companies are afraid for example that they cannot reduce staff numbers fast enough in the future in the case of falling profits or orders.

As a consequence the Greek government created legal possibilities to hire some groups of workers (young and long term unemployed) at wages below collective minimum wages and restructured the process of wage bargaining. The power to negotiate wages was effectively put at firm level, thus lowering the influence of labour unions and collective bargaining agreements. The costs of firing workers have also been reduced (cf. European Commission, 2010a: 22f)

The policy goal has been to reduce labour costs in the business economy by 15% within three years (European Commission, 2012a: 15) The cited policy elements illustrate that the main goal of the labour market strategy has been to improve the quantity of employment. The quality of employment in regard to working standards, power of labour unions and last but not least individual remuneration have been of secondary interest.

The question if young people in Greece that enter the labour market are able to live at a decent standard when receiving a wage close or even below a minimum wage reduced by at least 32% does not appear in the document of EC/EC/IMF. Under the premise to increase the competitiveness of Greek companies and the assumption that lower unit labour costs are able to stop the economic downward trend in Greece, in fact a growing number of working poor has been accepted.

It is an important detail that it was the government alone that “[...] legislated a reduction in minimum wages in the private sector and a modification of number of wage-setting procedures.” The action was taken because “[...] the social dialogue between and with private sector employers' and employees' representatives did not deliver a satisfactory outcome” in the view of the Greek government and the EC/ECB/IMF mission. (European Commission, 2012a: 3)

This represents a rupture with the standard process of setting wages through a form of social dialogue and what is called “Sozialpartnerschaft” in Austria. Some form of social dialogue

between representatives of employers and employees has been established in most European countries after in the second part of the 20th century.

The fact that the government effectively overruled the representatives of employers and employees' does change the rule of the game in the labour market of Greece. Prior to the structural adjustment program the most important labour market policies were decided by the institution of social dialog between employer and employees' representatives.

Pressure by financial markets and most important the authorities financing the structural adjustment programs (EC/ECB/IMF) forced the government to legislate new labour market policies without a consensus agreement on the level of collective bargaining. According to Woestman private sector wage have decreased by an average of 40%-50% since the beginning of the economic crisis. "Private sector minimum wages have been reduced to around EUR 700 per month. [...]Payment delays have also become extremely commonplace" (Woestman, 2012: 383).

The legislated policies make individual bargaining on firm level more important and effectively strengthen the negotiation power of employers. Now the labour union and the individual employee have less influence in the process of wage setting. This means at least in the area of the labour market that the balance of power shifted in favour of employer representatives and to the disadvantage of employees'.

The tragedy is however that while I write this diploma thesis in autumn 2013 the unemployment numbers for Greece are higher than ever before and the economy is still stagnating. More details on the development of unemployment rates and the numbers of employed persons in risk of poverty can be found in part 3.3.1. *private sector employment*.

It may be possible to discuss if the decrease of unit labour costs should be classified as a direct or indirect effect of the structural adjustment program on poverty. The argument to classify decreasing wage levels as an indirect effect would be that labour costs demand on the development demand. Unit labour costs may have decreased no matter what due to the strong economic recession, however the reform of the labour market has been an important condition in the structural adjustment program. The unit labour costs in both the public and private sector

have been reduced by legislation and thus it seems appropriate to declare the decreasing wages as a direct effect of the structural adjustment programs in Greece.

3.2.3 Reforms of social transfers:

The very difficult financial situation of Greece has made the reduction of public expenditure almost inevitable. The structural adjustment program 2010 included the state budget primary spending² as a performance criterion (European Commission, 2010a: 56). In other words the authorities of EC/ECB/IMF judge the performance of Greece among other criteria by the amount of money the government spends each month. If the Greek government exceeds the ceiling on primary spending by too much, the payment of the next disbursements could be stopped and Greece would be bankrupt. Facing such a tight financial situation it is not surprising that the Greek government not only cut public wages but also social transfers, another important spending position for most governments. The overall target of the measures described below is to reduce the overall (basic, contributory, supplementary and any other related scheme, including lump sums at retirement) increase of public sector pension spending, over the period 2009-60, to under 2.5 percentage points of GDP (European Commission, 2011a: 55).

Generally speaking social transfers aim at helping vulnerable groups, reducing poverty and reducing inequality. Some authors argue that in most countries it is the middle-class and not the poor who profit most from public transfers. Nonetheless public transfer are one of the most important achievements of the welfare state and the reduction of social transfers is always controversial and has to be implemented with care. Generally it can be stated the structural adjustment programs have included an unprecedented level of austerity measures, however most measures included a provision like “excluding the lowest pensions or excluding households in risk of poverty”. It cannot be denied that at least rhetorically the IMF has learned from the critics on structural adjustment programs.

The most important reform of social transfers mentioned in the structural adjustment program 2010 concerned the pension system. On the administrative level the payment of pensions has

² **Definition:** The state budget primary spending consists of state budget spending (spending of the ordinary state budget plus spending of the public investment budget) minus interest expenditures paid by the state budget plus the change in the stock of the arrears of line ministries to entities outside the general government, in line with the definitions provided above. Primary expenditure of the central government that is monitored for the Performance Criterion excludes any cash payments related to bank restructuring, when carried out under the program’s banking sector restructuring strategy (European Commission, 2011a: 175f)

been centralized, merging the different funds in three pension funds and separating the financing of pension and health care.

Another measure to improve the long-term sustainability of the Greek pension system was to increase the overall retirement age to 65. From 2020 onwards retirement age will be increased in line with life expectancy. One measure that was implemented immediately after the Adoption of the structural adjustment program was to increase the retirement age of women working in the public sector. Incentives to retire at a younger age have been reduced by cutting pension benefits by 6% year when retiring before the age of 65 if the person has contributed less than 40 years to the pension system (European Commission, 2010a: 18).

The net-amount of pension benefits has been reduced by abolishing the 13th and 14th month of pension or as they have been called the Easter and Christmas bonuses. Allowances for retirees have been reduced as well. Still the government and the Troika claim that the social safety net remains intact despite these measures, notably protecting those receiving lower pensions. Another measure targeted the reduction of the highest pensions with the target of saving EUR 500 million per year (European Commission, 2010c: 60).

These measures were projected to lower public expenditure in 2010 by 0,5% of GDP or EUR 1,9 billion. In addition the structural adjustment program 2010 planned to freeze the indexation of pensions in 2011, 2012 and 2013. From the public perspective this measure saved EUR 100 million in 2011 (European Commission, 2010b: 42).

From a poverty perspective the individual retiree gets a lower real-income, because inflation is not compensated. In part 1 I mentioned that supporters of structural adjustment claim that the IMF programs are pro-poor because structural reform are key to limit inflation. According to these economists (for example Dollar and Kraay, 2002) inflation is particularly burdensome to the poor. In consequence the pension freeze in Greece affects poor households the most and questions the pro-poor rhetoric of the program.

Another example of that rhetoric is the elimination of the solidarity allowance with a potential of saving EUR 400 million in public expenditure. The solidarity allowance has been almost entirely cancelled, except a part for poverty relief (European Commission, 2010c: 60). This

formulation indicates that the structural adjustment program commits to avoiding absolute poverty but to accept the increase of relative poverty.

While the reform of the pension system started practically immediately after the adoption of the program in April 2010, it took the authorities longer to identify reform projects in other parts of social spending. The first step was to set up conduct a review of social spending in Greece in cooperation with the OECD. The initial assessment of the members of the EC/ECB/IMF was that social spending in Greece did underperform in regard to the impact of social transfers on reducing the risk of poverty. The heterogeneity of welfare activities in Greece and the scarce application of mean-tested schemes were singled out as important negative points (European Commission, 2010b: 32).

The review of the Greek social spending system has been delayed and not many concrete measures were implemented under the first structural adjustment program. One element that has been introduced is means testing, for example means testing of family allowances (European Commission, 2011b: 46).

The reforms of social spending during the second structural are not fully covered by this diploma thesis. During the first structural adjustment program the most important reforms of social spending concerned pensions, followed by the abolition of the solidarity allowance. The decrease of real income for recipients of social transfers makes them more vulnerable to poverty. Although at least rhetorically the Hellenic Government and the Troika claim that the lowest pensions and allowances are excluded from the policy measures in this area and that the poor remain protected. I cannot agree with this perspective because it is likely that for example the recipients of the lowest pensions were in risk of poverty before the structural reforms have been implemented.

In addition recipients of lowest pensions have also seen their real income decrease because the inflation remained higher than projected under the program and inflation has not been compensated by higher pensions or other public transfers. Thus households depending on public transfers were forced to adjust their consumption pattern, even without a nominal decrease of their benefits.

To conclude this point I limit myself to citing that the new basic pension in Greece has been set at 360 euros a month, paid only 12 times a year (European Commission, 2010b: 34f).

3.2.4 Public sector prices and taxes

Structural adjustment programs are best known for their emphasis on reducing government expenditure. But the structural adjustment program 2010 for Greece did also include some measures to increase public revenues. The most important source of income for most countries are taxes and tariffs.

The poverty impact of a tax reform depends on the construction of the increased or decreased taxes. Essential is if a tax is progressive, linear or regressive. A tax is progressive when a person with higher income has to pay a higher percentage of tax than a lower income household. To the contrary taxes are regressive when persons with lower income are taxed at a higher percentage of their income than wealthier persons for the same good or service. The most important example of regressive tax schemes are taxes on consumption like for example value-added-taxes (VAT).

Value added taxes increase inequality between households because such tax schemes are not sensible to income. The size of the VAT depends on the prize of the purchased good and not on the income of the buyer, so the size of the tax in percentage of the buyer's income decreases with higher income. Consequently an increase in VAT affects households more the less they have to spend.

In the case of Greece the government tried to raise its revenues with a number of taxes on consumption. There is some rationale behind this strategy because the Greek administration has a famously disastrous record when it comes to collecting income taxes. But this does not change the fact that an increase of consumption taxes have a negative impact on poverty.

During the structural adjustment program 2010 the Greek government legislated the following tax increases. The standard VAT tax has been increased from 19% in 2009 to 23% in 2010 (Matsaganis and Leventi, 2013: 87). The reduced VAT-rates have been increased from 9% to 13% and from 4,5% to 6,5%. The VAT-rates for hotels and drugs have been decreased from 11% to 6%. (European Commission, 2010b: 43). The consumption taxes for fuel, tobacco and

alcohol have been increased too (European Commission, 2010c: 60). From September 2011 onwards the VAT for restaurants and bars was increased once more, from 13% to 23%.

The reform of VAT was projected to be a major revenue-increasing element of the Structural adjustment program but the projections on added revenue have been adjusted downwards in subsequent EC/ECB/IMF reviews. When the measure was announced it was expected to yield EUR 1'800 Million for a full year or EUR 800 million for 2010 (European Commission, 2010c: 60). In the second review of autumn 2010 the estimation of added-revenue is adjusted to EURO 1'300 million for a full year. (European Commission, 2010b: 43) The next review in winter 2011 estimates that the increase in reduced VAT taxes yielded EUR 480 million in additional revenue, only a bit more than 50% than the projected amount a year before (European Commission, 2011b: 47)

If one excludes the possibility that the authorities intentionally over-estimated the impact of the VAT-reforms, the lower-than projected VAT-revenues result from the overall economic performance of Greece which was worse than projected and hoped for by the Troika and the Greek government. The low VAT-revenues reflect the deterioration of private demand in Greece.

Certainly increased taxation for the consumption of goods and services has a negative effect on private demand. It must not be overlooked that the structural adjustment programs contained a number of measures negatively affecting demand, most important the decrease of public and private wages but also lower public investment indirectly hurts private demand because the state is an important client for some private-owned companies and a reduction of public investment may reduce their business substantially.

My own interpretation is that the combination of various austerity policies in the context of a deep and prolonged economic recession resulting increasing unemployment but still substantial inflation created a downward pressure on private demand with the effect that the separate factors created a sort of negative multiplying effect on private demand.

The increase of consumption taxes has the biggest influence on the risk of poverty but I don't want to create the impression that the government of Greece did not take any other actions the

area of tax reforms/increases. In fact some fiscal reforms of the structural adjustment program mainly affect higher incomes.

The rates of property taxes were increased but have been at a very low level compared to EU-average prior to the crisis. The taxation of real estate was also increased through an update of asset values, which means that real estate owners should find it more difficult to avoid paying property tax in line with the market value of their assets (European Commission, 2011b: 45). Although the efficiency of this measure does not seem to be 100% because the initial revenue from this measure was estimated at EUR 235 million and later reduced to EUR 135 Million. Other efforts of the Greek government to increase the collection of property taxes include a special levy on high-value real estate and higher fines for unauthorised buildings and settlement including planning infringements (European Commission and Directorate-General for Economic and Financial Affairs, 2011: 34).

Increased taxes on luxury goods may be interpreted as affecting higher-income persons the most (European Commission, 2010b: 43). On the other side depending on which goods are labelled as luxury goods, this measure could lead to a deepening inequality in Greece if the result is that poorer or middle-class households are no longer able to afford these luxury goods.

While the labour market reform of the Greek government reduced employer's taxes on work as an incentive to boost employment another measure increased taxation of work. Taxation of wages in kind such as car lease payment were increased as well as the presumptive taxation of professionals (European Commission, 2010b: 42f).

A notable measure because it burdens companies was the implementation of temporary crisis levies on highly profitable firms. The measure was estimated to have an impact of at least EUR 1'000 million per year in 2011, 2012 and 2013 (European Commission, 2010b: 84).

It seems necessary to at least notice the topic of tax evasion in Greece. The corruption within the Greek administration and widespread reports of tax evasion were a prominent topic in the media at the time it became clear that Greece needed financial assistance. The group of poor households is not innocent in regard to tax evasion, especially including undeclared work too as a sort of tax evasion. However the bulk of tax evasion also in terms of lost public revenue stems from households that are not in risk of poverty.

That's why I do not treat this topic in detail. It can be said that the staff members of the European authorities and the IMF supported and urged the Greek administration to improve the tax-collection mechanisms. Regarding organizational procedures some reforms have been implemented but overall progress has been slow and not below the expectations of the EC/ECB/IMF staff members. The fifth and final review of the structural adjustment program confirms that the fight against tax evasion is critical for the success of the program. Not only from a financial standpoint, but even more important the social acceptability of the structural adjustment program as a whole hinges on progress in this area (European Commission, 2011a: 34). In short the austerity measures that substantially burden poor and middle class households lose any credibility if it continues to be possible for the richest people of Greece to pay little or no income taxes.

In October 2011 the European Commission confirmed: "Results so far are not satisfactory, though a number of actions are ongoing. [...] With delays compared to previous plans, a large taxpayers' unit and a directorate to debt collection have been established. [...] There has been much less progress in consolidating and merging the tax offices spread over the country, which can only be completed once a new, modern, IT system interconnecting all tax offices is in place" (European Commission, 2011a: 34).

To resume the impact of tax reforms on poverty in Greece, poor households are affected by an increase of VAT-taxes that essentially cannot be escaped. Households may be forced to adjust their consumption habits not only because of more expensive goods of basic need, the higher taxation of fuel, tobacco and alcohol has also a substantial impact on the budget of households. Efforts to increase the taxation of richer households with higher income taxes and to limit tax evasion are existent. But progress in this area has been limited, most public revenue increases resulted from the raise of consumption taxes.

3.2.5 Public Health

At the start of 2011 the Greek government stepped up efforts to reform the public healthcare system. The actions planned in 2011 were hoped to generate savings about 0,5% of GDP (European Commission, 2011b: 28). The EC/ECB/IMF staff members noted the Greek public health expenditure had grown considerably in the years before the crisis and the costs of the public health system were well above EU-average (European Commission, 2010b: 13).

One of the first implemented measure was the introduction of co-payments for outpatient visits to NHS facilities from EUR 3 to EUR 5. The EC/ECB/IMF staff member mention that a system of exemptions ensured that “those most vulnerable” are not deterred from seeking necessary healthcare, but do also note the potential of misuse of this system (European Commission, 2011b: 28) In another measure to increase revenue the contribution rates to the social security system for public employees and state pensioners were increased by the government (European Commission and Directorate-General for Economic and Financial Affairs, 2011: 59).

A series of measures were implemented to “reduce unnecessary expenditure associated with over-prescription, over-pricing, waste and corruption” (European Commission, 2011b: 28f) These measures included the publication of a black list of medicines not reimbursed by the security funds and the publication of a price list. Further the government set the target to increase the share of generics and off patented medicines used in public hospitals to 50%. Efforts were made to reduce the profit margin of pharmacies and wholesaler, to increase the computerization and bookkeeping of hospitals and to introduce the central procurement of medical supplies. An important reform agenda was the reduction of public expenditure on pharmaceuticals. The goal was set to reduce the expenditure on pharmaceuticals from 1,9% GDP to the EU-average of 1% GDP by the end of 2012.

“The measures have started to show results. “In Greece, pharmaceutical spending per capita decreased by 10% in both 2010 and 2011, following high growth rates in the preceding years” (OECD, 2013: 160). The public spending share for medical goods rests in 2011 was still 74% and along after Luxembourg the second-highest among all OECD countries. The Greek state financed 61% of the costs for medical services in 2011 (OECD, 2013: 164f)

Details like for example that computerization in hospitals was not common before the introduction of structural adjustment policies are and detail of the poor administration of the public health care system in Greece. The EC/ECB/IMF staff members were not the only ones noting a urgent need of reform of the expenditure management in the Greek health care system: “Although the system is highly centralized, resource allocation suffers from a lack of planning and coordination, weak managerial and administrative capacity, and underdeveloped mechanisms for assessing needs and setting priorities.” (Kentikelenis and Papanicolas, 2011: 4)

The Ministries of Health and Labour, in cooperation with the Ministry of Finance, prepared a “report presenting the structure (age, specialty, grade, and regional distribution), levels of remuneration (including fees provisions to consultants and doctors) and the volume and dynamics of employment in hospitals, health centres, and health funds.” It has been intended to update this report annually and use it as a planning instrument.” The report was part of the reform of wages and human-resource-management in the health care sector. (European Commission, 2011a: 61) First results of this reform-agenda are observable, for example Greece reduced the salaries of nurses and general practitioners (OECD, 2013: 9) Milionis adds besides the reduction of wages for healthcare personnel, the limited recruitment of healthcare staff to the list of implemented measures (Milionis, 2013: 19)

The Greek legislation passed Law 3918/2011 initiating joint purchase of medical services and goods. The aim was to lower purchasing costs of medical goods thanks to price-volume agreements. But since the public procurement process has been in a state of constant reform, the system continues to be uncertain and complicated (Kastanioti et al., 2013: 11)

“The Minister of Health’s directive for 2011 called for a 40% reduction in hospital budgets, but many hospitals failed to achieve this target” (Kentikelenis and Papanicolas, 2011: 4). Per capita health spending in Greece fell by 11% in 2010 and 2011 after a yearly growth rate of more than 5% between 2000 and 2009” (OECD, 2013: 154) Although there is certainly room for savings in the public health system in Greece the expenditure cuts had some negative side-effects.

As a result of the economic crisis more people turned to public health care services instead of private health care providers. Private health care services previously played an important role in Greece, but less and less people are able to afford them. “The increased utilization of public health care services has overstretched dwindling resources” (Kentikelenis and Papanicolas, 2011: 5). For example hospital admissions increased 24% between 2009 and 2010 and another 8% between 2010 and 2011 (Kentikelenis and Papanicolas, 2011: 5) At the same time admissions to private hospitals decreased by 30% (Ifanti AA et al., 2013: 3)

The Greek National Health Service (Ethniko Systima Ygeias, ESY) has increased difficulties to maintain its services. The government limited the hiring of public employees including medical staff in the 1 hiring for 5 exits rule. At the same time application for early retirement

schemes increased in the health sector as a response to austerity policies and growing uncertainty (Kentikelenis and Papanicolas, 2011: 5).

“A European drug company stopped delivering the anti-neoplastic agent Setuximab (“Erbix”) to Greek hospitals, because of unpaid bills” (Karamanoli 2012 in Ifanti AA et al., 2013: 3) The access to drugs got more difficult for patients in Greece. Widespread drug shortages in pharmacies have occurred because drug prices are kept low and wholesalers preferred selling their products to other EU-countries at higher prices (Karanikolos et al., 2013: 1327). Public hospital face increased deficits while at the same time having to deal with understaffing and shortage of drugs and medical supplies (Ifanti AA et al., 2013: 4).

The implementation of adopted reform measures processed slower than planned for. The Greek administration achieved to negotiate a price reduction of over 90% for certain generic drugs but the publication of a recommended price list for medicines was postponed (Kentikelenis and Papanicolas, 2011: 4) In July 2011 only 12,5% of the drugs used in public hospitals were generics, falling well short of the target of 50%. The implementation of e-prescription was delayed too. EC/ECB/IMF staff members acknowledged that some delays were due to technical problems but have also highlighted strong opposition from vested interests and a lack of political decisiveness (European Commission and Directorate-General for Economic and Financial Affairs, 2011: 34).

People with low incomes are more likely to report unmet medical care needs than people with high incomes. According to the current OECD report on health the gap was particularly large in Greece (OECD, 2013: 144) While cost is the most common cause of unmet medical needs reported by people with low incomes, people with high incomes cited a lack-of-time and unwillingness to wait as main causes for unmet medical needs.

Prevention expenditure is a cost-effective way to improve population health but like in many other countries, in Greece the budget for prevention programmes was reduced since the outbreak of the economic crisis (OECD, 2013: 10). After the reduction of HIV/AIDS control budget the incidence rate of new infections increased by 50% in 2011 compared to the year before (Ifanti AA et al., 2013: 4). Specifically the group of injecting drug users has been subject to an HIV outbreak crisis. The negative trend started in 2011 and worsened in 2012. Compared to a total of 51 new HIV cases among injecting drug users in the period 2007-2010, 256 persons

in 2011 and 314 persons in the first eight months of 2012 were infected with HIV/AIDS (European Centre for Disease Prevention and Control, 2012: 28). Non-governmental organizations reported a disruption of needle-exchange programmes and of other preventive initiatives since 2008 (Karanikolos et al., 2013: 1327). This ten-fold increase of HIV-infections are an example of the catastrophic effect austerity policies may have on population health, if they lead to a decrease of prevention-expenditure in health care. The OECD also mentions the dramatic increase of HIV-cases in Greece as an illustration of the potential long-term effect on health and spending, when countries cut expenditure on prevention-programmes. “Although opioid substitution and needle exchange programmes have expanded since the start of the outbreak, the initial response fell well short of recommended levels of access” (OECD, 2013: 10)

Mental illness is another area where the austerity policies aggravated the negative impact of the economic crisis on population health. Spending on mental illness in Greece decreased by 45% despite growing needs in the context of the economic crisis (Kentikelenis and Papanicolas, 2011: 4). Several studies have reported an increase in cases of mental illness, including major depression. Two nationwide cross-sectional telephone surveys with representative samples of 2,197 and 2,192 respondents showed that the rate of one-month prevalence of major depression in 2009 was found to be 6.8%, compared to corresponding rates of 3.3% in 2008 (Madianos et al., 2010). The same survey was replicated in 2011 and the rate of one-month prevalence of major depression had increased to 8.2% in 2011. A strong correlation between economic difficulties and mental illness was recorded in the latter study (Economou et al., 2013a).

As a result of increased mental illness in Greece, suicidal ideation and reported suicide attempts increased between 2009 and 2011. The negative socio-economic effects of the economic crisis, most particular unemployment, job insecurity and loss of income, were identified as the main causes for the increase of suicide attempts in Greece (Economou et al., 2013b: 57). It should be noted that a different study “suggested no increase in suicidality in Greece during the recent economic crisis and no relationship of suicidal rates with socioeconomic indices during the last decade” (Fountoulakis et al., 2012). Another source reports that “the Greek Ministry of Health reported a 40% rise in suicides between January and May, 2011, compared with the same period in 2010” (Karanikolos et al., 2013: 1327). Despite the suspected increase of suicides caused by the economic crisis, Greece initially had a very low level of suicides and the 2011 suicide rates in Greece were still the lowest among OECD-countries (OECD, 2013: 34).

The OECD reports a mixed impact of the economic crisis on health. To start with the good news mortality from road traffic accidents have declined. Alcohol and tobacco consumption fell due to lower incomes and policy enforcements, but it is not clear if these gains in health behaviour can be maintained once economic growth and disposable income of households improve. The very bad news is that “there are indications that Greece’s infant mortality rate, long in decline, has been rising since the crisis started” (OECD, 2013: 10).

In Greece the explosion of unemployment rates may have a long-term negative effect on health indicators. Greece features an employee-based social security system. Health-care insurance is only covered by the state as long as a person is eligible for unemployment benefits. Unemployment benefits generally expire after one year but there are certain options exist for persons unemployed up to 3 years to extend their social insurance coverage (<http://livinggreece.gr/2007/03/17/who-can-collect-unemployment-payments-in-greece/>; access 11.12. 2013; 17:21).

Greece does not offer a scheme for guaranteed minimum resources but a specific housing allowance of EUR 362,- exists (European Commission, 2012b: 30). However long-term unemployment in Greece is on the rise, thus an increase of the proportion of uninsured persons has to be expected. A press article reports that the NGO Doctors of the World released a statement that 3 million persons or over 25% of the Greek population cannot afford healthcare (<http://rt.com/news/health-insurance-care-million-001/>; access: 12.12.2013; 10:45). Another barrier to health care is the practice of illegal uninsured employment which amounted to 23,64% in December 2010 (Milionis, 2013: 19).

The OECD warns that low-income groups are the worst affected by savings in the health care sector and lower household’s budgets due to the economic crisis and austerity policies. “Although [low-income groups] are likely to have the highest health care needs, [...] they may be foregoing necessary care such as medicines or routine medical check-ups for chronic conditions. This may have long-term health and economic consequences for the most vulnerable groups in society.” (OECD, 2013: 10)

3.3 Indirect Effects

3.3.1 Private Sector Employment:

This chapter about private sector employment has two Goals. First to illustrate the current situation in Greece concerning (un)employment. In order to give a better overview of the poverty impact of unemployment in Greece, I extend the presented data beyond overall unemployment rates and look as well at youth-, and long-term unemployment rates. The presented data stems mostly from Eurostat and the Hellenistic statistical agency Elstat. The second goal is to link the employment trends in Greece with the labour market strategy of the structural adjustment programs.

I have already quoted the most important elements of this labour market strategy in parts 3.1.1 and 3.1.2. This chapter looks at the indirect effects of the structural adjustment policies on private sector employment.

3.3.1.1 The Numbers

From 2001 until 2008 the absolute number of unemployed persons in Greece declined. In 2008 a worrying trend in the opposite direction started to take shape and since unemployment has risen steadily in Greece. It is normal that during a period of economic crisis unemployment rates increase but the rise of unemployment has been especially glaring.

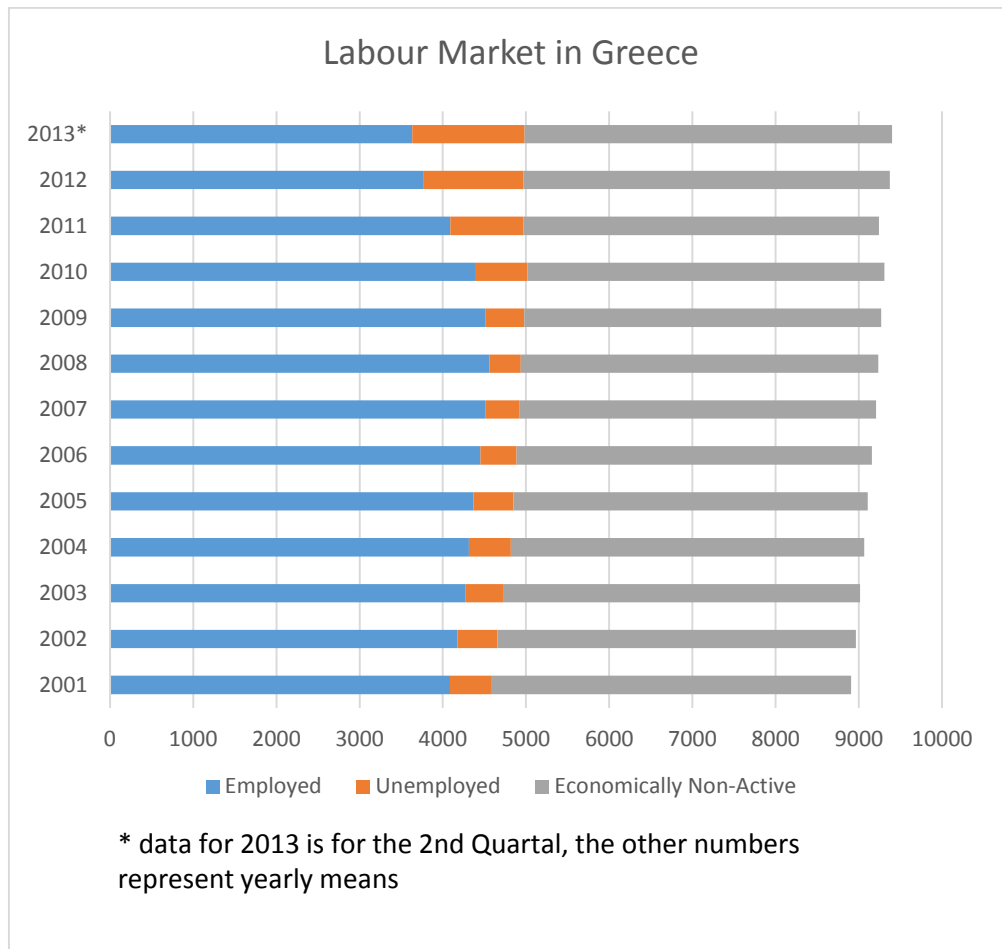


Figure 12: The employment status of the Greek population; own illustration; data source: ELSTAT, 2013. *Living Conditions in Greece. Hellenic Statistical Authority p.32-35*

Unemployment has been a major concern for the structural adjustment efforts in Greece. Increasing unemployment means that the state has to spend for social transfers when at the same time losing tax revenue. The employment quotes the share of employed persons as a percentage of the labour force. The following illustration shows that the employment rate has grown slowly but steadily until 2008. During the period of the first structural adjustment program the employment rate plummeted from 47,1% in 2010 to 38,5 in 2012. Meaning the share of the population of working age that is actually working, dropped by 10% in 2 years. The OECD definition of working age is between 15 and 64 years.

This development obviously has a negative effect on poverty. In practice less than 4 out of 10 people in Greece aged between 15 and 64 years do not only cover the other working-age population but also children and seniors. Plus under normal circumstances the output of a country's working population should cover government debts as well. According to Elstat, the

age dependency ratio in Greece was 51,2% in 2011. The age dependency ratio is defined as the share of economically non-active persons (aged 0- 14 and 65+) compared to economically active persons between 15 and 65 (ELSTAT, 2013: 13). This indicates that the financial burden on persons having a job in Greece has increased tremendously. Basically in the first quarter of 2013 3,6 million employed persons work for approximately 10,82 million residents (number of the 2011 population census) (ELSTAT, 2013: 12, 31).

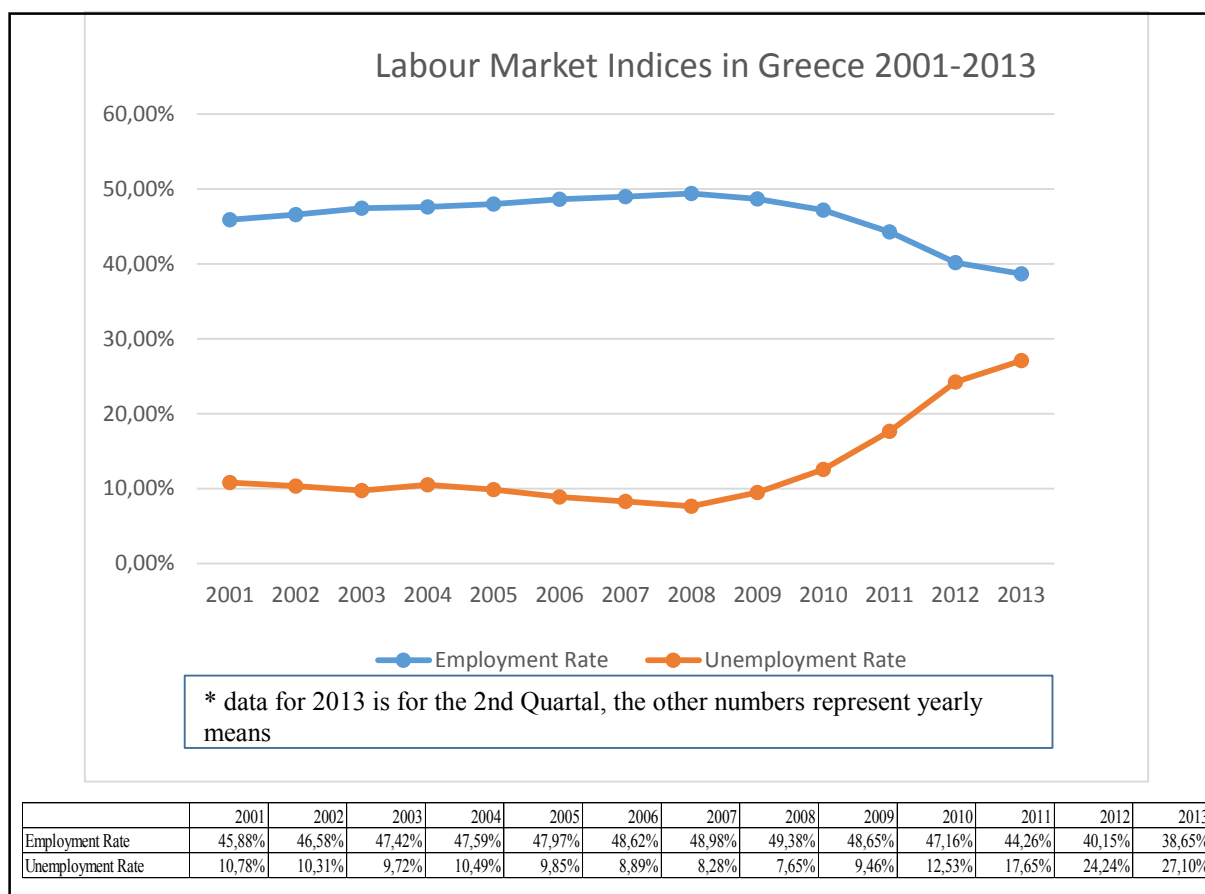


Figure 13: The labour market in Greece 2001-2013. Employment rate and unemployment rate; own illustration, data source: ELSTAT, 2013. *Living Conditions in Greece. Hellenic Statistical Authority, p. 32f*

After joining the Eurozone the Greek overall unemployment rate has long been around 10%. From 2009 onwards the unemployment in Greece has been steadily on the rise. In fact after EC/ECB/IMF and the Greek government signed the first structural adjustment agreement in April 2010 unemployment almost doubled in two years from 12,5% in 2010 to 24,2% in 2012. The current unemployment rates represent a historic peak in Greece (European Commission, 2011a: 12).

The high unemployment is in part due to negative shocks to the economy such as limited investment and supply of credits due to the difficulties of the Greek banking sector and the public debt crisis that lead to a decline of economic output. The low productivity of the Greek economy clearly is another major reason for the rising unemployment rates (European Commission, 2011a: 12)

Rising unemployment puts downward pressure on wages through a shift in the supply-demand balance for labour. The result are declining nominal and real wages which has a negative effect

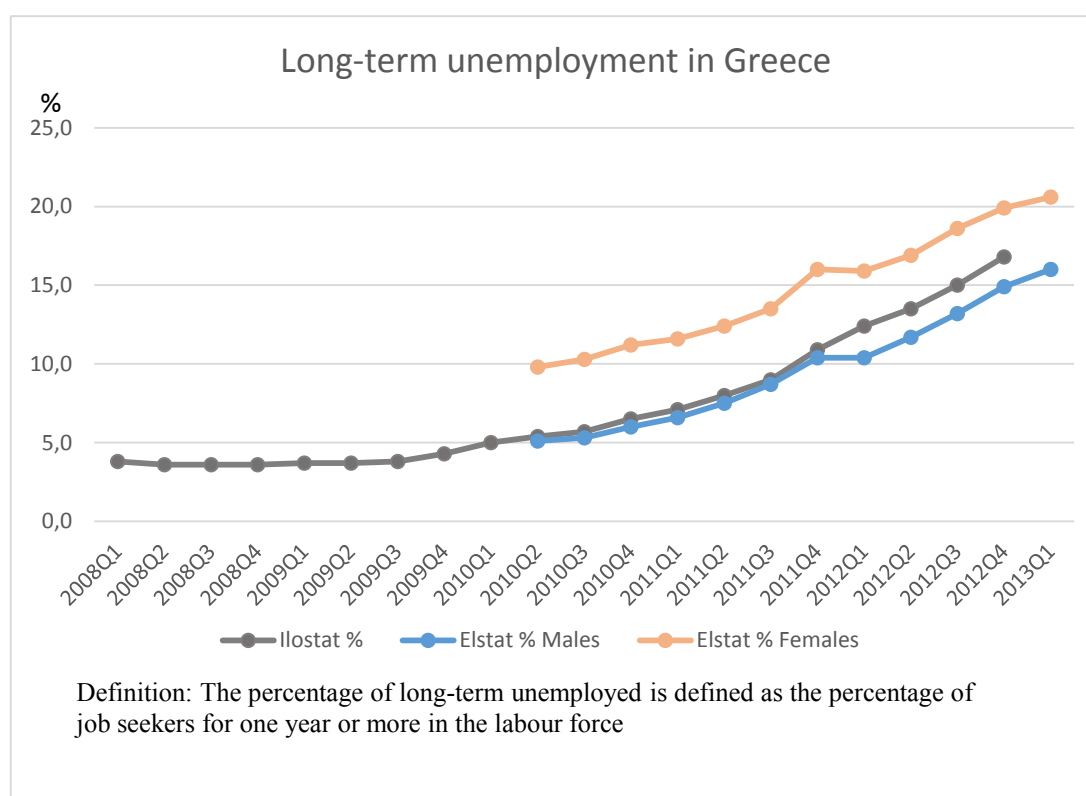


Figure 14: Long-term unemployed persons as a percentage of the labour force. quarterly data from 2008 until March 2013; own illustration; data source: Ilostat and ELSTAT, 2013. Living Conditions in Greece. Hellenic Statistical Authority, p. 36f

Rising unemployment puts downward pressure on wages through a shift in the supply-demand balance of the labour market. The result are declining nominal and real wages which has a negative effect on poverty. Thus rising unemployment rates do not only affect those people who are in danger or have already lost their job but may also increase the number of working-poor.

Unemployment also contributes to other characteristics of poverty such as social exclusion and the need to rely on public support or the support of family members in order to survive. Long-term unemployment is of high concern from a poverty perspective because public

unemployment subsidies in Greece generally expire after one year (European Commission, 2012b). This inclines that those people loose social insurance coverage too. Generally long-term unemployed persons find it more difficult to re-enter into employment and the face higher risks in a number of non-economic areas too, such as a higher probability of being subject to alcohol abuse. Because of these reasons unemployment impacts poverty more adversely when the proportion long-term unemployed is high.

The following illustration shows the proportion of long-term unemployed in Greece as a percentage of the labour force has increased to a very high level of over 15%. It would like to note that the numbers from the International Labour Organization (ILO) and the Hellenistic statistical agency Elstat on long-term unemployment show some discrepancy. To maximise transparency and at the same time keep the illustration simple and readable, I quote the more conservative Ilostat numbers for both sexes and show the Elsat estimations for women and men respectively.

It is evident that the labour market situation for Greek women is even worse than for men. This may indicate that the economic activities where a high-proportion of women work are especially hit by the unemployment crisis in Greece. The employment rate for women in Greece is much lower than for men with women also receiving a lower average income. Not surprisingly if the Eurostat indicator for risk-of-poverty is divided by sex, it shows that the percentage of women having an income below the poverty line is slightly higher than that of men. In 2012 23,6% of females live in risk-of poverty compared to 22,5% of males (Eurostat; last updated 14.10.2013).

“When the economic crisis of 2008 initially spread to Greece from across the Atlantic, more men than women lost their jobs (Woestman, 2010) After the public sector cuts kicked in, more women than men have been losing theirs. Adjustment, in other words, has reversed the growing participation of women in the Greek labour market participation that, even when growing, was still low by European standards.” (Woestman, 2012: 383)

Besides women the group of young people is very hard hit by negative labour market shocks. Youth unemployment in Greece hit a historical high in Greece, Ireland and Portugal interestingly the three European countries implementing a structural adjustment program

(Spiezia et al., 2012: 22). The International Labour Organization adopted a resolution in June 2012 on youth unemployment containing a strong call to action to tackle the youth unemployment crisis. The ILO calls for a renewed emphasis on employment policies and a public guarantee for young people to receive either a job or a place in a training or education facility. In Sweden such a guarantee has already been implemented and shown positive results (Spiezia et al., 2012).

The structural adjustment program has imposed strict limitations on government expenditure, pro-employment and activation measures for jobseekers are not much developed in Greece. Public spending on labour market policies other than unemployment benefits in Greece is well below EU-average despite being the country with the highest unemployment rate. Eurostat estimates that Greece spent only 0,22 percent of GDP on pro-employment measures. (LMP measures categories 2-7). For example France and Finland have spent over 0,8% of GDP in for the same purpose. Fiscal austerity has led to sharp cuts in pro-employment activities and public investment, having a direct negative effect on private demand and private sector employment (Spiezia et al., 2012: 12)

A look at the situation in Europe as a whole shows that since the outbreak of the world economic crisis in 2008 youth employment has risen in Europe as a whole but the trend has been very different in the various countries. While countries in the centre of the European public debt crisis such as Spain and Greece have seen their youth unemployment explode, countries producing a trade surplus as for example Germany have stable or even declining youth unemployment rates:

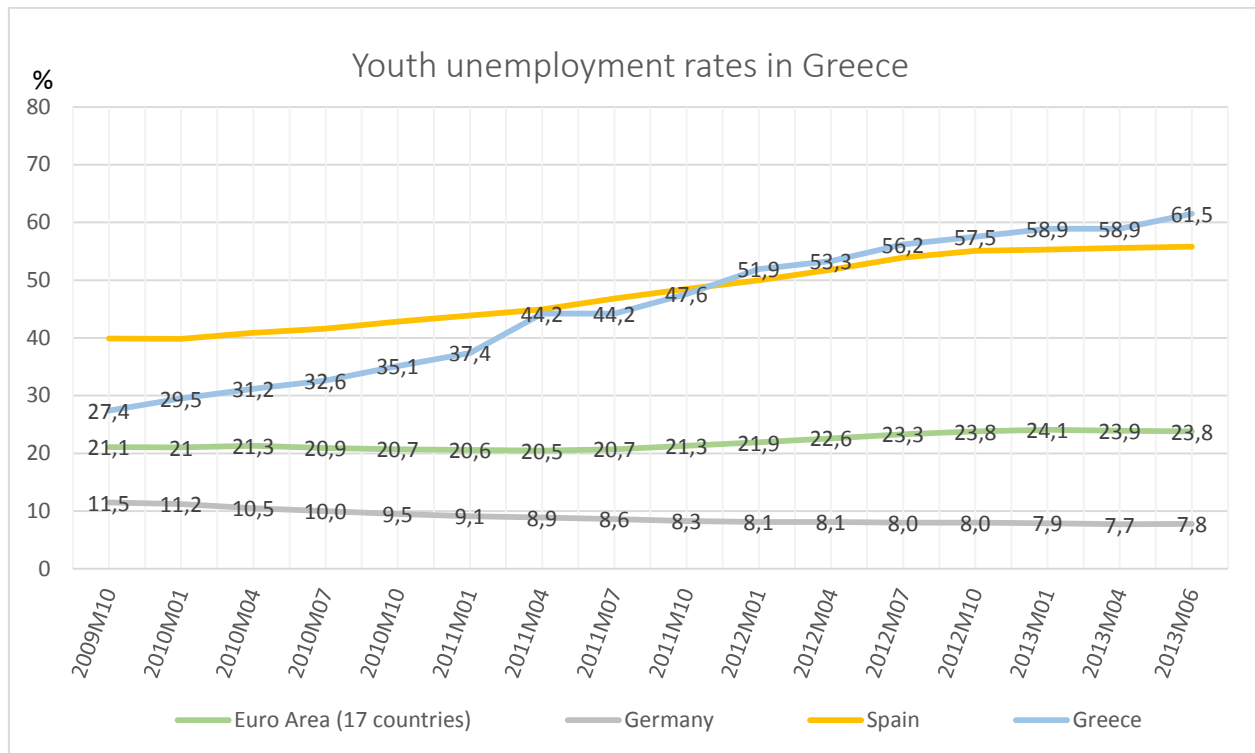


Figure 15: Harmonised and seasonally adjusted youth unemployment rates from October 2009 until June 2013 (youth = persons aged 15-25 years); own illustration, data source: Eurostat [last updated: 1.10. 2013]

The illustration shows one monthly harmonised and seasonally adjusted youth unemployment rate for every three months between October 2009 and June 2013. As can be seen the average for the Euro Area increases slightly while Germany is able to reduce its youth unemployment rate. The two Southern European countries have the highest proportion of young unemployed persons. Since the Adoption of the first Greek Structural Adjustment Program youth unemployment increased at a faster pace in Greece than in Spain. Since 2012 the youth unemployment rate of Greece is higher than in Spain. While youth unemployment remains stable (although still alarmingly high) for the first half of 2013, the labour market in Greece has continued to contract.

The map of youth-unemployment within the Euro area shows striking similarities with the map of countries producing either a trade deficit or surplus. Since 2001 countries boasting a trade-surplus as Germany and Austria had a below average growth of wages (Herr et al., 2012: 393f) The different wage developments within the Eurozone are on important reason that productivity and efficiency of the Greek labour force in comparison to Germany has declined. As a result more jobs have been created in Germany than in Southern Europe but the increased German

production has not been consumed in Germany but exported to other countries including Greece.

According to the ILO the policy mix to tackle youth unemployment must take the financial and economic situation of a country into account and therefore proposes different policies for trade-surplus and -deficit countries (Spiezia et al., 2012: 43).

The requirements of the structural adjustment program limit the financial flexibility of the Greek government and therefore the available funds for pro-employment policies. Young people in search of a job or a training program in Greece are therefore one of the most affected groups of the austerity policies implemented during structural adjustment.

Youth unemployment is likely to have various asymmetric effects on poverty. The high level of unemployment in Greece also presents a danger to democracy as citizens lose their confidence in their national governments and European Institutions. The rise of the radical political movements in Greece supports this thesis and shows that the austerity policies already affect social and democratic life in Greece.

Another indicator that shows the poverty impact of unemployment is the number of persons living in jobless-households. Jobless-households are defined as households where nobody works except for households consisting of student between 18 and 24 years. By definition these households have a high risk of poverty. During structural adjustment in Greece both in absolute and relative terms the number of jobless households has increased. In the first quarter of 2013 277'149 persons under 18 years lived in households where nobody works. This accounts for 15% of the youth population in Greece. The percentage of adults living in jobless persons is even higher and has doubled from 10% in the second quarter of 2010 to 20% in the first quarter of 2013.

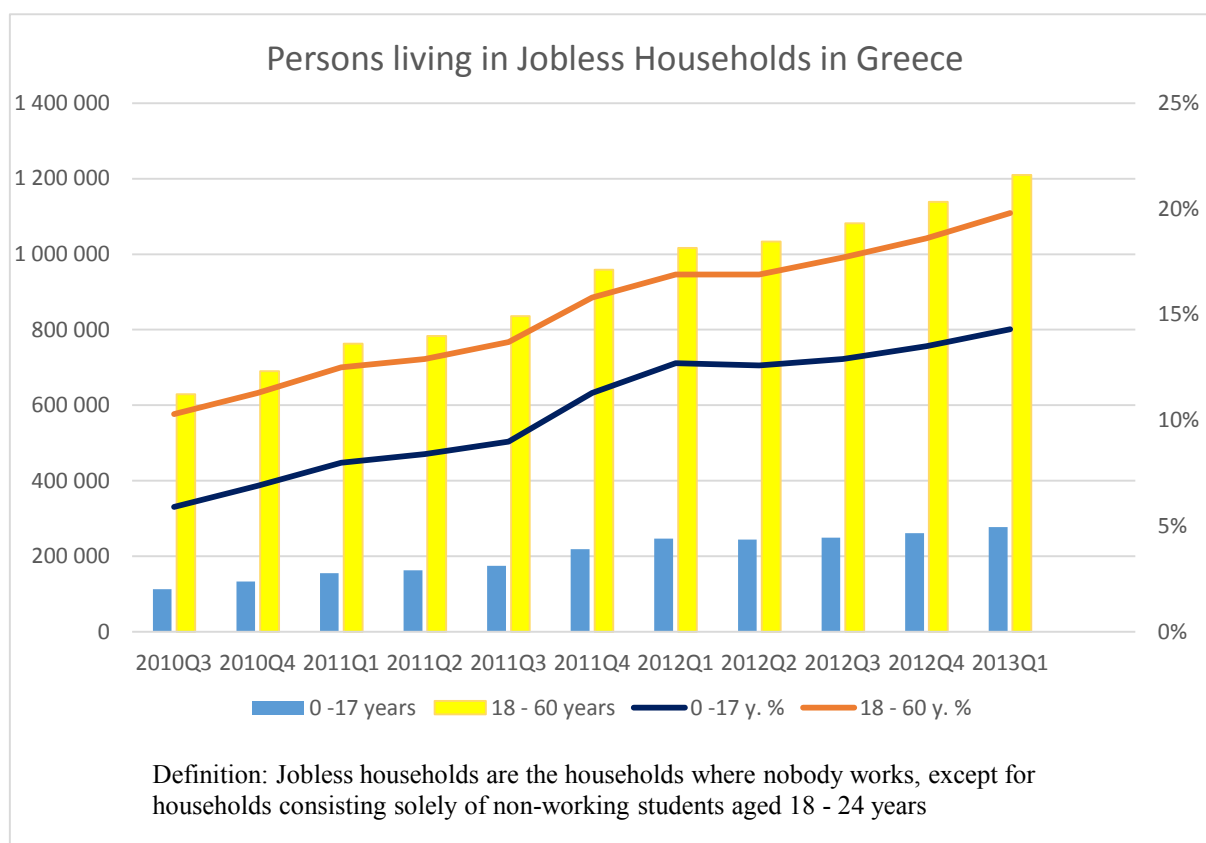


Figure 16: Numbers and Percentage of Persons living in Jobless Households in Greece; own illustration, data source: ELSTAT, 2013. *Living Conditions in Greece*. Hellenic Statistical Authority p. 38f

The illustrations presented in this chapter show that the extent of unemployment in Greece has substantially increased under the structural adjustment programs. It is impossible to know how the unemployment rates in Greece would have developed without the implementation of structural adjustment. Nonetheless the structural adjustment program has to be termed a failure in this important area. The unemployment rates developed much worse than planned for in the structural adjustment programs as the next chapter will show.

3.3.1.2 Interpreting the causes of the Greek employment crisis

It must be clear that given the extent of the economic recession in Greece and the high level of operational government deficit as well as overall debts it was extremely that unemployment

would rise no matter what labour market policy would have been implemented with or without a structural adjustment program. Still the rise of unemployment rates in Greece is very much over the European average during the same period.

It is not possible to compare the performance of the structural adjustment program with a hypothetical scenario but it is possible to compare the planned unemployment rates in the official documents of the European commission with the actual statistical observations:

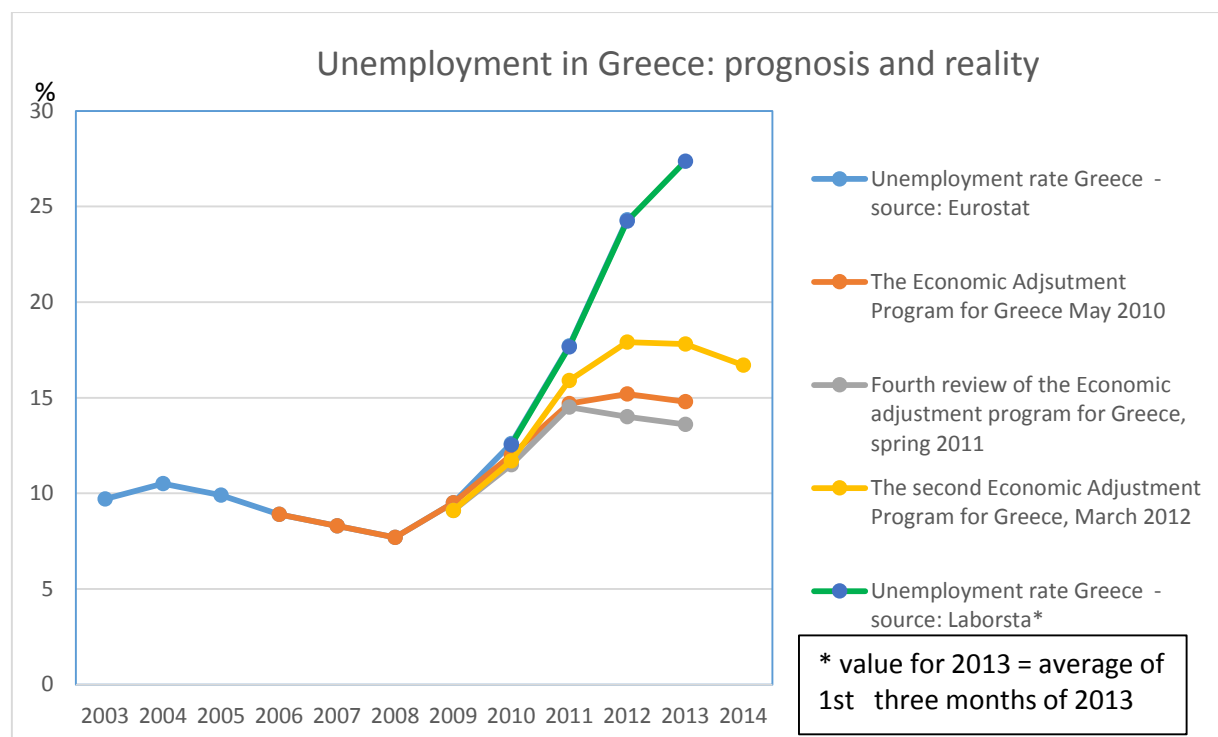


Figure 17: Comparison of the unemployment rate in Greece with projections made by the EC/ECB/IMF mission at different points of time during the structural adjustment process; own illustration data sources: European Commission, 2010a. The Economic Adjustment Programme for Greece. Occasional Pap.: 33; European Commission, Directorate-General for Economic and Financial Affairs, 2011. The economic adjustment programme for Greece fourth review, spring 2011. Publications Office of the European Union, Luxembourg: 76; European Commission, 2012a. The Second Economic Adjustment Programme for Greece. March 2012. Occasional Pap.: 87.

The lines for Eurostat and Laborsta (database of the ILO) show the yearly unemployment rates. I included the ILO numbers in the illustration because when the data was extracted only the Laborsta data included employment numbers for the first quartile of 2013. The grey, yellow and orange line show the estimates about the development of unemployment numbers quoted at different points of time during the structural adjustment process.

The first structural adjustment program of May 2010 expected unemployment to initially rise because of negative short term effects of austerity measures and the overall bad business environment in Greece. However it was expected unemployment levels settle around 15% and stay there during 2012 and 2013.

The first structural adjustment program of 2010 did not include conditionality on private sector's wages because "an imposed cut on private sector wages would probably have implied an even larger disruption in economic activity in 2010-11" (European Commission, 2010a: 21).

The authors of SAP 2010 notice that because of the oligopolistic nature of the Greek economy wage decrease likely would lead to increased mark-ups and thus reduce the gains in external competitiveness. They also notice the Greek exports are concentrated in the export of service and capital-intensive goods and that in both areas labour cost is not decisive for external demand.

A third reason that the first adjustment program did not include the decrease of wages by legal acts of the government was that a cut in private wages contributes to a more unequal distribution of wealth across society (European Commission, 2010a: 21). For these reasons the Troika and the Greek government agreed on a two-step approach where legal action concentrates on easing regulations on hiring and firing of workers and to remove entry barriers into the formal labour market. A decentralisation of the wage bargaining process was sought to be achieved through dialogue and consensus with social partners (European Commission, 2010a: 21).

However eventually negotiations with social partners came to no solution and later on the decrease of private sector wages has been enforced by government's laws as laid out in section 3.1.2.

In the spring of 2011 the fourth review of the first structural adjustment program expects unemployment levels to stabilise in 2012 after reaching 15% in 2011. In fact the projections are slightly more optimistic than the ones found in the initial program. Other than the legislation on setting lower minimum-wages this document does not provide much insight what leads the EC/ECB/IMF staff mission to this optimistic outlook, that is to say optimistic only in comparison of the actual labour market development in Greece.

About one year later in March 2012 Greece was forced to apply for additional financial assistance and signed the second structural adjustment program. In the second structural

adjustment program the EC/ECB/IMF mission blames a far worse economic recession in the fourth quarter of 2011 (more than -7,%) and rigidities of the labour market for the continued and more than expected rise in unemployment (European Commission, 2012a: 11). In March 2011 the Troika expected unemployment numbers to average 18% for the year 2012 (European Commission, 2012a: 15), the actual average unemployment rate for 2012 was 24,1% (ELSTAT, 2013: 33).

How to explain the historic rise of unemployment in Greece during the period of structural adjustment?

The Troika that consists of European Commission, European Central Bank and International Monetary Fund has continued to argument from the standpoint of liberal labour market theories:

“Despite a considerable reduction in per capita income, downward rigidities in wage-setting systems have prevented the necessary adjustment of private sector wages; this has contributed to a sharp increase in unemployment. The government has adopted several measures in relation to collective bargaining, so as to reduce the downward rigidity on wages and facilitate recruitments. The reduction in public wages, while a substantial source of hardship for those concerned, aims at reducing the public deficit and restoring balanced wages between the private and the public sectors.” (European Commission, 2012a: 9)

It seems valid for me to question this argumentation for a few reasons. In familiar neoliberal fashion downward rigidities of the labour market are blamed for the rising unemployment. But at the same time EC/ECB/IMF claim that the labour market policies implemented during nonetheless three years of structural adjustment have a positive impact on unemployment by reducing exactly the blamed downward rigidities of the labour market.

This raises the question: Have either the policy reforms been insufficient, thus not well enough designed to achieve their goal or does the logic of the structural labour market reforms misinterpret the causes of unemployment in Greece.

Figure 18 combines the Greek unemployment rate with indices that represent the most important determinants of unemployment. I use Eurostat's consumer price index HVPI for

inflation because consumer prices have the most significance from a poverty perspective. Consumer prices are not a perfect reflection of business environment but they have the advantage that the combination of labour costs and consumer prices reflects the real income of households which in is the most important driver of private demand. Gross value added is the variable for economic output of Greece. Overall economic growth is an important driver for demand on the labour market and is therefore included in the illustration. The dominant labour market theories view real unit labour cost as the most important variable for unemployment. The policies implemented during the structural follow this logic too.

The illustration shows that from 2000 to 2008 inflation and economic output increased at the same rate. During that period labour costs increased and at the same time unemployment decreased. This picture during that period shows that labour costs developed in line with inflation which would support the theory of Flassbeck that inflation is an important determinant of labour costs. The other point would be that obviously economic growth has a positive influence on employment numbers. However in light of the economic decline in Greece after 2008 it impossible to fully dismiss the argumentation of EC/ECB/IMF that the Greek economic growth prior to the economic crisis was built on unsustainable grounds.

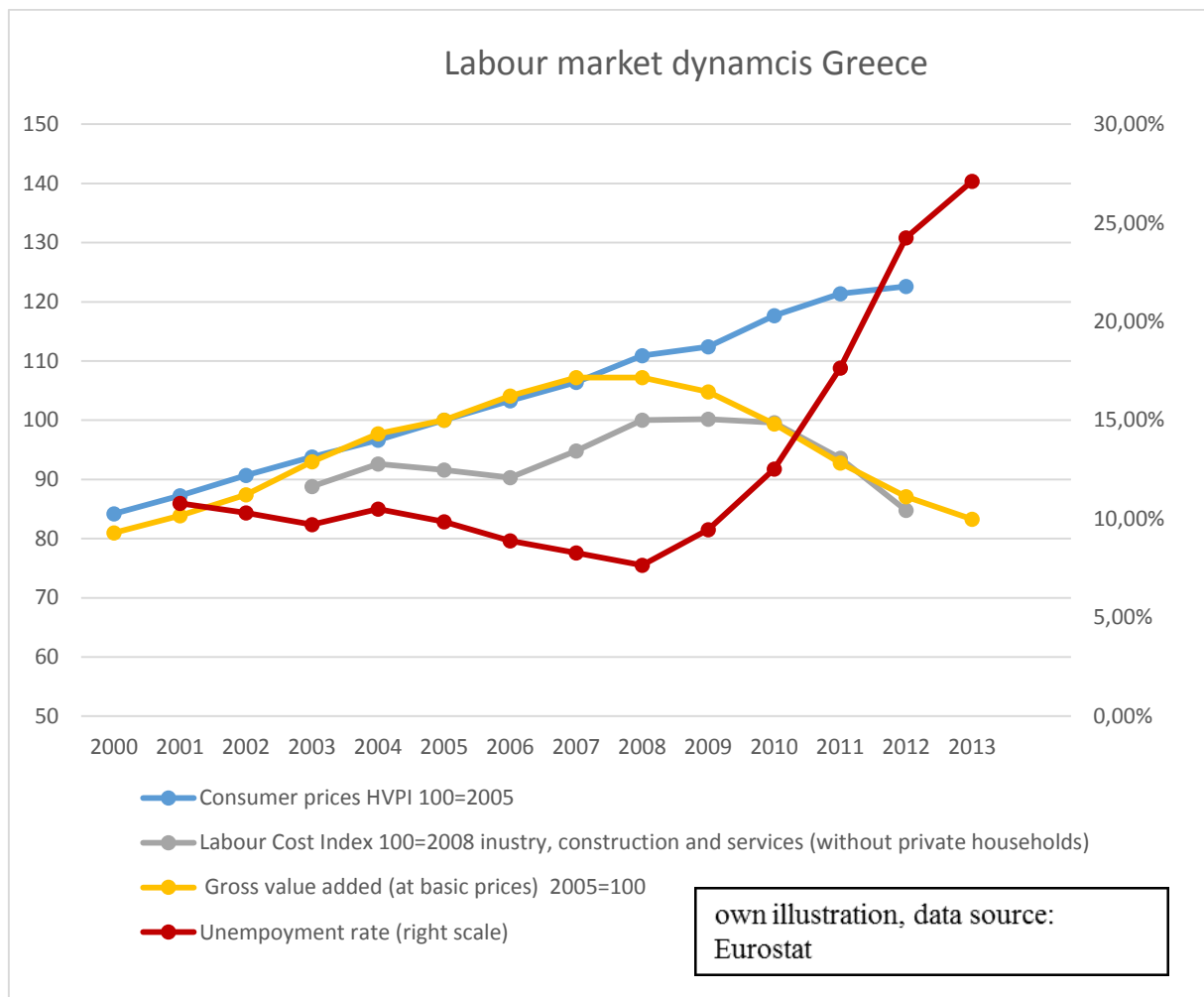


Figure 18 compares the time series 2000-2013 of the unemployment rate with indicators for inflation, unit labour costs and economic growth, own illustration; data source Eurostat (blue line = Eurostat's Harmonised Indices of Consumer prices (HICP); grey line = Eurostat's labour cost index for the sectors industry, construction and services (code=LCSTRUCT); yellow line = Eurostat's gross value added at basic prices (Eurostat database National Accounts by 10 branches – volumes, NACE_R2, INDIC_NA, Unit: Millions of euro, chain-linked volumes, reference year 2005 (at 2005 exchange rates); red line= Eurostat's unemployment rate total

Between 2008 and 2010 Greek labour costs stagnated *which validates the strategy*. Since then they declined rapidly to a level actually below the level of 2003. Both the government actions to lower public wages and to set lower minimum wages for the private sector in a period of negative economic growth put tremendous downward pressure on private sector wages. The Troika argues that the adjustment of labour costs in Greece has not been strong enough to reverse the negative employment trend.

But it cannot be denied that the decrease of wages has been sharp for the first three years of structural adjustment. Since the first quarter of 2010 Greece had by far the lowest growth of

labour costs. Actually Eurostat's seasonally and by working days adjusted "Labour cost for LCI index" (compensation of employees plus taxes minus subsidies; 100 = 2008) shows for the first quarter of 2010 a value of 113,4; in the second quarter of 2013 the LCI index drops to 89,1 (data: Eurostat; last updated 01.10.2013).

It is true that from 2008 to 2010 Greece was the country in the European Union where labour costs increased the most. But the decrease of wages in the following three years has outweighed the previous wage gains. Compared to the respective national level of 2008 Greece's labour costs are at the lowest level in the EU and it is the only country in the European Union where labour costs actually are at a lower level than 2008, meaning that the LCI-index value for Q2 of 2013 is below 100.

As long as unemployment numbers do not decline it seems the Troika of EC/ECB/IMF will declare that Greek labour costs are too high. But the negative impact of other variables on unemployment must not be forgotten. In contrast to what should be expected according to liberal economic logic prices in Greece did not adjust to the lower wage levels, as can be seen in the above illustration. This means that real income of employees fell stronger than the nominal decrease of wages, causing even more hardship for Greek employees.

Rising consumer prices at a time of rapidly falling wages and skyrocketing unemployment rates since 2010 resulted in an important decrease of the average private household budget. This poses a serious increase in the risk of poverty and increases the inequality of the income distribution in increase.

In addition the lower real income of employees has led to a sharp decline in private demand and investment. Low private consumption is a major problem for the economic prospects of Greece and contributed to the sharp decline of economic output. As negative economic growth generally results in higher unemployment, I argue that the implemented wage cuts of the structural adjustment program in combination with rising prices have had a negative impact on employment in Greece.

It seems that the concerns regarding the implementation of a decrease of private sector's wages that have been raised in the negotiation over the terms of the first structural adjustment program 2010 have turned out to be valid (cc: European Commission, 2010a: 21). I suggest that the

oligopolistic structure of the Greek economy was a main cause for the rigid price levels. Prices did not adjust immediately to the lower wage levels. The sharp decline in both private demand and economic output and the decrease of wages caused an even deeper economic recession during the years 2010 – 2013.

3.3.2 Rate of Economic Growth

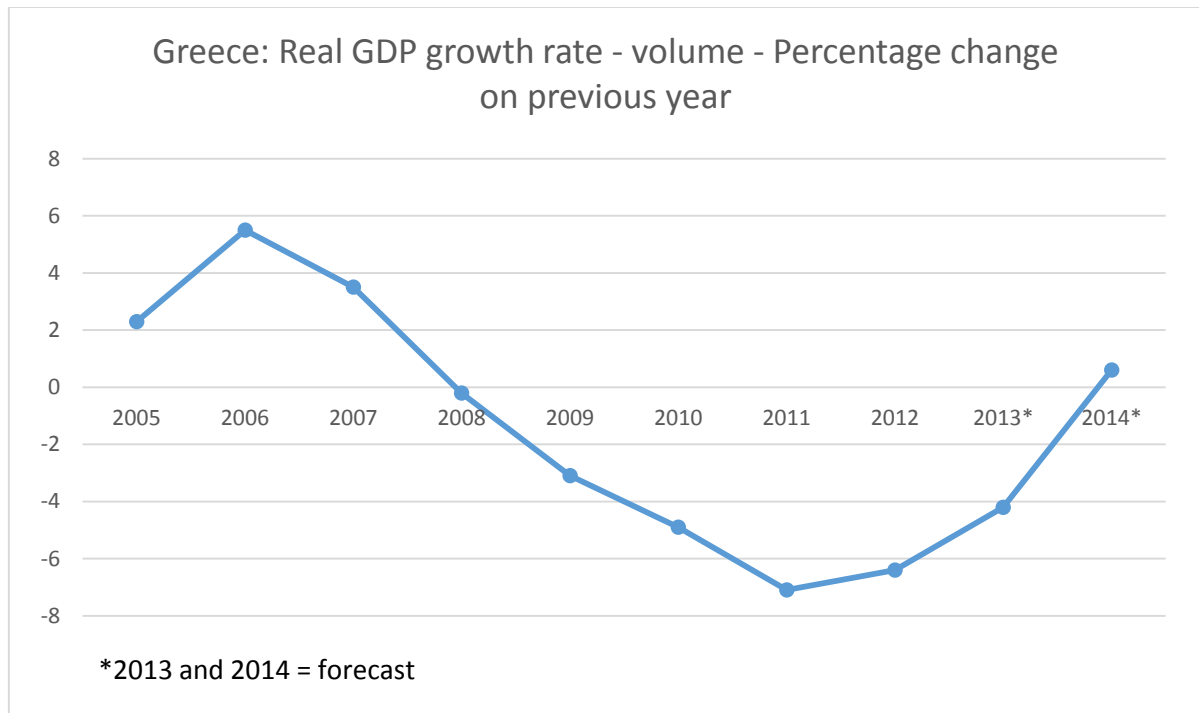


Figure 19: Real GDP growth rate in Greece 2005-2014 (GDP - volume; percentage change over previous year); own illustration, data source: Eurostat, last updated 19.10. 2013,

Since the adoption of the Euro, the Greek economy had grown above EU-average at nearly 4% per year between 2000 and 2007. “High real wage increases, rapid credit growth – supported by financial sector liberalization and low real interest rates associated with euro adoption – and loose fiscal policy contributed to buoyant growth.” (European Commission, 2010a: 3) This statement resumes the perspective of the Troika on the causes of the Greek economic crisis.

The fiscal deficit in Greece was indeed getting out of hand in 2008 and the accounts have been systemically undervalued to hide the real extent of the public deficit (Argyrou and Tsoukalas, 2011: 174). Today it may seem evident that real wage growth has been unsustainable making but one should not forget, prior to the financial adjustment program Greece was a positive

example of making progress towards convergence within the European Union. The Greek income gap with the euro-average was reduced from 25% in 2000 to 10% in 2009

2013 marked the sixth year of economic recession in Greece. Eurostat's real GDP growth rate for Greece was negative five times in a row. The Greek improvements regarding real GDP in PPS (Purchasing Powers Standards) compared to EU-average achieved in the first decade of the millennium have been lost and reversed by the ongoing economic crisis in Greece. The (provisional) data of Eurostat estimates Real GDP per capita in PPS to be 75% of EU28-average in 2012. The value for the same index was 87% in 2001 and 94% in 2009 (Eurostat; access: 21.10. 2013, 15:08). This shows that the economic recession has not only erased the "unsustainable" growth driven by loose fiscal policy and generous wage increases during 2001 and 2009. Instead the loss in economic production is much greater and cannot by any means be interpreted as a correction of unsustainable short-term growth.

Since 2009 Greece has lost about 20% of its economic output. Normally such a deep economic decline only appears during war. During periods of political peace such a sharp economic decline appears only in case of wrong crisis management. The most famous example of wrong political response in light of an economic crisis remains the great depression of 1929, now the southern European countries suffer from similar austerity policies (Hermann, Ulrike 2013, personal correspondence and ORF 2: Weltjournal 3.7. 2013).

The first structural adjustment program 2010 planned with negative economic growth in the range of -3%/GDP in 2010 and 2011 before returning to a positive value in 2012 (European Commission, 2010a: 32). How to explain the difference between these projections and the actual GDP growth rates of more than -4%/GDP from 2010 to 2012 (and most likely 2013 too)?

The Greek government and the Troika were well aware that domestic demand in Greece would decline due to the implementation of austerity policies. However the plan was that the external trade would outweigh some of the losses in domestic demand as the structural adjustment policies aimed at boosting external competitiveness and thus exports. This has happened only to a limited extent and the contraction of domestic demand was much stronger than projected in the structural adjustment program 2010.

The Greek economy has suffered from falling investment and employment levels. Various political uncertainties as well as the fragile situation of public finances dragged on consumer's and investors' confidence. Social unrest and industrial action in light of sharply falling employment levels had a negative influence on domestic supply as well as on domestic demand (European Commission, 2011a: 9)

Exports have been the lone source of economic growth in Greece. In 2011 the value of Greek exports at constant prices grew by almost 6%. The drivers of this development were increasing goods exports as well as increasing tourism while maritime transport decreased (European Commission, 2011a: 10) But the following year the deceleration in economic activity at the EU and global level worked in disfavour of the Greek export sector and the growth in exports slowed down to only 3% in 2012. By itself the 3% growth in the value of exports may not seem too bad, but that was not nearly enough to outweigh the sharp contraction of domestic demand induced by the policy measures to boost exports.

What is worth noting is that despite a growth of exports in 2011 Greece still featured a large current account deficit at a very high level of 10% of GDP and net external liabilities or in other words external debts remained at the for Greece unsustainably high level of 140% of GDP (European Commission, 2011a: 13)

Despite the negative effect of the decrease of labour costs on domestic demand the Greek competitiveness remained low at the international level. Actually the growth of Greek exports was not a result of increased international competitiveness induced by structural reforms. Instead the main cause for growing exports in 2011 “was increasing growth in Greece's main trading partners, rather than a domestically-generated increase in productivity” (European Commission and Directorate-General for Economic and Financial Affairs, 2011: 38)

The fiscal austerity measures implemented under the structural adjustment programs had a negative effect on private consumption and thus contributed to the sharp decline of domestic demand. The fiscal austerity measures on the revenue and expenditure side of the budget resulted in a lower disposable income of private. The rise of unemployment numbers, lower wages in both the public and private sector and the increased tax burden all reduce household's disposable income and stretch their liquidity limits (European Commission, 2011a: 9). The

results are lower private demand which contributed significantly to the economic recession and a higher risk of poverty for private households.

According to Eurostat data on the final consumption expenditure of households and non-profit institutions serving households calculated at current prices, the contraction of private demand has accelerated each year after the adoption of the first structural adjustment program. Private household's consumption expenditure fell by -2,47% in 2010, -4,59% in 2011 and -8,23% in 2012. The current Eurostat prognosis for 2013 is -7,61% and -2,03% in 2014 (Eurostat (access 22.10. 20013)).

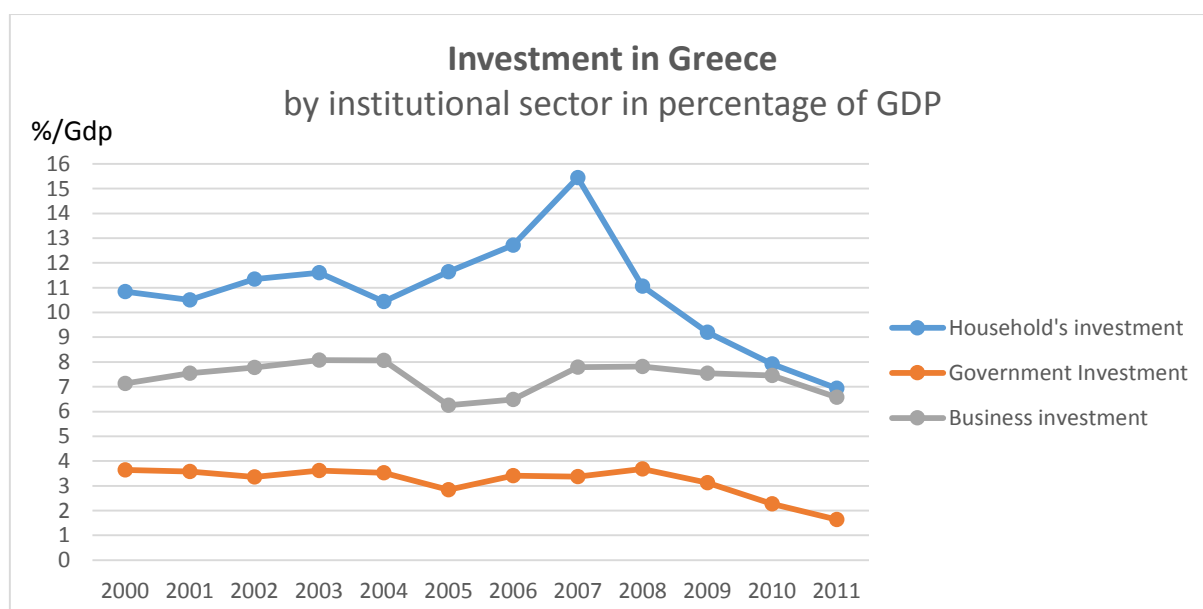


Figure 20: Investment in Greece by institutional sector in percentage of GDP; own illustration, data source: Eurostat last updated 21.10.2013

Along with the contraction of domestic demand the falling investment levels in Greece have hampered economic growth. In Greece overall investment as a percentage of GDP was 21,6 % in 2000 and peaked at 26,6 % in 2007. Since then overall investment has fallen continuously to only 15,1 % of GDP in 2011. This was the third-lowest rate investment rate in the European Union a lower percentage of GDP was invested only in Ireland another country that adopted a structural adjustment program and interestingly Great Britain. After that year Eurostat does not provide macroeconomic data in this area.

From the three institutional sector (state, companies and private households) the investment of private household's contracted the most. The causes overlap with the aforementioned causes for the drop in private household's consumption. Another point is that consumer confidence fell since the adoption of the first structural adjustment program and remains low which tells us that the Greek population does not have much faith in the success of the structural reforms.

From 2010 to 2011 thus the first year of structural adjustment in Greece business investment dropped by 1 percentage point of GDP from 7,5% of GDP to 6,5% of GDP. The fall in public investment may not appear too large in the illustration but in fact public investment fell by almost 50% within two years, from 3,1% of GDP in 2009 to 1,6% of GDP in 2011.

Excessive productive capacity caused through continuous years of economic recession, weak credit demand and the banks' tightening of credit standards contributed to the fall in investment. In 2012, gross fixed capital formation, in real terms was estimated to be 45 percent below the level recorded in 2007 (European Commission, 2011a: 9).

Nonetheless the fiscal austerity measures implemented in the structural adjustment programs can be related directly to the sharp decline in public investment and they are one of the main causes for the contraction of private household's investment. Higher taxes, lower employment levels and decreased wages for those retaining a job resulted in a reduction of private household's disposable income. As Greek banks augmented their credit standards most households had no other option than consuming less. Lower consumption expenditure of private household's lowered domestic demand in Greece. In addition it most likely contributed to a decrease in business investment because lower consumer wealth decreases the revenue prospects for consumer goods in Greece.

In conclusion, the effect of the structural adjustment program on economic growth can be described quite fittingly with the following statement featuring in a ILO report of: "The pace and scale at which [the fiscal austerity] measures were introduced has outweighed any positive demand components, inducing an overall recessionary effect" (Spiezia et al., 2012: 12)

3.3.3 Public expenditure

The structural adjustment program in Greece relied primarily on public expenditure cuts. The agreement on the 2010 structural adjustment program and financial assistance between the Greek government and the Troika consisting of European Commission European Central Bank and International Monetary Fund planned the implementation expenditure cuts in the equivalent of 7% of GDP (European Commission, 2010a: 14).

But the plans made in May 2010 proved to be too optimistic. Not only were the Greek debt and deficit levels higher than expected by the Troika, as seen in the previous chapter economic growth lagged behind projections. Besides little success to raise tax revenue and fight tax evasion the bigger than expected economic recession was the main reason that about 6 months after its implementation the measures of the structural adjustment program were clearly not sufficient to reach the government deficit targets (European Commission, 2010b: 13).

The troika and the Greek government decided to implement additional measures in the range of 2,5% of GDP in order to reach the fiscal targets for 2011. In sum the fiscal consolidation measures in 2011 amounted the equivalent of 5,5% of GDP with two thirds of the measures being expenditure cuts (European Commission, 2010b: 13)

The additional fiscal measures contained a numerous public expenditure cuts, they are listed in full detail in Annex 1 of the fourth review of the first structural program (European Commission and Directorate-General for Economic and Financial Affairs, 2011: 142ff). I will only single out a few measures that have an especially important impact on poverty:

- Cuts in the public wage bill by at least EUR 770 million in 2011 and additional EUR 600 million in 2012, EUR 448 million in 2013, EUR 306 million in 2014 and EUR 71 million in 2015. These savings were thought to be achieved among others through the implementation of the rule 1 hire for 5 exits and the transfer of excess staff to a labour reserve paid on average 60% of their wage.
- Savings in state-owned enterprises by at least EUR 414 million in 2012, and additional EUR 329 million in 2013, EUR 297 million in 2014 and EUR 274 million in 2015. These calculation included increased revenue for state owned enterprises as well as restructuring and privatisations plans of others. The

savings in state-owned enterprises had a negative impact on poverty because they included the sale of enterprises' assets associated with non-core activities; reduction in personnel expenses; reduction in operational expenses and mergers and closure of enterprises.

- Cuts in social benefits by at least EUR 1 188 million in 2011, and additional EUR 1 230 million in 2012, EUR 1 025 million in 2013, EUR 1 010 million in 2014 and EUR 700 million in 2015. The majority of the additional cuts in social benefits lowered the income of pensioners.
- Cuts in healthcare and pharmaceutical expenditure by at least EUR 310 million in 2011, and additional EUR 697 million in 2012, EUR 349 million in 2013, EUR 303 million in 2014 and EUR 463 million in 2015, through the implementation of a new 'health map' and associated reduction in hospitals expenses.

In part 1.3.3 I explained that Keynesian economic theory expects public expenditure cuts to have a negative effect on economic growth. I continued by pointing out that neoliberal economic theory expects public expenditure cuts to have positive effects that outweigh the disadvantages of such a strategy pointed out in Keynesian economic theory. The positive effects cited in neoliberal literature include a raise of investors' confidence and an increase of private demand and investment at least in the middle and long term (Guajardo et al., 2011: 3).

In Greece the adoption of the structural adjustment program and the conditional implementation of austerity policies had very little positive influence if any at all on the expectations of economic agents. The IMF provides the results of the monthly Consumer Survey and monthly Surveys of Business Tendency (BTS). The first sheet shows the development of overall economic sentiment and consumer confidence during the past five years in Greece, a period of economic recession. The first structural adjustment program was announced in May 2010

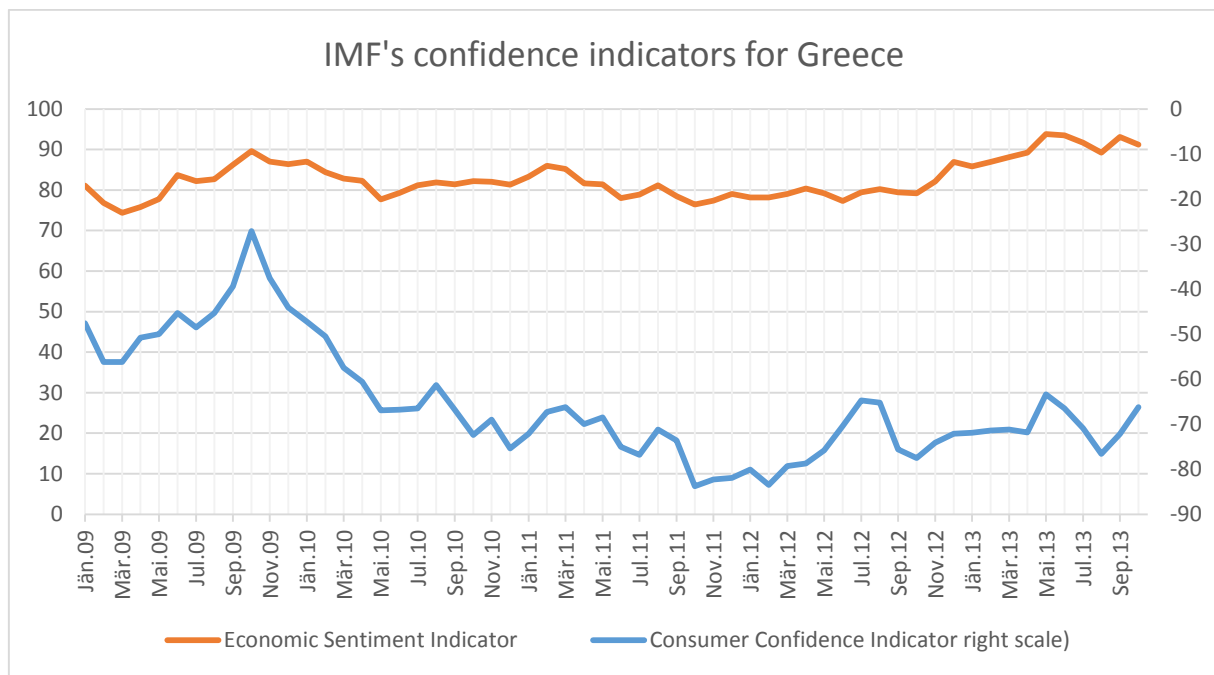


Figure 21 shows two indicators for confidence in the economy from January 2009 until September 2013. The orange line is the Overall economic sentiment indicator, the blue line the consumer confidence indicator (right scale); own illustration, data source: http://www.ioe.gr/ec_situation_en.asp?PD=2013 [access: 10.12.2013]; Jän=January, Mär= March, Mai=May, Jul=July, Sep=September, Nov=November

The announcement of the structural adjustment agreement marks the end of a rapid with sharply falling consumer confidence between October 2009 and May 2010. However the perspective of structural adjustment program did not quite boost the economic confidence indicators. Consumer confidence basically stagnated at a very low level before starting to sink even more three month after the declaration of the structural adjustment program. Consumer confidence was at its lowest mark at the end of the year 2011. Since then consumer confidence has recovered somewhat but rested very low and did not exceed the level recorded when the structural adjustment program had started.

The IMF indicator of overall economic sentiment combines the consumer indicator with confidence indicators of the industrial-, construction- and retail sector of the Greek economy. In the previous sheet overall economic sentiment may seem to stagnate but actually the indicator does not reach from 0-100. 100 points only means neutral expectations, thus a value below 100 means negative expectations on economic development and only a value above 100 is equivalent to positive economic sentiment. The next sheet shows the same indicators as the previous illustration but over a longer period of time. Here the negative impact of the economic

crisis on expectations becomes more visible. Since 2000 the economic sentiment indicator for the whole economy developed mostly in line with the consumer confidence indicator.

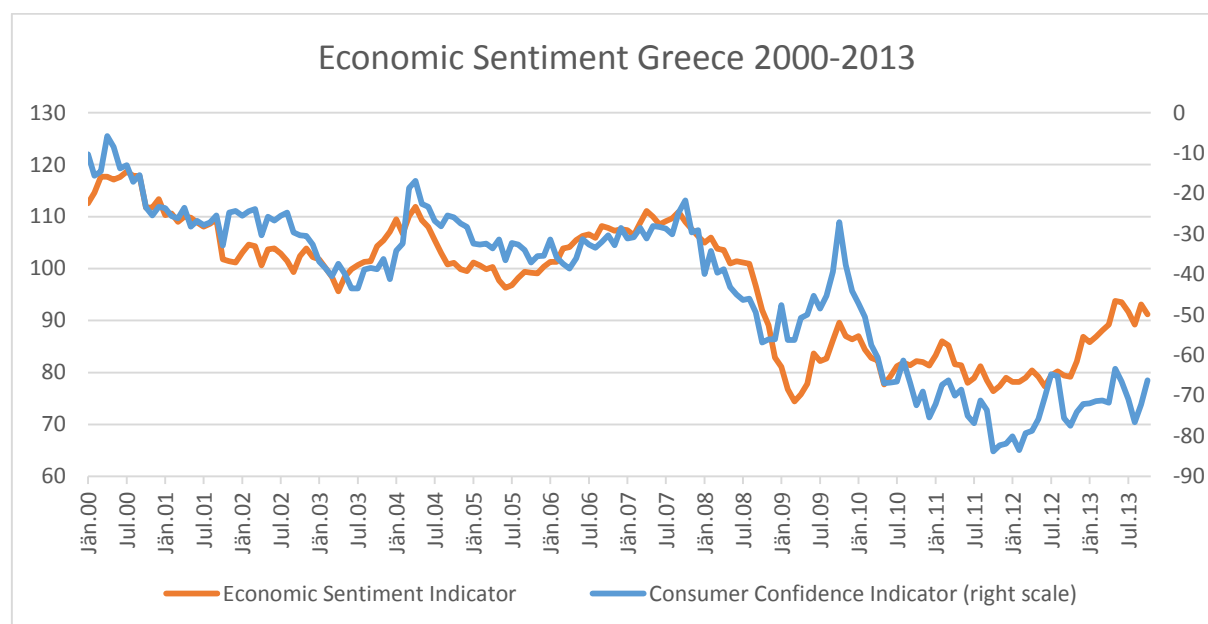


Figure 22 two indicators for confidence in the economy from January 2000 until September 2013. The orange line is the Overall economic sentiment indicator, the blue line the consumer confidence indicator (right scale); own illustration, data source: http://www.ioe.gr/ec_situation_en.asp?PD=2013 [access: 10.12.2013]; Jän=January, Mär= March, Mai=May, Jul=July, Sep=September, Nov=November

This indicates the importance of consumers in form of private demand for economic growth. It also shows that the structural adjustment program did not influence yield a positive influence on economic sentiment and expectations. Interest rates for long-government bonds also continued to rise during the implementation of the first structural adjustment program.

Eventual benefits of a lower expected public deficit have been outweighed by the negative impact austerity policies had on private demand and consumer confidence. The observations of resumed in this diploma thesis lead me to the conclusion that the economic development of Greece during the last five years is better explained by Keynesian theories than by neoliberal premises. For example the benefits of savings in public expenditure cuts have been outweighed by a lack in public investment. The wage cuts and decrease of social transfers resulted in low domestic demand and negative economic sentiment that could not been outweighed by rising exports. The positive signals to international investors and financial markets from the introduction were nullified by the negative performance of the Greek economy. Prices did not

adjust as fast as expected to the lower wage levels resulting in lower real income of private household while international competitiveness has remained low.

It is a fact that despite four years of structural adjustment programs and the largest scale fiscal consolidation program ever implemented in a European country the financial situation of Greece remains precarious.

The structural adjustment program agreed between the Greek government, the European Commission, the European Central Bank and the International Monetary Fund envisaged that the debt-to-Gdp ratio of Greece would start declining in 2014. This initial baseline scenario included fiscal measures amounting to 18,5 percent of GDP over the period 2010-2014.

During the monitoring of the first structural adjustment program it became clear that the government debt of Greece would exceed the initial target levels and additional fiscal measures have been agreed. In February 2012 a second structural adjustment program was signed between Greece and the Troika EC/ECB/IMF. This second agreement included a 50% haircut for all private holders of Greece government bonds, thus facilitating a €100bn debt reduction for Greece (European Commission, 2012a: 6f, 47f).

The following illustration shows the development of Gross Government Debt of Greece since 2009 and the different forecasts made at different points of time during the structural adjustment process. The blue bar shows the actual Gross government debt as a percentage of GDP, the data stems from Eurostat.

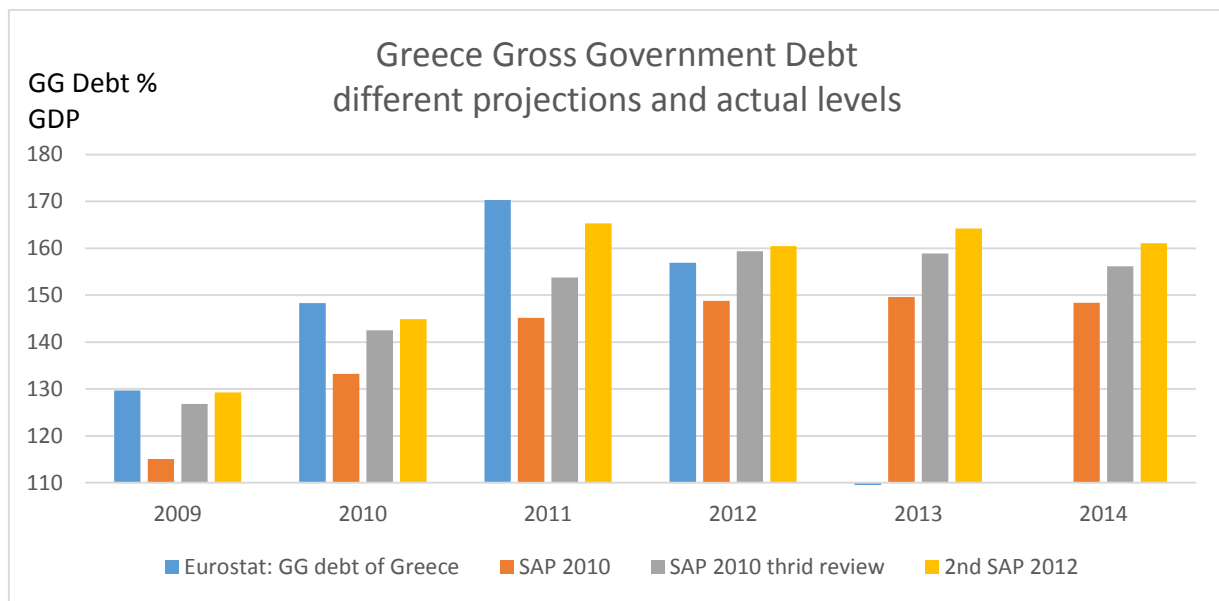


Figure 23: Gross government debt of Greece as a percentage of GDP. Comparison of the Eurostat data on gross government debt (blue bar) with debt levels projected by the EC/ECB/IMF staff member at different points of time during the structural adjustment program; own illustration; data sources: Eurostat General government gross debt (code: tsdde410, last updated 4.12.2013); European Commission, 2010a. *The Economic Adjustment Programme for Greece. Occasional Pap.: 13*; European Commission, 2011b. *The Economic Adjustment Programme for Greece. Third Review - February 2011. Occasional Pap.: 74*; European Commission, 2012a. *The Second Economic Adjustment Programme for Greece. March 2012. Occasional Pap.: 90*

The reduction of government debt from 2011 to 2012 was a consequence of the 100 billion euro haircut for private creditors. Despite the haircut and additional fiscal measures the Greek government debt of 2012 was significantly higher than planned in the initial consolidation plan of the structural adjustment program 2010. At the end of 2013 the Greek debt level is still not sustainable and discussions over a third structural adjustment program have begun (IMF, staff, 2013: 60f). The current plan is to bring debt ratio to 124 percent of GDP by 2020, assuming new fiscal austerity policies. Basically this means that the current plan is to return the Greek debt/GDP ratio until 2020 the level where it was before the first structural adjustment program began (Woestman, 2012: 384).

Comparing different debt projections it is evident that projections of the Greek debt ratio have been constantly revised upwards. Five years of structural adjustment policies have failed to achieve the overarching goal of a sustainable level of gross government debt. The Maastricht criterion once set the mark of a 60% debt-to-GDP ratio, for Greece even a mark a debt ratio of 120% of GDP is not realistic until 2020. Greece will not be able to finance its debts on the open market for years to come.

It is true that the Greek debt ratio in 2012 remained below the forecast of the second adjustment program. But the Eurostat figures for the quarterly general government deficit damper optimism towards a recovery of Greek debt levels. The government deficit exceeded the targets of the first structural adjustment program in all but on three-month-period. The general government deficit was especially high in the first half of 2013. From April to June 2013 alone the deficit of the Greek government amounted to 14 billion euro.

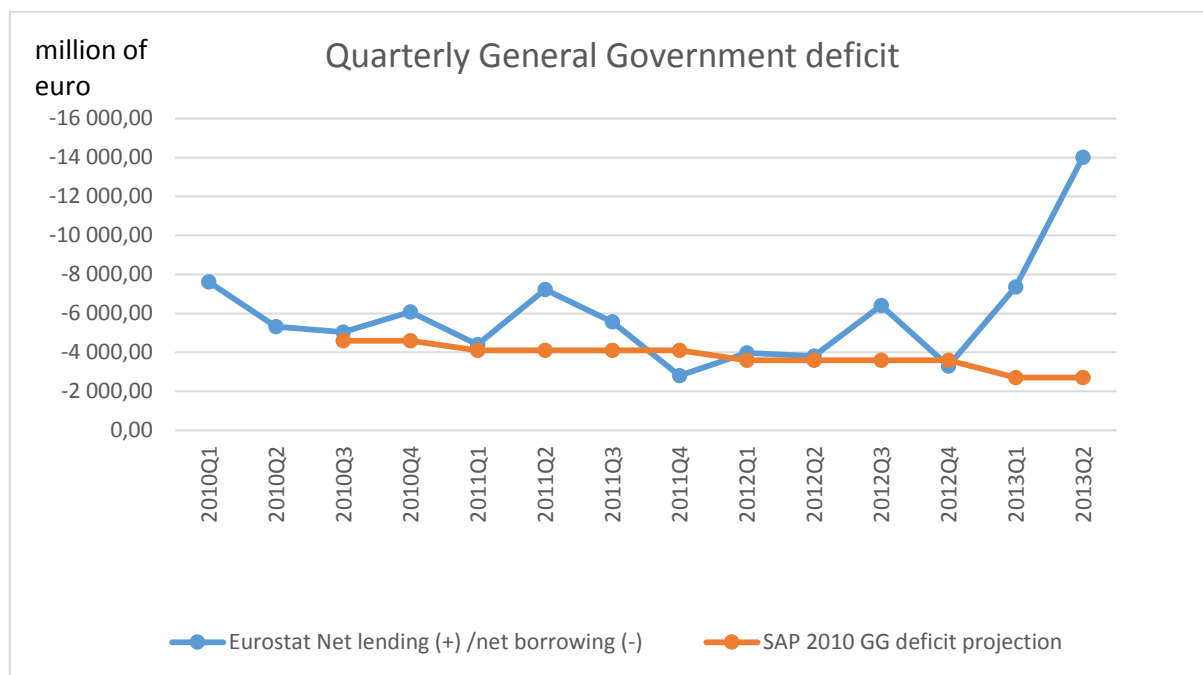


Figure 24: Greece's: quarterly general government deficit from 2010 until the second quarter 2013 in million of Euro; own illustration, data sources: Eurostat Net lending (+) /net borrowing (-), not seasonally adjusted data, last updated 11.11.2013; European Commission, 2010a. *The Economic Adjustment Programme for Greece. Occasional Pap.: 27*

In conclusion the structural adjustment process in Greece has implemented public expenditure cuts amounting to almost 20% of GDP during the period 2010-2013. The expenditure cuts have been very painful for the Greek population resulting in rising poverty. Still the austerity policies failed to achieve their primary goal of improving the fiscal accounts of Greece, with both gross government debt and general government deficit remaining unsustainably high.

3.3.4 Inflation and Expenditure Deflators

Inflation was a top-priority of IMF policy in previous structural adjustment programs in the global south. The IMF views inflation as a tax on the poor (Agénor, 2005: 373) and likes to point to price-stabilisation as one the most important merits of its structural adjustment policy.

In the first structural adjustment program of March 2010 the Troika pointed out that inflation could contradict the strategy of the adjustment program. The aim of the program has been to simultaneously restore external competitiveness through decreasing wage levels and to contain the government deficit and overall debt:

„Policies aimed at restoring external price competitiveness [...] tend to weigh on debt dynamics. Moreover, low or negative inflation environments are not favourable to fiscal consolidation because of nominal rigidities – real expenditure cuts are easier to obtain if inflation is high.” (European Commission, 2010a: 12)

If wages decrease, as it has been the case in Greece, consumer prices levels adjust too in most cases. Thus the policy to decrease real wages normally results in low or negative inflation which in turn has a negative effect on debt dynamics and lowers the impact of public expenditure cuts. On the other if domestic price levels continue to increase it is hard to negotiate nominal wage cuts with labour unions. Moreover in a monetary union above average inflation in comparison to the other member states decreases external competitiveness.

Now what has happened in Greece for the first two years of the structural adjustment program is that inflation was stronger than projected by the EC/ECB/IMF staff members (European Commission, 2011b: 7). Inflation remained well above EU-average and in the word of the third review of the structural adjustment program “stubbornly high”.

The following illustration shows that Eurostat’s Harmonised Index of Consumer Prices (HIPC) for Greece increased consequently after the adoption of the structural adjustment program. For 2010 as a whole HIPC inflation was estimated at 4,7%. (European Commission, 2011b: 7). In light of this numbers I must conclude that the implementation of structural adjustment did not have any success to limit inflation. The increases of various indirect taxes that have been a cornerstone of the program’s fiscal consolidation efforts were main drivers of inflation. Here the development of prices demonstrates that one program area – fiscal consolidation through tax increases – worked against another target of the program – boosting external competitiveness through lower wages and prices.

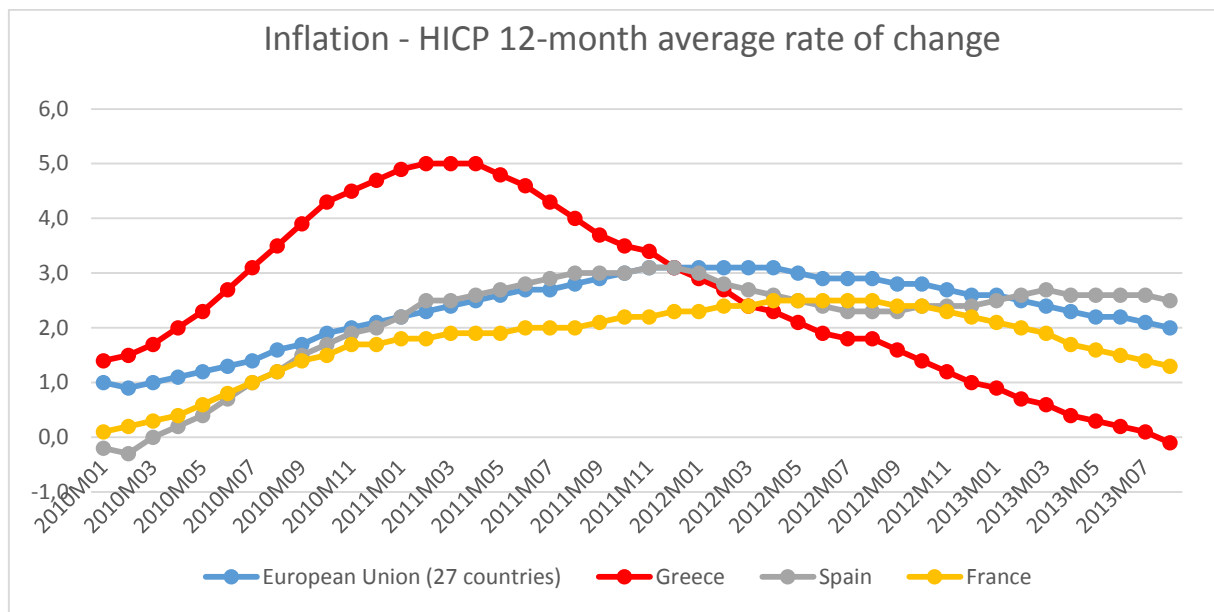


Figure 25: Eurostat's Harmonised Indices of Consumer Prices (HICP) from January 2010 until July 2013; own illustration, data source: Eurostat: All-items HICP, 12-month average rate of change, last updated 16.9.2013

It took almost two years after the agreement on structural adjustment program before inflation in Greece fell below EU-average. Even accounting for the impact of the increase of indirect taxes, inflation adjusted slowly and modestly in light of the deep economic crisis, and compared to other countries in the midst of the European crisis. “This reflects still pervasive price rigidities in oligopolistic product and highly regulated service markets.” (International Monetary Fund, 2012: 5) The reason that prices finally adjusted was the deep economic recession and not specific structural adjustment efforts to limit inflation.

Rising prices and negative economic growth did indeed complicate the negotiations between the Greek government and labour unions over wage decreases. Eventually the two sides found it impossible to reach a compromise but the Greek government decided to lower wages unilaterally by legal action (see Part 3.1.2 Decrease in wages).

To summarize; during 2010 and 2011 Greece citizens faced a situation of high inflation, decreasing or stagnating nominal wages and large scale fiscal consolidation that took the form of tax increases and public expenditure cuts. The result was a large decrease of real income of wage recipients leading to a collapse of private domestic demand. It goes without saying that the low domestic demand had a negative impact on economic growth and aggravated the economic recession in Greece.

Thus inflation negatively impacted poverty in two ways: First, the rising consumer prices made already tight budgets of many households even tighter.

“Due to the widening gap between incomes and the cost of living, a third of Greeks now live in poverty, with more on the brink. As one hospital employee put it, ‘We are not talking any more about which face cream to buy. We are talking about having enough money to buy cream to feed my baby’.”
(Woestman, 2012: 383)

Second the high inflation rates had a negative effect on economic growth, because they lowered both domestic private demand and external competitiveness.

In Greece the Household Budget Survey gives evidence about the distribution of average monthly expenditure of households on goods and service. It is important to note that the following percentage are averages for all Greek households. In 2011 the average Greek household spent 19,5% of its income on food, 12,6% on housing, and 13,2% on transport. Further 3,6% on alcoholic beverages and tobacco, 6,2% on clothing and footwear, 6,3% on health and 3,5% on education. (ELSTAT, 2013: 105)

The negative effect of the economic crisis and the structural adjustment policies on private household's budgets is among other visible in the following changes in the time-series of the Greek Household Budget Survey. The percentage of monthly expenditure spent on food has risen from 16,4% in 2008 to 18% in 2010 and 19,5% in 2011. This may be an indication that private households face increasing budget constraints as the percentage of expenditure spent for non-avoidable goods gets higher each year since 2008. This development has most likely continued in 2012 and 2013 but there are no statistical numbers available yet. Similarly the expenditures for housing accounted for 12,6% in 2011, up from 11,7% the year before. The higher expenditure for housing is a reflection of the hike of energy costs in Greece. In a mirror image but no less worrying from a poverty perspective the percentage of expenditure spent for each durables, health and clothing and footwear has decreased since the beginning of the crisis in Greece. This development suggests that consumption on these goods is substituted in favour of more urgent needs.

Overall price indices rates give limited information about the impact of inflation on poverty. It matters how the overall sample is composed. The price increases of goods and services that make up an important proportion of the expenditure of poor households determine the poverty impact of inflation. Poor households must use a bigger proportion of their income to serve their basic needs that are above all food and housing. Transport costs are also hard to substitute for in many cases especially when a person needs to use transport services in order to attend his/her job. That is why the significant inflation in the areas of housing and energy costs as well as transport services increased the risk of poverty in Greece.

In order to take a closer look at the poverty impact of inflation I depicted the price development of different goods in Greece. The sheet shows the inflation rate in comparison to the 12 month earlier. The data is from Eurostat's HIPC index.

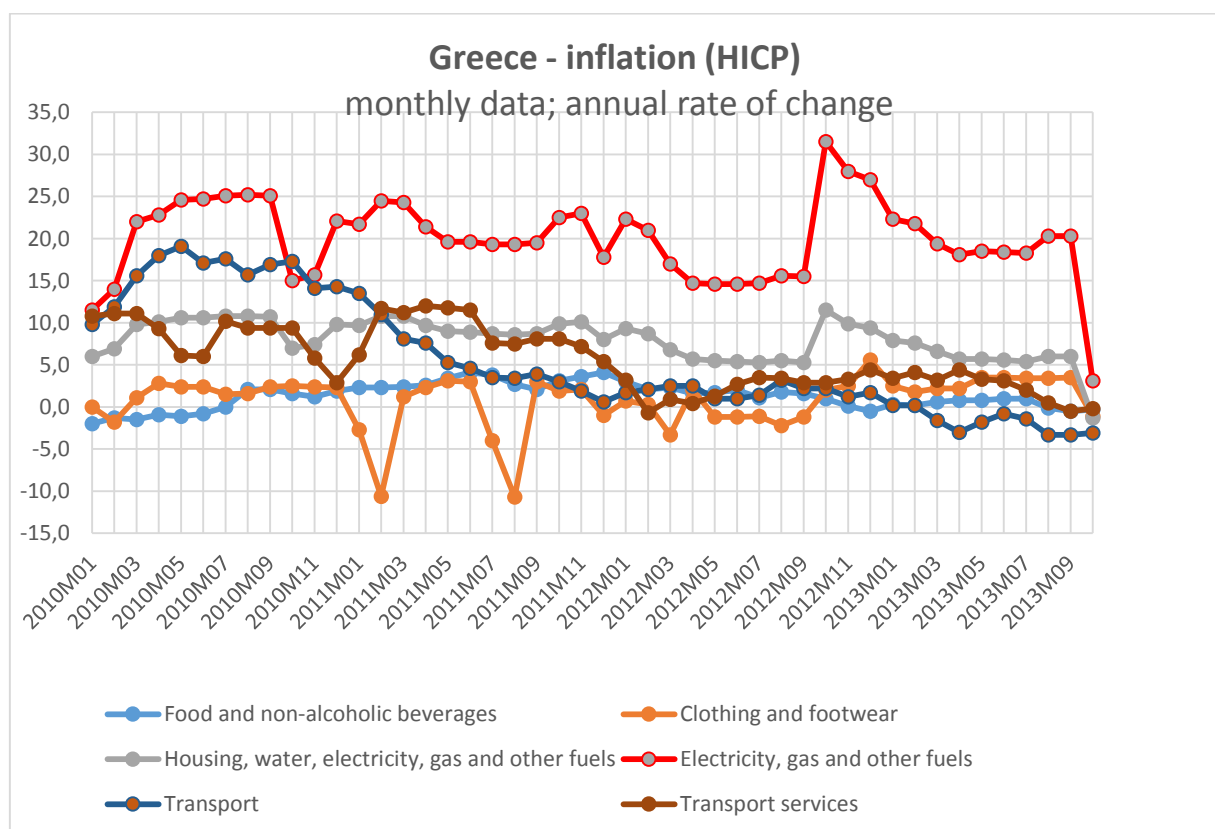


Figure 26: Eurostat's Harmonised Indices for Consumer Prices for different goods and services from January 2010 until September 2013; own illustration; data source: Eurostat HICP, annual rate of change, last updated 15.11.2013

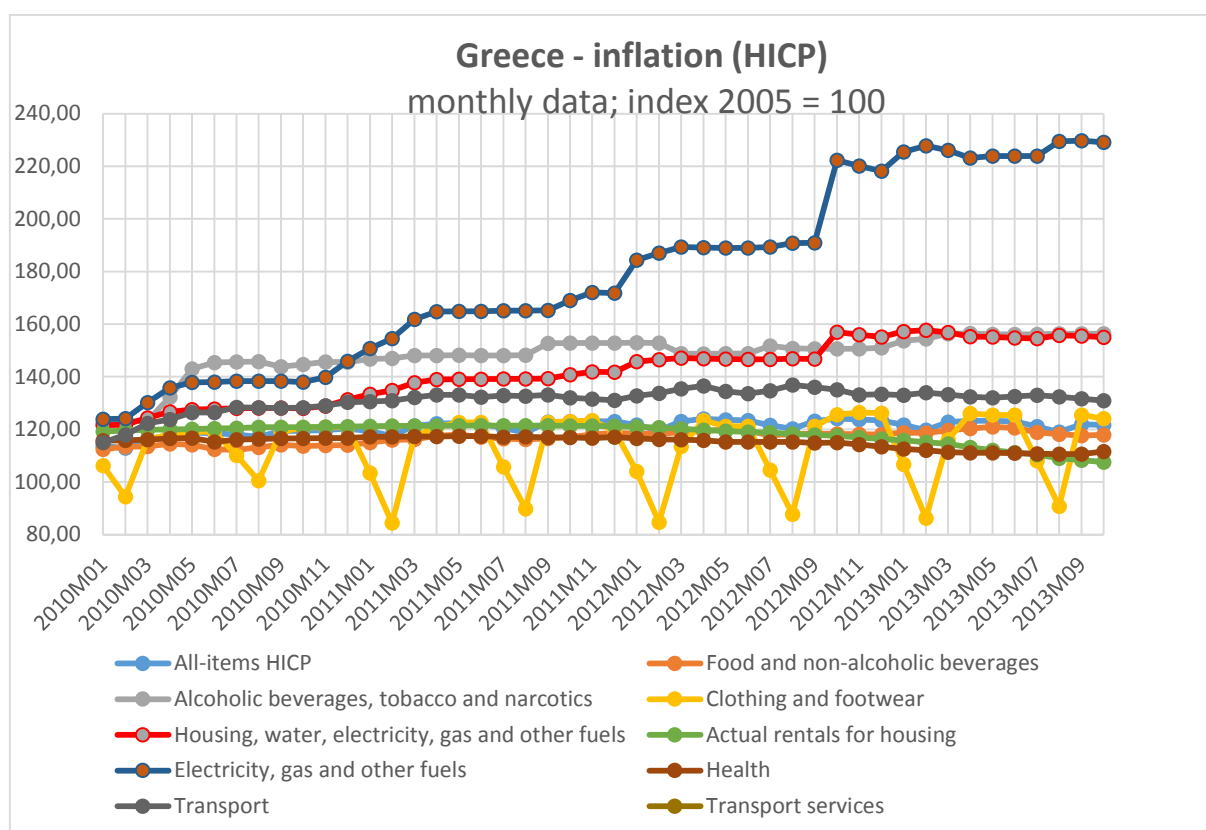


Figure 27: Figure 20: Eurostat's Harmonised Indices for Consumer Prices (HICP) for different goods and services from January 2010 until September 2013; own illustration; data source: Eurostat HICP, Index 2005 = 100, last updated 15.11.2013

What strikes above all when looking at the two illustration of Greece's price development is that energy costs rose sharply. The prices of electricity, gas and fuels started to hike after the adoption of the structural adjustment program and have increased steadily since then. The annual rates of change for electricity gas and fuels were 21,7% in 2010, 22,3% in 2011 and 22,3% in 2012 (annual rate of change in January). The index value (2005=100), which stood at 120 in January 2010, has risen to 229 in October 2013.

The privatisation and restructuring of state-owned energy companies is an element of the structural adjustment agreement, thus the Troika and the Greek government can be held at least to some part accountable for the explosion of energy. The structural adjustment reforms certainly are not solely responsible for the increased energy costs, but greek consumers did certainly not benefit from the structural reforms in the energy sector.

Driven by high energy costs overall housing costs in Greece have increases strongly in the last few years and that despite actual rentals for housing decreasing since March 2012. That rents

in Greece are now cheaper than in 2005 is a clear symptom of the disastrous state of the Greek economy, it seems nobody wants to live in Greece at the moment.

The Eurostat HIPC price index for housing, water, electricity, gas and other fuels in Greece increased by 27% between January 2010 and October 2013. The EU-average inflation for the same sample was 18%, but for example in Germany housing got only 8% more expensive. It is thus not appropriate to blame global energy prices for the explosion of Greek energy costs during the period of structural adjustment.

Looking at the price development in Greece it is possible to identify a pattern where inflation was strongest between January 2010 and December 2011. From the beginning of the year 2012 until now prices have increased moderately, stagnated or even decreased, however housing and energy costs being the notable exception from this pattern. The period of the first structural adjustment program (May 2010 until March 2012) shows significant the overall HIPC index increased by 4,4%. That is actually below the EU-average of 5,5%. However the numbers for the first structural adjustment program are somewhat understating because price hiked strongly in the months before Greece signed the agreement on financial assistance from the Troika. When comparing Greece with the EU-average during that period it must be taken into account that the overall price level in Greece almost stagnated between November 2011 and May 2012 whereas prices in the EU-sample continued to increase during this last 6 months of the first structural adjustment program.

Beginning from January 2010 prices for food and non-alcoholic beverages increased by 5% until the end of 2011 and then stayed put at this level until October 2013. Thus for the years 2010 and 2011 inflation on basic nutrition at 5% was basically identical with the EU-average but higher than for example in Germany (4,4%). It should be noted that the price hikes of alcohol and tobacco have been rather steep with almost 25% from January 2010 until December 2011.

In the context of decreasing wages, overall economic decline, rising unemployment the inflation of 5% in two years for food and non-alcoholic beverages is enough to increase the number of households affected by poverty. The Greek inflation on basic food samples would not be of much concern during a period of small economic growth, but during a major economic crisis

relatively small inflation on goods of basic need limit the spending capacity of poor and former middle class households considerably.

The worst impact on poverty had the price hikes on housing and energy costs. Compared to the level of January 2010, overall housing have were 27% higher in October 2013 and 16% higher in December 2011. During the period of the first structural adjustment program prices for Housing, water, electricity, gas and other fuels have increased by 16% (data Eurostat; last updated 15.11.2013)

The claim of the IMF that structural adjustment policies are beneficial to keep inflation in check or that its SAP's in the Global South were successful in the area of inflation, does not apply to the Greek case. The resume of this sector must be that inflation during the first structural adjustment program was higher than expected by EC/ECB/IMF staff members and that it had a negative impact on poverty. Inflation was specifically high during the first one and a half years of the program. Moreover it must be stated that the fiscal policies that were conditional for the access to the financial assistance fund, have been one of the most important drivers of inflation. Especially the increase of non-progressive taxes for example VAT taxes and other taxes levied upon the consumption of goods had a negative effect on poverty in Greece.

3.3.5 Real Exchange Rate

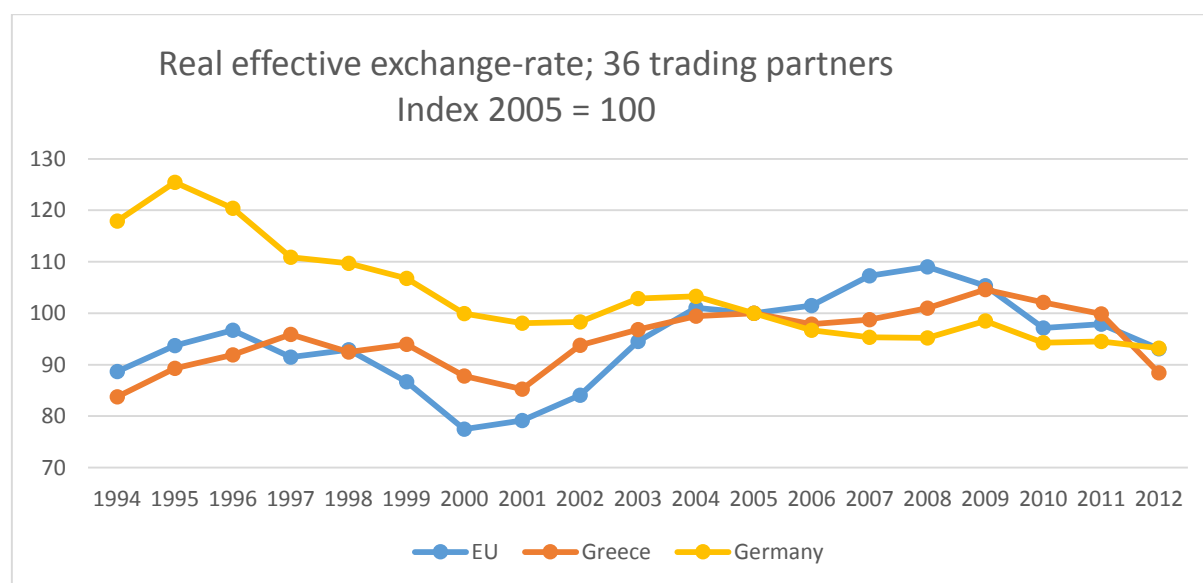


Figure 28: The real effective exchange-rate (36 trading partners) of the European Union, Greece and Germany from 1994 until 2012; own illustration; data source: Eurostat (code: tsdec330), last updated 18.6.2013

“Greece's real effective exchange rate (REER) appreciated by some 10-20 percent, depending on the deflator used, over 2000-2009 [...] The combination of high domestic demand growth and deteriorating external competitiveness translated into a rapid worsening of the current account deficit, which peaked at 14 percent of GDP in 2008“ (European Commission, 2010a: 3).

The external competitiveness of Greece has suffered because both inflation and unit labour costs increased above EU-average during that period. The negative external balance of goods and services fuelled the rise of Greece's external debt.

The fact that Greece is a member of the Eurozone and thus cannot depreciate its nominal exchange rate has important implication for the structural adjustment program. Unlike in most developing countries that have implemented a structural adjustment program, Greece was not able to devalue its currency to drive down prices and increase the competitiveness of its exporting industries (Woestman, 2012: 2).

With the membership to the Eurozone removing the option of nominal devaluation, the only option for Greece left to improve its current account balance is fiscal policy. The European commission calculated in 2010 that the Greek real effective exchange rate (REER) was overestimated by 10-20%. A 10% depreciation of the nominal exchange rate would have been necessary but was impossible due to Eurozone membership (European Commission, 2010a: 3 and box1 on page 4).

Effectively the fiscal consolidation measures had to be particularly large in to compensate for a nominal devaluation. The structural adjustment program for Greece basically followed the blueprint of previous IMF structural adjustment programs relying on an export-driven economic growth approach. In Greece the success of this strategy rested solely on fiscal adjustment policies while most structural adjustment programs in the past implemented a combination of fiscal and monetary policies.

Without the option of nominal currency depreciation Greece and the Troika put their hopes on internal devaluation in the form of sinking unit labour costs. The measures implemented have been described in previous sections. It was clear that without nominal devaluation the decrease of wage levels had to be very high in order to improve external competitiveness.

Such a strategy implies considerable costs for employees. Lower wage levels decrease lower the real income of employees and reduce domestic private demand. Moreover lower nominal wages reduce the tax base. The loss of tax revenues and complicates the fiscal adjustment, the consolidation of the government budget and a reduction of public debt. A positive impact of lower unit labour costs on external competitiveness is only possible if prices adjust along labour costs. If not inflation threatens to outweigh the benefits of lower unit lower costs on economic growth. *Part 3.2.4* has shown that inflation was higher than projected in 2010 and 2011.

The reform of labour markets only results in higher external competitiveness if it is accompanied by reform of markets for goods and services. Without structural reforms that effectively remove the oligopolistic structure of the Greek economy reduction in wage and non-wage costs will translate into higher profit margins (European Commission, 2012a: 2).

Structural reforms of product markets have shown disappointing results so far. As a result lower wage levels have only caused lower real wages of private households which in turn increased poverty. The external competitiveness of Greek export industries has increased only slightly and was outweighed by the decrease of domestic demand.

Ultimately the strategy of the structural adjustment program 2010 failed. The agreement over the second structural adjustment program acknowledged that progress towards lower unit labour costs was made but acknowledged at the same time that the overvaluation of the Greek real effective exchange rate still amounted to 15-20 percent. Thus the overvaluation of the exchange rate had not decreased and maybe was even higher than in May 2010 when the first adjustment program was announced. The structural adjustment policies implemented in 2010 and 2011 including various measures to reduce unit labour costs had no positive effect on the real effective exchange rate.

3.3.6 Macroeconomic volatility

The implementation of a structural adjustment program is supposed to infuse a degree of stability into a country facing massive payment difficulties and in most cases an economic recession. The necessary approval of government policies by the IMF and in the Greek case also by the European Commission and the European Central bank adds credit to the proposed policies. A structural adjustment program includes a plan on future reform policies. This may

be viewed as a positive signal by most creditors and reduce some insecurity about what to expect in the foreseeable future.

The implementation of two structural adjustment programs could not achieve a stabilisation of the macroeconomic environment in Greece. Harmonised interest rates for Greek government bonds have fluctuated wildly in the first half of the year 2012 (sheet chronic of events). After second financial assistance program was agreed on 14 March 2012, continued political instability in Greece resulted in two rounds of elections.

“Uncertainty about the possible outcome of a second election led to an acceleration of capital outflows and doubts about the capacity of Greece to implement the adjustment programme”
(http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/;
access: 12.12.2013; 11:39).

The election on 17 June 2012 led to a three party coalition agreeing to continue the implementation of the structural adjustment program.

“The release of the disbursements of the financial assistance is based on observance of quantitative performance criteria and a positive evaluation of progress made with respect to policy criteria”
(http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/;
access: 12.12.2013; 11:39).

The political instability in Greece and as well dispute in the European Union over the Greek progress delayed the disbursement of the first instalment of the second adjustment program until December 2012.

Political uncertainty was also a problem during the implementation of the first structural adjustment program. In autumn 2011 the Greece's participation in the Eurozone was openly discussed (European Commission, 2012a: 1). Due to uncertainties of political and financial nature, social unrest and industrial action growth forecasts had to be revised downwards. The political uncertainty had a negative effect on supply and on domestic demand (European Commission, 2011a: 9).

During the implementation process doubts over the fulfilment of the conditionality requirements and thus the disbursement of the credit tranches have occurred several times. The deeper than expected economic crisis led to widespread social unrest and labour union manifestations. Because of the domestic pressure, legitimate doubts over the ownership of the programme by the Greek Government arose (European Commission, 2012a: 1) This hampered the capacity of the Greek government to implement reforms and damaged the international credibility of the program.

The combination of these factors caused ongoing macroeconomic volatility during the implementation of the structural adjustment program. The question if a better design of the implementation process or a better coordination between the respective members of the European Union and/or the IMF would have resulted in less political uncertainty is open to debate. But essentially this is a question of political science and will not be discussed any further in this diploma thesis.

3.3.7 Distribution of income & inequality

Not surprisingly for documents of the International Monetary Fund inequality and the distribution of personal income are not mentioned very often in the Structural Adjustment Program for Greece 2010 nor in the subsequent reviews.

I explained in part 1.3.7 that the relation between economic policies and changes in the distribution of income is a rather complicate one and thus I am careful with wholesale conclusion. Rhetorically the Greek SAP of 2010 emphasises the protection of the poorest part of the population, for example the lowest pensions were excluded from certain austerity policies.

A recent IMF working paper (Woo et al., 2013) tried to identify the impact of different fiscal policies. Both tax-based and spending-based fiscal consolidation episodes have a negative impact on inequality. However cuts of public expenditure tend to have a larger negative impact on inequality than tax-increases. Cuts in social benefits tend to worsen inequality more than other spending reductions like for example public wage cuts. The explanation of Woo et al. is that “lower income earners are typically more affected by spending cuts as a larger portion of

their disposable income comes from public spending and they are more vulnerable to losing their jobs” (Woo et al., 2013: 20). However in Greece both cuts in social benefits and public wages have been implemented.

The results of Woo et. al 2013 also point towards unemployment having a large negative impact on inequality. Fiscal austerity policies undertaken in periods of rising unemployment have an especially large negative impact on inequality (Woo et al., 2013: 19). Unfortunately that’s exactly the scenario that fits the experience of Greece. The fiscal austerity policies have been implemented while unemployment levels reached all-time highs. Thus I expect that the structural adjustment policies have a large and persisting negative impact on inequality in Greece.

The design of the fiscal consolidation package contributes to a widening of the income gap in Greece. The reason for this is that the bulk of public revenue increases has come from increases in indirect taxes. Indirect taxes are per definition regressive and burden lower incomes relatively more than high incomes. Tax evasion has continued without much improvement even after the structural adjustment program led to the implementation of a medium-term revenue administration reform plan in 2010. In March 2012 the scheme was still not functional. The Greek financial administration did not meet the 2011 targets for audits of large taxpayers and the quality of the audits remained low. The fight against tax evasion suffers from low political support and institutional resistance. (International Monetary Fund, 2012: 9)

Thus the gains from the fiscal administration reforms undertaken under the first structural adjustment program remained minimal despite that the EC/ECB/IMF staff repeatedly made it clear that positive results in this area are crucial. If large taxpayers can continue with large scale tax-evasion, low and middle incomes shoulder most of the burden from tax hikes and inequality increases.

In general and maybe even more in the case of Greek available data on income inequality has several limitations. The presented data relates only to income and not to expenditure. Important sources of revenue such as fringe benefits, capital gains and revenues from the informal economy are excluded from the data. In addition benefits of non-monetary social transfers are not incorporated in most statistics about inequality. Statistically observed is how the distribution of income of household changes over time but this does not tell how income is distributed within

households or families (Atkinson, 1997: 299). Specifically the large size of the Greek informal economy constrains the quality of statistics on income and also inequality. Fouskas speaks of an shadow economy of 27,5% of GDP on average in the period 1997-2007 (Fouskas, 2013: 289)

There is not much statistical data on inequality in Greece available, at least compared to other economic indicators. One of the best accounts stems from the European Union Statistics on Income and Living Conditions (EU-SILC). Greece was one of the founding members of EU-SILC initiative that provides cross-sectional data pertaining to a given time or a certain time period with variables on income, poverty, social exclusion and other living conditions (http://epp.eurostat.ec.europa.eu/portal/page/portal/microdata/eu_silc 29.11. 2013 16:47). There is only annual data available. That eventually best database on income inequality the Estimated Household Income Inequality Data Set (EHII) of the Texas University Inequality Project features data on Greece only until 2007 and thus is of limited use to assess the inequality impact of the structural adjustment program.

Income quintile share ratio of the highest 20% and the lowest 20% of incomes in Greece has increased since the outbreak of the economic crisis. In 2012 Greece sported the second highest income quintile share ratio in the European Union behind only Spain. The Greek SILC survey of 2010 boasted with 5,6 the lowest quintile share ratio ever recorded (records available since 1995). In the subsequent years there is a clear trend of rising inequality visible. The income quintile share ratio (S80/S20) in 2011 was 6,0 and increased to 6,6 in 2012. The 0,6 increase of the income quintile share ratio within one year is the biggest annual increase of inequality that has ever been recorded in the Greek SILC-data.

The GINI coefficient of Greece had decreased until the year 2009 to the value 33,1. Since then the GINI coefficient has increased annually and stood at the value of 34,1 in 2012 (Eurostat; last updated 8.11.2013). In the European Union only Portugal, Spain and Latvia have a slightly higher GINI-coefficient. All these countries have been hit by the European debt crisis and have implemented fiscal consolidation packages.

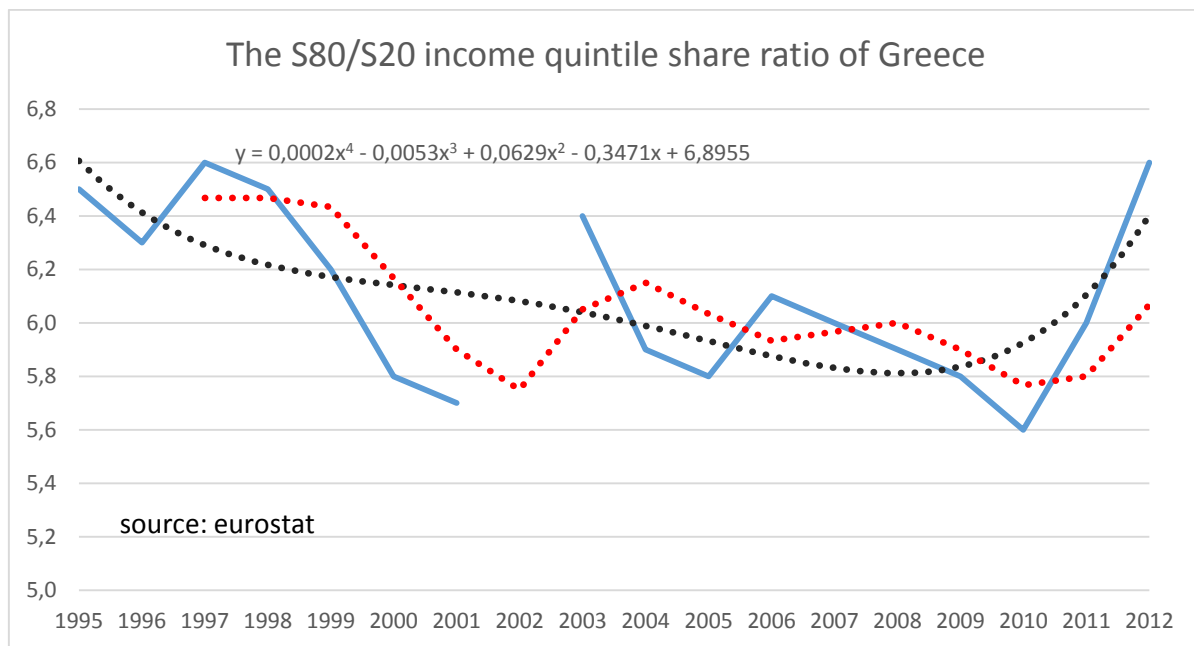


Figure 29: S80/S20 income quintile share ratio of Greece; own illustration, data source Eurostat (code: ilc_di11), last updated 18.11.2013; blue line = S80/S20 income quintile share ratio, red dotted line = trend line (3 periods moving average), black dotted line = trend line ($y = 0,0002x^4 - 0,0053x^3 + 0,0629x^2 - 0,3471x + 6,8955$)

Atkinson suggested that it may be better for most countries to think of episodes of rising and falling inequality (Atkinson, 1997: 303). The illustration shows the income quintile share ratio for Greece in the period 1995-2012. In order to better identify episodes of changing inequality I derived a trend line with a polynomial equation of fourth order (black dotted line) and another trend line with a three-year moving average (red dotted line).

Konstantinos (Kostas) Simitis was the Greek prime minister between 1996 and 2004. During his rule Greek public expenditure on social protection amounted on average to 20,4% of GDP. The government of Simits augmented the expenditure on social security compared to previous governments. The rise to power of the social democrat Simits coincided with the impact of the European Union and resulted in a Europeanization of social policy tools. Noteworthy is the formation of committees of social dialogue, the formulation of national action plans on employment and the constitution of expert committees by the initiative of the prime-minister. The expert committees were part of a comprehensive strategy to simultaneously reform the labour market, industrial relations and the social-security system. A set of new institutions was created as well (Sotiropoulos, 2004: 273f).

Although there is no data available for 2002 and the actual decline of inequality at the end of the 90's may not have been as high as reported, the rule of Kostas Karamanlis may be identified as an episode of declining inequality in Greece.

In 2004 for the party Nea Dimokratia (ND) won the election over the long-time ruling party PASOK. Both income quintile share ratio and the GINI coefficient increased during 2006 and 2007 but at the end of the ND rule in 2008 both indicators had returned to the levels of 2005. Inequality did not rise immediately under the rule of Nea Dimokratia but the government primary spending was very high and the government reported manipulated numbers to the European Union (Argyrou and Tsoukalas, 2011: 174). The deterioration of public finances forced the subsequent government to accept the conditions for the adoption of a structural adjustment program. Thus the Nea Dimokratia government shares some responsibility for the following episode of rising inequality during the s

All evidence suggests that income inequality in Greece is rising. Economic theory and results from econometric analysis of previous fiscal consolidation episodes suggest that the policies of the Structural Adjustment Program 2010 increase income inequality in Greece. The full impact of the austerity policies on inequality in Greece may not yet be statistically visible. The distribution of incomes typically reacts slowly to economic shocks but the impacts of the austerity policies may persist over a long period of time. Easterly has shown that economic recessions, particularly with IMF involvement have an asymmetric effect on inequality (Easterly, 2000). Thus it will take a long period of economic growth to compensate for the negative impact of the ongoing economic recession in Greece.

3.3.8 Poverty

The Eurostat indicator of people at risk of poverty or social exclusion covers “persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers)” and people who are severely materially deprived or live in households with low-work intensity³

³ Definition of Eurostat's indicator **People at risk of poverty or social exclusion**: The Europe 2020 strategy promotes social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and social exclusion. This indicator corresponds to the sum of persons who are: at risk of poverty or

(<http://epp.eurostat.ec.europa.eu/tgm/web/table/description.jsp> [access 3.12.2013; 11:50]).

I use the indicator “people at risk of poverty or social exclusion” instead of Eurostat’s indicator of “monetary poverty”. Both are indicators of relative poverty but the former covers the definition of poverty as a multi-dimensional phenomena. That’s why in my opinion an indicator of monetary poverty and social exclusion reflects the living conditions in Greece in a more adequate and comprehensive way.

After this definition of Eurostat’s indicator persons at risk of poverty and social exclusion, in the year 2008, 3,046 Mio. people in Greece lived at risk of poverty, in 2009 this number declined to 3,007 Mio. Since 2010 poverty has increased annually at a considerable rate. The number of person facing the risk of poverty rose modestly from 2009 to 2010 but in each of the following two years 300.000 new people fell below the Greek poverty line. In 2011 3,4 Mio. persons lived at risk of poverty or social exclusion in Greece. In 2012 Eurostat registered an infamous Greek record with 3,795 Mio. persons or 34,65 of total population at risk of poverty or social exclusion.

Having a closer look at the data for the year 2012, Greek women have a higher poverty rate than men, with 35,2% of women and 33,9% of men living at risk of poverty or social exclusion.

A figure that highlights the bad living conditions in Greece, one third of children under six

severely materially deprived or living in households with very low work intensity. Persons are only counted once even if they are present in several sub-indicators. At risk-of-poverty are persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers). Material deprivation covers indicators relating to economic strain and durables. Severely materially deprived persons have living conditions severely constrained by a lack of resources, they experience at least 4 out of 9 following deprivations items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone. People living in households with very low work intensity are those aged 0-59 living in households where the adults (aged 18-59) work less than 20% of their total work potential during the past year. <http://epp.eurostat.ec.europa.eu/tgm/web/table/description.jsp> [access 3.12.2013; 11:50])

years are living at risk of poverty. From 2011 to 2012 the percentage of persons under 18 at risk of poverty rose significantly from 30% to 35%.

The all-time high youth unemployment in Greece has definitely taken its toll. Since the implementation of structural adjustment policies in the spring of 2010, poverty has risen tremendously in the age group of 18 to 24 years. From 2004 to 2009 the percentage of person living at risk of poverty decreased modestly but steadily, from 35,9% in 2004 to 31,6% in 2009. After that this trend has been completely reversed, in 2010 38,4% of persons aged between 18 and 24 years faced the risk of poverty or social exclusion. In 2011 poverty in this age group rose to 40%. It is worrying that at this point the negative started to aggravate significantly because in 2012 48,3% or practically one out of two persons aged between 18 and 24 years lived at risk of poverty. In December 2012 the unemployment rate of this age group in Greece was 58,1%. In 2013 the Greek monthly unemployment rate for persons aged 18-24 years has hovered between 58% and 60%. These worrying numbers seem to prove the relation between unemployment and poverty. Both youth-unemployment and the risk of poverty for young people have increased sharply since the adoption of the structural adjustment program in Greece.

Another evidence for the bad situation on the Greek labour market is that the risk of poverty for the core of the working age population (persons between 25 and 54 years) was 37% in 2012 and thus higher than for the average for the total population.

Greece has a very high rate of working poor. According to Eurostat's in-work at-risk-of poverty rate 13,4% of full time workers and 27,9% of part-time workers lived at risk of poverty in 2012 (Eurostat; access 4.12.2013; 13:25h). Although the structural adjustment policies aiming at higher labour-market-flexibility and decreasing unit-labour costs may not be

beneficial to the situation of working poor, the structural adjustment program cannot be blamed as the primary cause for the high in-work-at-poverty rate. Looking at the data for the last ten years, a high proportion of working poor characterises the Greek labour market throughout this period. 2003 12,5% of full-time workers lived at risk of poverty and the in-work-poverty rate has been above 12% for most the last ten years.

Still this is an important dimension of poverty and Greek has the second highest proportion of working poor in the European Union. The highest proportion of working poor in the EU has Romania at 15,9% in 2012. But this phenomena has pre-existed in the Greek labour market before the structural adjustment program. The roots of in-work poverty in Greece may be found in the structure of the labour market and the organization of the economy as a whole. This question deserves further research and cannot be answered by this diploma thesis.

Persons living in household with very low work intensity is defined as the number of persons (aged 0-59) living in households where adults work less than 20% of their total work potential during the past year (<http://epp.eurostat.ec.europa.eu/tgm/web/table/description.jsp>; access 4.12.2013; 14:28h]). Eurostat recognizes very low work intensity as a dimension of poverty.

Due to the sharp rise in unemployment in Greece, the number of households with very low work intensity has increased sharply since the adoption of the structural adjustment program 2010. Since 2009 where 6,5% of the Greek population lived in households with low work intensity, the degree of very low work intensity has more than doubled. The increase was especially sharp from 2010 (7,5% of total population) to 2011 (11,8%) and from 2011 to 2012 (14,1%). A total number of 1,158 Mio. persons in Greece lived in households with low work intensity in 2012.

The Greek statistical agency ELSTAT reports that 28,4% of the Greek population lived in a state of material deprivation⁴. Material deprivation is high among all age groups (ELSTAT, 2013: 53)

Almost **20%** of Greek household suffer from housing deprivation. They encounter at least one of the following problems: • Leaking roof, damp walls/floors/foundation, or rot in window frames or floor; • Lack of bath or shower in the dwelling; • Lack of indoor flushing toilet for sole use of the household; • Problems with the dwelling: too dark, not enough light. Still the rate of housing deprivation in Greece is at least statistically decreasing (source Eurostat; last update: 2.12.2013).

⁴ Materially deprived persons have living conditions severely constrained by a lack of resources, they experience at least 4 out of 9 following deprivations items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone. People living in households with very low work intensity are those aged 0-59 living in households where the adults (aged 18-59) work less than 20% of their total work potential during the past year. <http://epp.eurostat.ec.europa.eu/tgm/web/table/description.jsp> [access 3.12.2013; 11:50]

3.4 Conclusion

This diploma thesis has analysed the impact of structural adjustment programs on poverty. The first part consists of a framework presenting the most important channels through which structural adjustment impacts poverty and the standard of living in a country subject to structural adjustment.

The review of scientific literature in part 1 illustrates that authors referring to neoliberal theory expect the policies of structural adjustment to have different effects than authors referring to Keynesian economic theory. That theoretic divide is particularly visible in the views on the labour market, economic growth. I have included both views in part 1 in order to allow a comparison of the differing conclusions of different authors.

Part 2 has reviewed the structural adjustment policies in Argentina from 1990 to 2002. The structural reforms in Argentina featured privatisation, reduction of public employment, cuts of public sector wages and pensions, reform of the welfare system, administrative decentralization and the deregulation of labour and product markets, and the opening of the domestic market to foreign trade (Villalon, 2007: 140; Teunissen and Akkerman, 2003: 9; Takagi, 2004: 29).

Through a comparison of the structural adjustment policies in Argentina and Greece it was possible to identify a number of similar measures. It is not surprising that the underlying strategy of the structural reforms in both countries generally applies the findings of neoliberal. However the extent to which the policies have been basically identical in regard to the reform of the labour market and fiscal reform, has been somewhat remarkable.

The convertibility regime initially achieved positive results in the area of inflation and economic growth. But from 1995 onwards economic growth stagnated and poverty indicators worsened significantly.

The sharp rise in poverty after the Argentinian debt default demonstrated that it is necessary to have a contingency plan in place from the beginning of a structural adjustment program including a set-of-criteria to determine if the initial structural adjustment strategy is working or not the importance of a contingency plan. Despite that the IMF should have been aware of the importance of contingency plan after its experience in Argentina, no such plan has been included in the design of the structural adjustment programs for Greece.

The conditions of the structural adjustment program obliged the Greek government to reduce government expenditure sharply. The efforts to reduce the government deficit included measures to cut both public and private wages as well as pensions. The fiscal reforms resulted in the rise of a number of mass taxes including VAT taxes. Measures to fight tax conversion have been existent but have not been very efficient so far.

The policies resulting in direct effects of structural adjustment on poverty have reduced the real income of Greek citizens and thus caused a negative impact on poverty. The results of this diploma thesis suggest that low-income households in Greece have been particularly hard hit by the reforms of the structural adjustment programs.

Employment levels in Greece have collapsed since 2010. The total unemployment rate in Greece rose above 25% in 2013 and youth unemployment peaked at an unprecedented level of over 60%. The rise of unemployment levels has been much higher than expected by the EC/ECB/IMF mission. The staff member of EC/ECB/IMF have blamed still existing rigidities in the labour market for the poor performance for this development. My own analysis has

identified the sharp decrease of both domestic demand and economic output as the most important causes of the employment crisis in Greece. The structural adjustment programs had a direct negative effect on real incomes and thus have contributed to the decline of domestic demand.

Greece has experienced five consecutive years of economic recession. Losses in domestic demand were greater than gains in exporting industries. The pace and scale of structural reforms has outweighed any positive effects on demand components, resulting in an overall negative effect of the structural adjustment programs on economic growth in Greece (Spiezia et al., 2012: 12).

Greece has implemented public expenditure cuts amounting to almost 20% of GDP during the period 2010-2013. Despite this large fiscal adjustment the public debt of Greece has remained at an unsustainable high level. The gross government debt of Greece stood 157% of GDP at the end of 2012.

The tax rises implemented during the structural adjustment process had an inflationary effect. In light of the sharp decrease of labour costs, consumer prices did adjust slower than expected. The hike of energy prices had a particularly negative impact on poverty.

Because of the membership to the European Monetary Union Greece was forced to rely almost exclusively on fiscal policy to improve its external competitiveness. The first structural adjustment program 2010 failed to correct the overvaluation of Greece's real effective exchange rate.

The design of the fiscal consolidation package has contributed to a widening of the income gap in Greece because the bulk of public revenue increases has come from increases in regressive

taxes. The full impact of the structural adjustment reforms on inequality cannot yet be covered by statistical data but the data for the years 2010 and 2011 indicate an increase of income inequality.

At the end of 2012 a third of the Greek population lived in risk of poverty and social exclusion. The level of poverty in Greece has risen significantly since the implementation of the structural adjustment programs. Greece has a large number of working poor and a third of young people in Greece lives in risk of poverty and social exclusion.

Poverty has many faces and not all forms of poverty have been described in detail in this diploma thesis. The impact of the structural adjustment programs has forced many households to adjust its consumption expenditure. For example Greek households have lowered the average expenditure on medical care despite that the demand for health services is generally growing during an economic crisis. That the Greek infant mortality rate has been growing since the outbreak of the economic crisis highlights the devastating social consequences of structural adjustment in Greece.

4. Bibliography

- Acemoglu**, D., 2002. Technical Change, Inequality, and the Labor Market. *J. Econ. Lit.* 40, 7–72.
- Acemoglu**, D., Robinson, J.A., 2002. The Political Economy of the Kuznets Curve. *Rev. Dev. Econ.* 6(2), 183–203.
- Acemoglu**, D., Robinson, J.A., 2012. *Why Nations Fail. The Origins of Power, Prosperity and Poverty*. PROFILE BOOKS LTD, London.
- Agénor**, P.-R., 2004. Macroeconomic Adjustment and the Poor: Analytical Issues and Cross-Country Evidence. *J. Econ. Surv.* 18, 351–408.
- Agénor**, P.-R., 2005. The macroeconomics of poverty reduction. *Manch. Sch.* 73, 369–434.
- Ames**, B., Brown, W., Devarajan, S., Izquierdo, A., 2001. Macroeconomic policy and poverty reduction. International Monetary Fund.
- Araar**, A., Duclos, J.Y., 2010. Poverty and Inequality: A Micro Framework. *J. Afr. Econ.* 19, 357–398.
- Arghyrou**, M.G., Tsoukalas, J.D., 2011. The Greek Debt Crisis: Likely Causes, Mechanics and Outcomes: THE GREEK DEBT CRISIS. *World Econ.* 34, 173–191.
- Atkinson**, A.B., 1993. What is happening to the distribution of income in the U.K.? *Proc. Br. Acad.* vol.82, 317–351.
- Atkinson**, A.B., 1997. Bringing income distribution in from the cold. *Econ. J.* 107, 297–321.
- Barro**, R.J., 2001. Human capital and growth. *Am. Econ. Rev.* 91, 12–17.
- Bergh**, A., Nilsson, T., 2010. Do liberalization and globalization increase income inequality? *Eur. J. Polit. Econ.* 26, 488–505.
- Blanchard**, O., 2006. European unemployment: the evolution of facts and ideas. *Econ. Policy* 21, 5–59.
- Butterwegge**, C., 2009. *Armut in einem reichen Land. Wie das Problem verharmlost und verdrängt wird*. Campus Verlag GmbH, Frankfurt/Main.
- Cornia**, G.A., Jolly, R., Stewart (Eds.), 1987. *Adjustment with a human face*. Oxford University Press, Oxford.
- Cowell**, F.A., 2008. 13 Income distribution and inequality. *Elgar Companion Soc. Econ.* 209.
- Dollar**, D., Kraay, A., 2002. Growth is Good for the Poor. *J. Econ. Growth* 7, 195–225.
- Easterly**, W., 2000. The Effect of of IMF and World Bank programs on poverty. World Bank.
- Economou**, M., Madianos, M., Peppou, L.E., Patelakis, A., Stefanis, C.N., 2013a. Major depression in the Era of economic crisis: A replication of a cross-sectional study across Greece. *J. Affect. Disord.* 145, 308–314.
- Economou**, M., Madianos, M., Peppou, L.E., Theleritis, C., Patelakis, A., Stefanis, C., 2013b. Suicidal ideation and reported suicide attempts in Greece during the economic crisis. *World Psychiatry* 12, 53–59.
- EEAG**, 2013. *The EEAG Report on the European Economy*. CESifo, Munich.
- ELSTAT**, 2013. *Living Conditions in Greece*. Hell. Stat. Auth.

- EPSU**, E.F. of P.S.U., 2010. “The wrong target – how governments are making public sector workers pay for the crisis”. European Federation of Public Services Unions (EPSU).
- European Centre for Disease Prevention and Control**, 2012. Risk assessment on HIV in Greece. ECDC, Stockholm.
- European Commission/Eurostat**, 2012. Labour market policy expenditures and participants: data 2010, 2012 edition. ed. Publications Office of the European Union, Luxembourg.
- European Commission**, 2010a. The Economic Adjustment Programme for Greece. Occasional Pap.
- European Commission**, 2010b. The Economic Adjustment Programme for Greece. Second Review - autumn 2010. Occasional Pap.
- European Commission**, 2010c. The Economic Adjustment Programme for Greece. First Review - Summer 2010. Occasional Pap.
- European Commission**, 2011a. The Economic Adjustment Programme for Greece. Fifth Review - October 2011. Occasional Pap.
- European Commission**, 2011b. The Economic Adjustment Programme for Greece. Third Review - February 2011. Occasional Pap.
- European Commission**, 2012a. The Second Economic Adjustment Programme for Greece. March 2012. Occasional Pap.
- European Commission**, 2012b. Your social security rights in Greece.
- European Commission**, Directorate-General for Economic and Financial Affairs, 2011. The economic adjustment programme for Greece fourth review, spring 2011. Publications Office of the European Union, Luxembourg.
- Flassbeck**, H., Spiecker, F., 2000. Löhne und Arbeitslosigkeit im internationalen Vergleich. Stud. Für Hans Böckler Stift. Den Bundesvorstand DGB Berl.
- Flassbeck**, H., Spiecker, F., 2001. Lohnstruktur und Beschäftigung.
- Foster**, J.E., Székely, M., 2008. Is economic growth good for the poor? Tracking low incomes using general means. *Int. Econ. Rev.* 49, 1143–1172.
- Fountoulakis**, K.N., Savopoulos, C., Siamouli, M., Zaggelidou, E., Mageiria, S., Iacovides, A., Hatzitolios, A.I., 2012. Trends in suicidality amid the economic crisis in Greece. *Eur. Arch. Psychiatry Clin. Neurosci.*
- Fouskas**, V.K., 2013. Whatever Happened to Greece? *Polit. Q.* 84, 132–138.
- Galbraith**, J.K., 1988. Die Entmythologisierung der Wirtschaft. Grundvoraussetzung ökonom. Denkens. Zsolnay, Wien, Darmstadt.
- Garuda**, G., 2000. The Distributional Effects of IMF Programs: A Cross-Country Analysis. *World Dev.* Vol.28, 1031–1051.
- Gosling**, A., Machin, S., 1995. TRADE UNIONS AND THE DISPERSION OF EARNINGS IN BRITISH ESTABLISHMENTS, 1980–90†. *Oxf. Bull. Econ. Stat.* 57, 167–184.
- Gottschalk**, P., Smeeding, T.M., 2000. Chapter 5 Empirical evidence on income inequality in industrialized countries, in: Anthony B. Atkinson and François Bourguignon (Ed.), *Handbook of Income Distribution*. Elsevier, pp. 261–307.

- Guajardo, J., Leigh, D., Pescatori, A., 2011.** Expansionary Austerity New International Evidence. International Monetary Fund.
- Herr, H., Niechoj, T., Thomasberger, C., Truger, A., van Treeck, T., 2012.** From Crisis to growth? The challenge of debt and imbalances. Metropolis Verlag, Marburg.
- Ifanti, A.A., Argyriou, A.A., Kalofonou, F.H., Kalofonos, H.P., 2013.** Financial crisis and austerity measures in Greece: Their impact on health promotion policies and public health care. *Health Policy* 113, 8–12.
- IMF, 1999.** World Economic Outlook. International Monetary Fund, Washington D.C.
- IMF, staff, 2013.** Fiscal monitor, october 2013. International Monetary Fu, [S.l.].
- International Monetary Fund, 2012.** Request for Extended Arrangement Under the Extended Fund Facility.
- Karanikolos, M., Mladovsky, P., Cylus, J., Thomson, S., Basu, S., Stuckler, D., Mackenbach, J.P., McKee, M., 2013.** Financial crisis, austerity, and health in Europe. *The Lancet*.
- Kastanioti, C., Kontodimopoulos, N., Stasinopoulos, D., Kapetaneas, N., Polyzos, N., 2013.** Public procurement of health technologies in Greece in an era of economic crisis. *Health Policy* 109, 7–13.
- Kentikelenis, A., Papanicolas, I., 2011.** Economic crisis, austerity and the Greek public health system. *Eur. J. Public Health* 22, 4–5.
- Kolko, G., 1967.** Besitz und Macht. Sozialstruktur und Einkommensverteilung in den USA, original in american english translated into german by Hans-Werner Saas. ed. Suhrkamp, Frankf.
- Krof, K., Lange, F., Notowidigdo, M.J., 2013.** “Duration Dependence And Labour Market Conditions: Evidence From A Field Experiment”. *Q. J. Econ.* August 2013.
- Krugman, P., Venables, A., 1995.** GLOBALIZATION AND THE INEQUALITY OF NATIONS. *Q. J. Econ.* 110, 857–880.
- Lucas Jr., R.E., 1988.** On the mechanics of economic development. *J. Monet. Econ.* 22, 3–42.
- Madianos, M., Economou, M., Alexiou, T., Stefanis, C., 2010.** Depression and economic hardship across Greece in 2008 and 2009: two cross-sectional surveys nationwide. *Soc. Psychiatry Psychiatr. Epidemiol.* 46, 943–952.
- Matsaganis, M., Leventi, C., 2013.** The Distributional Impact of the Greek Crisis in 2010*. *Fisc. Stud.* 34, 83–108.
- Mead, L.M., 1989.** The logic of workfare: The underclass and work policy. *Ann. Am. Acad. Pol. Soc. Sci.* 501, 156–169.
- Milionis, C., 2013.** Provision of healthcare in the context of financial crisis: Approaches to the Greek health system and international implications. *Nurs. Philos.* 14, 17–27.
- OECD, 2013.** Health at a Glance 2013: OECD Indicators.
- Przeworski, A., Vreeland, J.R., 2000.** The effect of IMF programs on economic growth. *J. Dev. Econ.* Vol. 62, 385–421.
- Raffer, K., 2010.** Debt management for development: protection of the poor and the Millennium Development Goals. Elgar, Cheltenham ua.
- Sen, A., 2001.** Development as freedom. Oxford University Press, Oxford ; New York.

- Sinn, H.-W.**, 1997. Kapitalbeteiligung und Lohndifferenzierung: ein Vorschlag zur Lösung der Beschäftigungskrise. *Mitteilungen Aus Arbeitsmarkt- Berufsforsch.* 30, 822–827.
- Sotiropoulos, D.A.**, 2004. The EU's Impact on the Greek Welfare State: Europeanization on Paper? *J. Eur. Soc. Policy* 14, 267–284.
- Spiezia, V.**, Tobin, S., Torres, R., Kühn, S., López Mourelo, E., Pignatti, C., Samaan, D., Escudero, V., International Institute for Labour Studies, 2012. EuroZone job crisis trends and policy responses. ILO, Geneva.
- Streeten, P.**, 1993. From growth via basic needs, to human development: the individual process of development, in: Raffer, K., Murshed, S.M. (Eds.), *Trade, Transfers and Development, Problems and Prospects for the Twentieth Century*,. Edward Elgar Publishing, Aldershot, UK and Brookfield, VT, USA, p. 116ff.
- Takagi, S.**, 2004. The IMF and Argentina, 1991-2001. International Monetary Fund.
- Tausch, A.**, 2010. Life expectancy, infant mortality and inequality - onceagain. *BMJ* 339.
- Teunissen, J.J.**, Akkerman, A., 2003. The crisis that was not prevented. *Fondad*.
- The Economist**, 2013. Bandwagon behaviour. Why missing out on one job application is bad news for your chances in the next. *The Economist*.
- UNCTAD**, 2012. *TRADE AND DEVELOPMENT REPORT, 2012*, Report by the secretariat of the United Nations Conference on Trade and Development. United Nations, New York, Geneva.
- Villalon, R.**, 2007. Neoliberalism, Corruption, and Legacies of Contention: Argentina's Social Movements, 1993-2006. *Lat. Am. Perspect.* 34, 139–156.
- Von Wiese, L.**, 1954. Über die Armut. *Köln. Z. Für Soziol.* 1/1954.
- Vreeland, J.R.**, 2002. ____ The effect of IMF program's on labor _____. _____. *World Dev.* Vol. 30, pp. 121–139.
- Weber, M.**, 2006. Die protestantische Ethik und der "Geist" des Kapitalismus : Textausgabe auf der Grundlage der ersten Fassung von 1904/05 mit einem Verzeichnis der wichtigsten Zusätze und Veränderungen aus der zweiten Fassung von 1920. FinanzBuch-Verl., München.
- Woestman, L.**, 2012. Economic Shock Therapy in the Eurozone: The Greek case. *Development* 55, 382–389.
- Woo, J.**, Bova, M.E., Kinda, M.T., Zhang, M.Y.S., 2013. Distributional Consequences of Fiscal Consolidation and the Role of Fiscal Policy: What Do the Data Say? International Monetary Fund.
- World Bank**, 2000. Poverty report for Argentina. Vol 1 of Argentina: poor people in a rich country. World Bank, Washington, D.C.
- World Bank**, 2003. Main Report. Vol. 1 Argentina - Crisis and poverty 2003 - a poverty assessment. World Bank, Washington, D.C.

5. Annex

5.1 Illustrations

Figure 1: *Employment and Real labour cost in Europe and the USA in the period 1970-1998; Taken from MF, 1999. World Economic Outlook. International Monetary Fund, Washington D.C.: 95)* _____ 15

Figure 2: *Employment (= Beschäftigung) and Real labour cost(=Reallöhne) in Europe and the USA in the period 1980-2001; Taken from Flassbeck, H., Spiecker, F., 2000. Löhne und Arbeitslosigkeit im internationalen Vergleich. Stud. Für Hans Böckler Stift. Den Bundesvorstand DGB Berl.: 10.* _____ 177

Figure 3: *Higher inequality (measured by the GINI coefficient) and a greater number of structural adjustment programs reduce the impact of economic growth on poverty; Taken from Easterly, W., 2000. The Effect of of IMF and World Bank programs on poverty. World Bank.: 12* _____ 37

Figure 4 *Harmonised interest rates for long term-government bonds denominated in national currencies; own illustration, data source: Eurostat* _____ 64

Figure 5: *WVS Data sample for and Germany and Greece, age and education of respondents; own illustration; data source: World Value Surveys Databank* _____ 66

Figure 6: *WVS importance of leisure time in life; own illustration; data source: World Value Surveys Databank* _____ 67

Figure 7: *WVS attendance of lawful demonstrations; own illustration; data source: World Value Surveys Databank* _____ 68

Figure 8: *WVS importance of the state guarenteeing basic needs for all; own illustration; data source: World Value Surveys Databank* _____ 70

Figure 9: *WVS attitude towards income inequality; own illustration; data source: World Value Surveys Databank* _____ 70

Figure 10: WVS "Do you think compatriots are cheating on taxes?" own illustration; data source: World Value Surveys Databank _____ 72

Figure 11: Labour market policies in the European Union; Taken from European Commission/Eurostat, 2012, p.20; EL= Greece _____ 78

Figure 12: The employment status of the Greek population; own illustration; data source: ELSTAT, 2013. Living Conditions in Greece. Hellenic Statistical Authority p.32-35 _____ 95

Figure 13: The labour market in Greece 2001-2013. Employment rate and unemployment rate; own illustration, data source: ELSTAT, 2013. Living Conditions in Greece. Hellenic Statistical Authority, p. 32f _____ 96

Figure 14: Long-term unemployed persons as a percentage of the labour force. quarterly data from 2008 until March 2013; own illustration; data source: Ilostat and ELSTAT, 2013. Living Conditions in Greece. Hellenic Statistical Authority, p. 36f _____ 97

Figure 15: Harmonised and seasonally adjusted youth unemployment rates from October 2009 until June 2013 (youth = persons aged 15-25 years); own illustration, data source: Eurostat; last updated: 1.10. 2013 _____ 100

Figure 16: Numbers and Percentage of Persons living in Jobless Households in Greece; own illustration, data source: ELSTAT, 2013. Living Conditions in Greece. Hellenic Statistical Authority p. 38f _____ 102

Figure 17: Comparison of the unemployment rate in Greece with projections made by the EC/ECB/IMF mission at different points of time during the structural adjustment process; own illustration data sources: European Commission, 2010a. The Economic Adjustment Programme for Greece. Occasional Pap.: 33; European Commission, Directorate-General for Economic and Financial Affairs, 2011. The economic adjustment programme for Greece fourth review, spring 2011. Publications Office of the European Union, Luxembourg: 76; European Commission, 2012a. The Second Economic Adjustment Programme for Greece. March 2012. Occasional Pap.: 87. _____ 103

Figure 18 compares the time series 2000-2013 of the unemployment rate with indicators for inflation, unit labour costs and economic growth, own illustration; data source Eurostat (blue line = Eurostat's Harmonised Indices of Consumer prices (HICP); grey line =

Eurostat's labour cost index for the sectors industry, construction and services (code=LCSTRUCT); yellow line = Eurostat's gross value added at basic prices (Eurostat database National Accounts by 10 branches – volumes, NACE_R2, INDIC_NA, Unit: Millions of euro, chain-linked volumes, reference year 2005 (at 2005 exchange rates); red line= Eurostat's unemployment rate total _____ 107

Figure 19: Real GDP growth rate in Greece 2005-2014; GDP - volume; percentage change over previous year; own illustration, data source: Eurostat, last updated 19.10. 2013, ____ 109

Figure 20: Investment in Greece by institutional sector in percentage of GDP; own illustration, data source: Eurostat last updated 21.10.2013 _____ 112

Figure 21 shows two indicators for confidence in the economy from January 2009 until September 2013. The orange line is the Overall economic sentiment indicator, the blue line the consumer confidence indicator (right scale); own illustration, data source: http://www.iobe.gr/ec_situation_en.asp?PD=2013 [access: 10.12.2013]; Jän=January, Mär= March, Mai=May, Jul=July, Sep=September, Nov=November _____ 116

Figure 22 shows two indicators for confidence in the economy from January 2000 until September 2013. The orange line is the Overall economic sentiment indicator, the blue line the consumer confidence indicator (right scale); own illustration, data source: http://www.iobe.gr/ec_situation_en.asp?PD=2013 [access: 10.12.2013]; Jän=January, Mär= March, Mai=May, Jul=July, Sep=September, Nov=November _____ 117

Figure 23: Gross government debt of Greece as a percentage of GDP. Comparison of the Eurostat data on gross government debt (blue bar) with debt levels projected by the EC/ECB/IMF staff member at different points of time during the structural adjustment program; own illustration; data sources: Eurostat General government gross debt (code: tsdde410, last updated 4.12.2013); European Commission, 2010a. The Economic Adjustment Programme for Greece. Occasional Pap.: 13; European Commission, 2011b. The Economic Adjustment Programme for Greece. Third Review - February 2011. Occasional Pap.: 74; European Commission, 2012a. The Second Economic Adjustment Programme for Greece. March 2012. Occasional Pap.: 90 _____ 119

Figure 24: Greece's: quarterly general government deficit from 2010 until the second quarter 2013 in million of Euro; own illustration, data sources: Eurostat Net lending (+) /net

borrowing (-), not seasonally adjusted data, last updated 11.11.2013; European Commission, 2010a. *The Economic Adjustment Programme for Greece. Occassional Pap.*: 27 _____ 120

Figure 25: Eurostat's Harmonised Indices of Consumer Prices (HICP) from January 2010 until July 2013; own illustration, data source: Eurostat: All-items HICP, 12-month average rate of change, last updated 16.9.2013 _____ 122

Figure 26: Eurostat's Harmonised Indices for Consumer Prices for different goods and services from January 2010 until September 2013; own illustration; data source: Eurostat HICP, annual rate of change, last updated 15.11.2013 _____ 124

Figure 27: Eurostat's Harmonised Indices for Consumer Prices (HICP) for different goods and services from January 2010 until September 2013; own illustration; data source: Eurostat HICP, Index 2005 = 100, last updated 15.11.2013 _____ 125

Figure 28: The real effective exchange-rate (36 trading partners) of the European Union, Greece and Germany from 1994 until 2012; own illustration; data source: Eurostat (code: tsdec330), last updated 18.6.2013 _____ 127

Figure 29: S80/S20 income quintile share ratio of Greece; own illustration, data source Eurostat (code: ilc_di11), last updated 18.11.2013; blue line = S80/S20 income quintile share ratio, red dotted line = trend line (3 periods moving average), black dotted line = trend line ($y = 0,0002x^4 - 0,0053x^3 + 0,0629x^2 - 0,3471x + 6,8955$) _____ 134

Figure 30: WVS "hard work as important quality for children"; own illustration; source: Value Surveys Databank _____ 153

Figure 31: WVS "saving money as an important child quliaty"; own illustration; source: Value Surveys Databank _____ 1533

Figure 32: WVS importance of hard work in life; own illustration; source: Value Surveys Databank _____ 153

Figure 33: WVS work as a way to achieve more gender equality; own illustration; source: Value Surveys Databank _____ 154

Figure 34: WVS "Do people who don't work turn lazy?"; own illustration; source: Value Surveys Databank _____ 154

Figure 35: WVS "Are politics important in your life?"; own illustration; source: Value Surveys Databank	154
Figure 36: WVS satisfaction with political system for governing the country; own illustration; source: Value Surveys Databank	155
Figure 37: membership in political parties; own illustration; source: Value Surveys Databank	155
Figure 38: WVS membership in labour unions; own illustration; source: Value Surveys Databank	155
Figure 39: WVS membership to non-governmental organisations; own illustration; source: Value Surveys Databank	156
Figure 40: WVS "Should unemployed persons have a right to refuse a job?"; own illustration; source: Value Surveys Databank	156
Figure 41: WVS liberalism vs. state control; own illustration; source: Value Surveys Databank	156
Figure 42 WVS "Should the government take more responsibility in your country?"; own illustration; source: Value Surveys Databank	157
Figure 43: WVS "Is it justifiable to cheat on taxes?"; own illustration; source: Value Surveys Databank	157
Figure 44: WVS "Is it justifiable avoiding a fare on public transport?"; own illustration; source: Value Surveys Databank	157
Figure 45: Indicators of poverty and inequality for Greece from 2004 until 2012; own illustration; data source: Eurostat	158

5.2 Additional data

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

BASE=2154 Weight [with split ups]		Country/region								
		Germany					Greece			
		Total	Total	Education level (recoded)			Total	Education level (recoded)		
				Lower	Middle	Upper		Lower	Middle	Upper
Important child qualities: hard work	Not mentioned	72.6 %	77.0 %	70.2 %	84.2 %	77.7 %	68.7 %	73.3 %	70.9 %	66.1 %
	Important	27.4 %	23.0 %	29.8 %	15.8 %	22.3 %	31.3 %	26.7 %	29.1 %	33.9 %
	Total	2154 (100%)	1019 (100%)	485 (100%)	451 (100%)	83 (100%)	1135 (100%)	101 (100%)	470 (100%)	564 (100%)

Source: Values Surveys Databank

Figure 30: WVS "hard work as important quality for children"; own illustration; source: Value Surveys Databank

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

Selected countries/samples: Germany west (1999), Greece (1999)

BASE=2155 Weight [with split ups]		Country/region										
		Germany						Greece				
		Total	Total	Work important in life				Total	Work important in life			
				Very important	Rather important	Not very important	Not at all important		Very important	Rather important	Not very important	Not at all important
Important child qualities: thrift saving money and things	Not mentioned	67.7 %	65.0 %	67.0 %	68.3 %	59.2 %	41.4 %	70.1 %	68.9 %	72.4 %	64.2 %	81.2 %
	Important	32.3 %	35.0 %	33.0 %	31.7 %	40.8 %	58.6 %	29.9 %	31.1 %	27.6 %	35.8 %	18.8 %
	Total	2155 (100%)	1022 (100%)	416 (100%)	417 (100%)	127 (100%)	62 (100%)	1133 (100%)	672 (100%)	392 (100%)	53 (100%)	16 (100%)

Source: Values Surveys Databank

Figure 31: WVS "saving money as an important child quality"; own illustration; source: Value Surveys Databank

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

BASE=2165 Weight [with split ups]		Country/region		
		Total	Germany	Greece
Work important in life	Very important	50.4 %	40.5 %	59.2 %
	Rather important	37.6 %	40.9 %	34.6 %
	Not very important	8.4 %	12.5 %	4.7 %
	Not at all important	3.6 %	6.1 %	1.4 %
	Total	2165 (100%)	1027 (100%)	1138 (100%)

Source: Values Surveys Databank

Figure 32: WVS Importance of hard work in life; own illustration; source: Value Surveys Databank

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

BASE=2087

Weight [with split ups]

		Country/region								
		Germany						Greece		
		Total	Total	Education level (recoded)			Total	Education level (recoded)		
				Lower	Middle	Upper		Lower	Middle	Upper
Job best way for women to be independent	Agree strongly	35.5 %	32.9 %	29.8 %	34.9 %	40.2 %	37.7 %	34.3 %	38.5 %	37.7 %
	Agree	45.9 %	47.1 %	45.8 %	48.4 %	47.9 %	44.7 %	40.4 %	44.9 %	45.4 %
	Disagree	16.3 %	17.0 %	20.7 %	14.2 %	10.8 %	15.6 %	21.2 %	14.9 %	15.2 %
	Strongly disagree	2.4 %	3.0 %	3.7 %	2.5 %	1.0 %	1.9 %	4.0 %	1.8 %	1.6 %
	Total	2087 (100%)	985 (100%)	470 (100%)	436 (100%)	79 (100%)	1102 (100%)	99 (100%)	457 (100%)	546 (100%)

Source: Values Surveys Databank

Figure 33: WVS Work as a way to achieve more gender equality; own illustration; source: Value Surveys Databank

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

BASE=2135

Weight [with split ups]

		Country/region		
		Total	Germany	Greece
People who don't work turn lazy	Strongly agree	19.4 %	17.6 %	21.0 %
	Agree	35.0 %	34.6 %	35.3 %
	Neither agree or disagree	22.5 %	21.4 %	23.5 %
	Disagree	19.0 %	21.2 %	17.1 %
	Strongly disagree	4.1 %	5.2 %	3.1 %
	Total	2135 (100%)	1009 (100%)	1126 (100%)

Source: Values Surveys Databank

Figure 34: WVS "Do people who don't work turn lazy?"; own illustration; source: Value Surveys Databank

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

BASE=2138

Weight [with split ups]

		Country/region								
		Germany						Greece		
		Total	Total	Education level (recoded)			Total	Education level (recoded)		
				Lower	Middle	Upper		Lower	Middle	Upper
Politics important in life	Very important	9.3 %	10.0 %	6.0 %	12.3 %	20.4 %	8.7 %	8.9 %	7.5 %	9.7 %
	Rather important	28.5 %	29.2 %	22.1 %	33.1 %	49.0 %	27.9 %	26.7 %	24.4 %	31.1 %
	Not very important	40.6 %	40.6 %	43.4 %	40.1 %	26.9 %	40.6 %	36.6 %	41.8 %	40.3 %
	Not at all important	21.6 %	20.2 %	28.5 %	14.4 %	3.7 %	22.8 %	27.7 %	26.3 %	18.9 %
	Total	2138 (100%)	1014 (100%)	480 (100%)	451 (100%)	83 (100%)	1124 (100%)	101 (100%)	467 (100%)	556 (100%)

Source: Values Surveys Databank

Figure 35: WVS "Are politics important in your life?"; own illustration; source: Value Surveys Databank

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

BASE=2139		Country/region		
Weight [with split ups]		Total	Germany	Greece
Rate political system for governing country	Bad	4.8 %	2.7 %	6.6 %
	2	4.6 %	2.6 %	6.5 %
	3	10.5 %	6.8 %	13.8 %
	4	13.2 %	10.5 %	15.7 %
	5	17.2 %	13.3 %	20.8 %
	6	16.5 %	16.9 %	16.2 %
	7	16.0 %	21.0 %	11.5 %
	8	12.2 %	18.7 %	6.3 %
	9	3.2 %	5.0 %	1.6 %
	Very good	1.7 %	2.4 %	1.0 %
	Total	2139 (100%)	1019 (100%)	1120 (100%)
	Base for mean	2139	1019	1120
	Mean	5,40	6.0	4,80
	Standard Deviation	2,10	2,02	2.00

Source: Values Surveys Databank

Figure 36: WVS satisfaction with political system for governing the country; own illustration; source: Value Surveys Databank

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

BASE=2166		Country/region								
Weight [with split ups]		Germany					Greece			
		Total	Total	Education level (recoded)			Total	Education level (recoded)		
				Lower	Middle	Upper		Lower	Middle	Upper
Belong to political parties	Not mentioned	94.5 %	97.2 %	98.2 %	97.3 %	90.7 %	92.1 %	94.1 %	91.1 %	92.6 %
	Belong	5.5 %	2.8 %	1.8 %	2.7 %	9.3 %	7.9 %	5.9 %	8.9 %	7.4 %
	Total	2166 (100%)	1026 (100%)	488 (100%)	454 (100%)	83 (100%)	1140 (100%)	101 (100%)	472 (100%)	567 (100%)

Source: Values Surveys Databank

Figure 37: membership in political parties; own illustration; source: Value Surveys Databank

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

BASE=2166		Country/region								
Weight [with split ups]		Germany					Greece			
		Total	Total	Education level (recoded)			Total	Education level (recoded)		
				Lower	Middle	Upper		Lower	Middle	Upper
Belong to labour unions	Not mentioned	92.3 %	93.0 %	94.0 %	91.6 %	94.4 %	91.7 %	94.1 %	92.6 %	90.5 %
	Belong	7.7 %	7.0 %	6.0 %	8.4 %	5.6 %	8.3 %	5.9 %	7.4 %	9.5 %
	Total	2166 (100%)	1026 (100%)	488 (100%)	454 (100%)	83 (100%)	1140 (100%)	101 (100%)	472 (100%)	567 (100%)

Source: Values Surveys Databank

Figure 38: WVS membership in labour unions; own illustration; source: Value Surveys Databank

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

Weight [with split ups]		Country/region								
		Germany						Greece		
		Education level (recoded)			Education level (recoded)			Education level (recoded)		
		Total	Total	Lower	Middle	Upper	Total	Lower	Middle	Upper
Belong to conservation, the environment, ecology, animal rights	Not mentioned	92.8 %	97.2 %	98.3 %	96.8 %	92.6 %	88.9 %	96.0 %	91.3 %	85.7 %
	Belong	7.2 %	2.8 %	1.7 %	3.2 %	7.4 %	11.1 %	4.0 %	8.7 %	14.3 %
	Total	2166 (100%)	1026 (100%)	488 (100%)	454 (100%)	83 (100%)	1140 (100%)	101 (100%)	472 (100%)	567 (100%)

Source: Values Surveys Databank

Figure 39: WVS membership to non-governmental organisations; own illustration; source: Value Surveys Databank

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

Weight [with split ups]		Country/region		
		Total	Germany	Greece
Job taking of the unemployed	Unemployed should take any job	15.7 %	21.6 %	10.4 %
	2	9.4 %	13.4 %	5.8 %
	3	13.9 %	18.1 %	10.0 %
	4	11.0 %	12.9 %	9.3 %
	5	12.5 %	9.4 %	15.3 %
	6	8.1 %	6.2 %	9.8 %
	7	9.8 %	6.8 %	12.5 %
	8	9.1 %	5.9 %	12.0 %
	9	4.4 %	2.5 %	6.2 %
	Unemployed have a right to refuse a job	6.1 %	3.3 %	8.6 %
	Total	2132 (100%)	1016 (100%)	1116 (100%)
	Base for mean	2132	1016	1116
	Mean	4,70	3,90	5,50
	Standard Deviation	2,74	2,52	2,69

Source: Values Surveys Databank

Figure 40: WVS "Should unemployed persons have a right to refuse a job?"; own illustration; source: Value Surveys Databank

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

Weight [with split ups]		Country/region								
		Germany						Greece		
		Education level (recoded)			Education level (recoded)			Education level (recoded)		
		Total	Total	Lower	Middle	Upper	Total	Lower	Middle	Upper
Firms and freedom	State should give more freedom to firms	10.7 %	14.2 %	11.8 %	16.2 %	16.7 %	7.6 %	9.6 %	9.8 %	5.3 %
	2	7.5 %	9.8 %	11.1 %	8.1 %	11.1 %	5.5 %	6.4 %	5.7 %	5.1 %
	3	12.8 %	16.3 %	14.0 %	19.1 %	13.7 %	9.8 %	5.3 %	10.5 %	9.9 %
	4	11.0 %	14.4 %	16.8 %	12.6 %	10.8 %	7.9 %	2.1 %	6.8 %	9.7 %
	5	17.7 %	14.4 %	13.2 %	15.0 %	17.1 %	20.6 %	17.0 %	19.0 %	22.6 %
	6	9.4 %	10.0 %	11.0 %	9.3 %	8.6 %	8.9 %	5.3 %	7.2 %	10.8 %
	7	9.5 %	7.7 %	7.6 %	7.7 %	8.6 %	11.1 %	8.5 %	9.4 %	13.1 %
	8	9.4 %	6.3 %	5.6 %	6.0 %	11.5 %	12.2 %	10.6 %	14.0 %	11.0 %
	9	5.0 %	3.2 %	3.5 %	3.4 %	1.0 %	6.6 %	11.7 %	7.2 %	5.1 %
	State should control firms more effectively	7.0 %	3.7 %	5.4 %	2.5 %	1.0 %	9.9 %	23.4 %	10.3 %	7.2 %
	Total	2072 (100%)	977 (100%)	457 (100%)	439 (100%)	80 (100%)	1095 (100%)	94 (100%)	457 (100%)	544 (100%)
	Base for mean	2072	977	457	439	80	1095	94	457	544
	Mean	5,10	4,50	4,60	4,30	4,30	5,70	6,50	5,60	5,60
	Standard Deviation	2,60	2,44	2,50	2,41	2,41	2,61	3,05	2,76	2,39

Source: Values Surveys Databank

Figure 41: WVS liberalism vs. state control; own illustration; source: Value Surveys Databank

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

BASE=2123

Weight [with split ups]

selected countries/samples: Germany west [1999], Greece [1999]

BASE=2123		Country/region									
Weight [with split ups]		Germany					Greece				
		Total	Education level (recoded)			Total	Education level (recoded)				
		Total	Lower	Middle	Upper	Total	Lower	Middle	Upper		
Government responsibility	People should take more responsibility	12.4 %	16.6 %	16.5 %	15.7 %	21.3 %	8.6 %	9.0 %	10.7 %	6.7 %	
	2	8.5 %	12.2 %	12.8 %	12.2 %	8.7 %	5.1 %	5.0 %	4.1 %	6.0 %	
	3	14.2 %	21.3 %	18.9 %	24.2 %	19.5 %	7.8 %	6.0 %	5.4 %	10.2 %	
	4	12.7 %	16.4 %	16.1 %	15.1 %	25.8 %	9.3 %	6.0 %	9.6 %	9.6 %	
	5	16.0 %	10.3 %	9.3 %	10.6 %	14.8 %	21.1 %	23.0 %	18.6 %	22.9 %	
	6	8.3 %	6.8 %	6.4 %	8.1 %	2.3 %	9.6 %	5.0 %	10.5 %	9.6 %	
	7	10.1 %	8.2 %	10.2 %	6.9 %	3.9 %	11.7 %	10.0 %	10.9 %	12.7 %	
	8	8.9 %	4.8 %	5.6 %	4.2 %	3.6 %	12.5 %	14.0 %	12.8 %	12.0 %	
	9	3.2 %	1.2 %	1.8 %	0.8 %	-	4.9 %	6.0 %	5.1 %	4.5 %	
	The government should take more responsibility	5.9 %	2.2 %	2.4 %	2.3 %	-	9.3 %	16.0 %	12.2 %	5.6 %	
	Total	2123 (100%)	1006 (100%)	474 (100%)	449 (100%)	83 (100%)	1117 (100%)	100 (100%)	467 (100%)	550 (100%)	
	Base for mean	2123	1006	474	449	83	1117	100	467	550	
	Mean	4.80	4.0	4.0	3.90	3.50	5.60	6.0	5.80	5.40	
Standard Deviation	2.57	2.25	2.38	2.21	1.84	2.57	2.81	2.72	2.40		

Source: Values Surveys Databank

Figure 42 WVS "Should the government take more responsibility in your country?"; own illustration; source: Value Surveys Databank

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

BASE=1681

Weight [with split ups]

Selected countries/samples: Germany west [1999], Greece [1999]

BASE=1681 Weight [with split ups]		Country/region									
		Total	Germany					Greece			
			Total	Income level			Total	Income level			
				Low	Medium	High		Low	Medium	High	
Justifiable: cheating on taxes	Never justifiable	44.7 %	55.1 %	60.4 %	51.3 %	53.3 %	36.3 %	42.6 %	36.2 %	30.1 %	
	2	12.6 %	7.9 %	5.7 %	8.9 %	9.4 %	16.4 %	11.1 %	19.9 %	17.9 %	
	3	12.1 %	13.3 %	11.6 %	16.4 %	11.5 %	11.1 %	13.8 %	8.9 %	10.9 %	
	4	8.8 %	9.6 %	8.6 %	9.8 %	10.5 %	8.1 %	6.0 %	7.7 %	10.6 %	
	5	8.4 %	5.7 %	5.1 %	5.7 %	6.4 %	10.6 %	10.4 %	8.9 %	12.6 %	
	6	3.5 %	2.7 %	2.5 %	4.1 %	1.2 %	4.2 %	3.4 %	4.9 %	4.3 %	
	7	2.7 %	1.6 %	0.3 %	1.5 %	3.4 %	3.6 %	4.4 %	3.4 %	3.0 %	
	8	4.0 %	2.1 %	3.9 %	0.8 %	1.6 %	5.5 %	4.4 %	6.4 %	5.6 %	
	9	1.0 %	0.5 %	0.7 %	0.3 %	0.4 %	1.4 %	1.7 %	1.2 %	1.3 %	
	Always justifiable	2.3 %	1.6 %	1.2 %	1.4 %	2.4 %	2.8 %	2.3 %	2.5 %	3.6 %	
	Total	1681 (100%)	755 (100%)	266 (100%)	280 (100%)	209 (100%)	926 (100%)	298 (100%)	326 (100%)	302 (100%)	
	Base for mean	1681	755	266	280	209	926	298	326	302	
	Mean	3,50	3,20	2,30	2,40	2,50	3,70	3,10	3,20	3,40	
	Standard Deviation	2,02	1,65	2,10	1,93	2,17	2,25	2,48	2,51	2,52	

Source: Values Surveys Databank

Figure 43: WVS "Is it justifiable to cheat on taxes?"; own illustration; source: Value Surveys Databank

VALUES SURVEY DATABANK

Selected countries/samples: Germany West [1999], Greece [1999]

BASE=2109

Weight [with split ups]

Selected countries/samples: Germany west [1999], Greece [1999]										
BASE=2109		Country/region								
Weight [with split ups]			Germany				Greece			
		Total	Education level (recoded)			Total	Education level (recoded)			
			Lower	Middle	Upper		Lower	Middle	Upper	
Justifiable: avoiding a fare on public transport	Never justifiable	43.3 %	50.8 %	55.4 %	44.9 %	55.6 %	36.3 %	58.0 %	39.6 %	29.5 %
	2	14.8 %	15.5 %	13.8 %	18.2 %	10.7 %	14.2 %	10.0 %	12.6 %	16.2 %
	3	13.6 %	17.2 %	14.6 %	19.2 %	21.5 %	10.3 %	9.0 %	10.2 %	10.6 %
	4	7.4 %	7.3 %	7.4 %	7.6 %	4.2 %	7.4 %	5.0 %	5.8 %	9.3 %
	5	8.5 %	4.8 %	4.5 %	4.9 %	6.4 %	11.9 %	7.0 %	12.2 %	12.7 %
	6	3.0 %	1.4 %	1.6 %	1.5 %	-	4.5 %	6.0 %	3.1 %	5.4 %
	7	2.0 %	0.4 %	0.2 %	0.7 %	0.8 %	3.5 %	-	2.4 %	5.0 %
	8	2.9 %	0.6 %	0.1 %	1.2 %	-	5.1 %	2.0 %	6.2 %	4.7 %
	9	1.6 %	1.0 %	0.8 %	1.3 %	-	2.1 %	2.0 %	2.0 %	2.2 %
	Always justifiable	2.9 %	1.1 %	1.6 %	0.5 %	0.8 %	4.7 %	1.0 %	6.0 %	4.3 %
	Total	2109 (100%)	1021 (100%)	486 (100%)	451 (100%)	83 (100%)	1088 (100%)	100 (100%)	452 (100%)	536 (100%)
	Base for mean	2109	1021	486	451	83	1088	100	452	536
	Mean	2.90	2.20	2.10	2.30	2.0	3.40	2.40	3.40	3.60
	Standard Deviation	2.36	1.74	1.78	1.75	1.50	2.69	2.16	2.82	2.63

Source: Values Surveys Databank

Figure 44: WVS "Is it justifiable avoiding a fare on public transport?"; own illustration; source: Value Surveys Databank

Indicators of poverty and inequality for Greece 2004-2012

Greece/time	2004	2005	2006	2007	2008	2009	2010	2011	2012	unit	last update
People at risk of poverty or social exclusion by age and sex code: ilc_peps01)	30,9	29,4	29,3	28,3	28,1	27,6	27,7	31,0	34,6	Percentage of total population	02.12.2013
In-work at-risk-of-poverty rate by full-time work (code: ilc_iw07)	11,8	12	12,7	12,9	13,5	12,5	11,7	10,4	13,4	Percentage of full-time working population	02.12.2013
In-work at-risk-of-poverty rate by part-time work (code: ilc_iw07)	22,5	24,1	26,1	27,2	26,0	26,9	29,4	21,4	27,3	Percentage of part-time working population	02.12.2013
S80/S20 income quintile share rate (ilc_di11)	5,9	5,8	6,1	6	5,9	5,8	5,6	6	6,6	S80/S20	08.11.2013
Gini coefficient of equivalised disposable income (code: tessi190)	33	33,2	34,3	34,3	33,4	33,1	32,9	33,5	34,3	Gini coefficient	08.11.2013
source: Eurostat											

Figure 45: Indicators of poverty and inequality for Greece from 2004 until 2012; own illustration; data source: Eurostat

5.3 Abstract (English)

The diploma theses “Structural adjustment in Argentina and Greece” develops a framework analysing the poverty impact of structural adjustment policy. This framework is applied to the case studies of Argentina in the period 1990-2002 and Greece 2010-2013. Both case studies have in common that monetary policy in the form of a devaluation of the nominal exchange rate is not a feature of the structural adjustment policies.

The policies resulting in direct effects of structural adjustment on poverty have reduced the real income of Greek citizens. The results of this diploma thesis show that low-income households in Greece have been particularly hard hit by the reforms of the structural adjustment programs.

Greece has experienced five years of consecutive economic recession and unemployment levels have peaked at historical levels. The reforms of the structural adjustment programs have contributed to a rise of income inequality and resulted in a contraction of domestic demand.

This diploma thesis analyses the effect of the structural adjustment programs in Greece on the most important macroeconomic channels influencing poverty. In doing so it allows insights how the implementation of structural adjustment contributed to the rise of poverty in Greece since the outbreak of the economic crisis. Currently more than a third of the Greek population lives in the risk of poverty and social exclusion.

5.4. Abstract (German)

Die Diplomarbeit “Structural Adjustment in Argentina and Greece” entwickelt einen theoretischen Rahmen zur Analyse der Auswirkungen von Strukturanpassungsprogrammen auf Armut. Der theoretische Rahmen wird anschließend auf die Fallbeispiele Argentinien (1990–2002) und Griechenland (2010-2013) angewandt. In beiden Fallbeispielen war Währungspolitik in der Form einer nominellen Abwertung kein Teil der strukturellen Anpassungspolitik.

Jene Maßnahmen, die einen direkten Einfluss auf Armut ausübten, führten zu einer Reduktion des realen Einkommens griechischer Haushalte. Die Resultate dieser Diplomarbeit zeigen, dass die strukturellen Reformen Haushalte mit geringem Einkommen besonders stark trafen.

Griechenland befindet sich seit fünf Jahren in einer wirtschaftlichen Rezession und die Arbeitslosigkeit befindet sich auf einem historischen Höchststand. Die Reformen der Strukturanpassungsprogramme sind mitverantwortlich für die Steigerung der Einkommensungleichheit und der Erosion der Binnennachfrage.

Die Diplomarbeit untersucht anhand der wichtigsten makroökonomischen Kanäle, welche Auswirkungen die Politik der Strukturanpassung auf Armut in Griechenland hat. Derzeit ist ein Drittel der griechischen Bevölkerung von Armut und sozialer Ausgrenzung bedroht.

5.5. Curriculum Vitae

Alexander Hudetz

Birth: 24.12.1987 in Steyr, Austria

E-Mail: alexander.hudetz@gmx.at



Education

09/2002 – 06/2007

Commercial College Krems

High school diploma with good success

Final project: Internetauftritt Schiffahrtsmuseum Spitz

10/2008 - 2/2014

Diploma studies „Development Studies“ at the university of Vienna

Focus of study: debt management, poverty
food sovereignty
regional focus: Africa

08/2011 – 05/2012

Erasmus exchange student at Sciences PO Lyon

Institut d'études Politiques (IEP) Lyon; France

Professional experience

2005-2006	Erlebnisgärten Kittenberger
07/2007-06/2009	Red cross Langenlois
02/2010	degree snowboard-instructor (USI Wien)
11/2010 – 12/2011	INTRA-PERFORMANCE GMBH
12/2010 – 02/013	Snowboard instructor at Ski school Bögei 5532 Filzmoos, Austria
07/2011	28. International summer-academy Friedensburg Schlainin, „Zeitenwende in der arabischen Welt: Welche Antwort findet Europa?“
03/2012	Semaine d`Environnement Montpellier
07/2012	WWOOFER Férme BIO Frank Zeller; Lamastre, France
since 05/2013	META Communication International

Languages

English (very good)

French (very good)

Spanish (basic skills)

5.6 Acknowledgements (German)

Mein größter Dank gebührt meiner Freundin Martha und meiner Tochter Liora. Ihr habt mir das aufregendste und schönste Jahr meines Lebens beschert. Ich freue mich auf viele weitere!

Ebenso möchte ich mich besonders bei meinen Eltern, Großeltern und meiner Schwester für die vielfältige Unterstützung in und außerhalb des Studiums bedanken.

Ich bedanke mich bei den Mitarbeitern der Universität Wien und vor allem den Lehrenden und Angestellten des Instituts für Internationale Entwicklung. Für die Unterstützung bei der Themenfindung und der Erstellung der Diplomarbeit bedanke ich mich bei meinem Betreuer Dr. Arno Tausch, Dr. Karin Schönpflug, Dr. Stefanie Wöhl und Dr. Walter Schicho.

Ein spezieller Gruß geht an Robert. Vielen Dank für gemeinsame Studienzeit, ohne dich wäre diese Arbeit nicht entstanden. Ebenso möchte ich meinen Freunden und Studienkollegen für die Freundschaft, die vielen schönen Erinnerungen und die gemeinsam verbrachten Stunden danken.

5.7 Abbreviations

BTS..... Surveys of Business Tendency

EC..... European Commission

ECB European Central Bank

EEAG European Economic Advisory Group

ELSTAT Hellenic Statistical Authority

EPSU European Federation of Public Service Unions

IBRD International Bank for Reconstruction and Development

ILO International Labour Organization

IMF International Monetary Fund

OECD Organization for Economic Co-operation and Development

SAP..... Structural adjustment program

UNCTAD United Nations Conference on Trade and Development

UNICEF United Nations Children's Fund

VAT..... Value added taxes