Inequality And The Crisis In The European South

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Austerity, coupled with wage and pension cuts, increased taxes on incomes and property, a severe recession, high unemployment and poverty rates, especially in Greece, are often regarded as the cause of a significant increase in inequality in the crisis-hit Southern European countries. However, even before the crisis, two of these countries (Portugal and Italy) ranked at the high end of inequality among the OECD countries, reaching as high as 6th and 8th place, respectively, while Spain and Greece ranked 16th and 17th, respectively (2008).

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Empirical approaches to inequality, based on the Gini-coefficient, lead, however, to unexpected results. In comparison to 2008, inequality has increased by just 1.1 to 2.3 points (2012-2014, depending on the country), in Greece, Italy and Spain, declined in Portugal and increased by 3.1 points in Cyprus (2008 to 2016). As a result, Spain, Greece and Portugal now hold the 7th to 9th places in the OECD ranking (2016 data). It could be argued that these developments are compatible with the findings of Thomas Piketty, Walter Scheidel and others, who have shown that inequality decreases during structural crises, violent shocks, and other exceptional conditions, but increases again in times of prosperity. Yet, this relatively slight change in inequality amidst severe economic and social turmoil, when millions of households and individuals change position on the income scale, and, often, social status, is very puzzling and merits deeper analysis.

In a study on '*Crisis Management in Greece. The Shaping of New Economic and Social Balances',* published in 2018 by Hans Böckler Stiftung, we try to examine the many types of inequality and explain why the complex and often contradictory aspects should be approached from different angles. We seek to understand the connection between the crisis and inequality in Greece, examine whether statistics correspond to the reality experienced by large parts of the society and determine to what extent the typical tools for detecting inequality reflect appropriately the dynamic changes during this period.

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Gini coefficient (equivalised disposable income)

	2008	2011	2014	2016
Greece	33.4	33.5	34.5	34.3
Spain	32.4	34.0	34.7	34.5
Italy	31.2	32.5	32.4	33.1
Portugal	35.8	34.2	34.5	33.9
Cyprus	29.0	29.2	34.8	32.1

Source: Eurostat

Many types of inequality have been calculated (inequality within wages, pensions, and other types of income, before and after taxation, between genders, etc.), which go far beyond the typical aggregate inequality indices. Our aim here is not to present all these results, but to highlight (on a selective base) some important qualitative aspects, which should be taken into account in assessing the social reality.

The real picture

Based on such an approach, we would like to emphasize the following observations and remarks about the true Greek situation:

1. The picture of inequality is apparently statistically correct but economically distorted. The distortion arises from the fact that inequality indices (Gini or others) measure total inequality, disregarding partial relationships as well as internal shifts between broader social groups. This indicator cannot reflect the significant upheaval experienced by those whose position has worsened dramatically or has improved. Examining more specific indicators of inequality, it was found that behind relative stability, significant opposite trends could be observed. Therefore, for particular parts of society reality for a very large number of individuals and households constituted a radical reversal of their social and economic conditions and was significantly different than shown by the index of total inequality. Such counterbalancing effects might allow the conclusion that very little has changed. In reality, however, the balances in the economy and society will have been fundamentally and asymmetrically shaken up and significant sections of society will have undergone a fundamental upheaval.
2. Under conditions of significant cuts in income, even stable inequality implies a worsening of inequality, given that high inequality has persisted amid growing poverty and pauperisation of a substantial part of Greek society, mainly in terms of “absolute poverty”, but also partly in terms of “relative poverty”. By this down-spiralling, the “bottoms” have drifted much farther away from the “tops”, even if they have suffered relatively lower income losses.
3. All findings on inequality are based on income data while, often, the impact of public expenditure on disposable income is disregarded. However, regarding Greece, cuts in government spending may have an upward effect on inequality which cannot be detected by Gini coefficients. Government expenditure on health, disability, children

and family, unemployment, social exclusion, all declined between 2008 and 2014, from a total of €7 billion to €20.4 billion (-29%). As a result, households had to spend additional parts of their income for such services. In all these cases, even if incomes remain stable, the impact of public expenditure cuts on disposable income affects differently the relative position of households.

4. Besides income developments, our findings suggest that during the crisis significant old or new divides emerged or were reinforced between: those who fully declared their income for tax purposes and those who managed to hide income; those who could use their institutional power to recoup a significant part of their income losses and those who did not have such an opportunity; those who still enjoy preferential tax exemptions or state-facilitated tax avoidance and the remaining taxpayers; those who, thanks to political interventions, have only been mildly affected by the crisis and those who continue to struggle and lag behind; the older cohorts of workers and pensioners (especially after the pension reform of 2016), whose wages and pensions were reduced much less than those of younger cohorts.
5. The very different salary cuts regarding employees in the public and the private sector (average cumulative cut of less than 9% vs. about 20%, respectively, for 2010-2016) has been a significant factor of increased inequality. As a result, the 35% gap in salaries between these two groups that prevailed before the crisis, widened significantly. Employees in the non-public sector were also hit by extensive unemployment, which did not touch the public sector.
6. In the years of the crisis a further factor emerged, which statistically may have pushed overall inequality down, but in fact represents a new substantial and growing type of inequality: brain drain of educated people, aged mostly between 18 and 50. During the crisis about 430,000, i.e. about 7% of the population aged 20-60, left the country to avoid the effects of poverty, inequality, unemployment and lack of meritocracy and corruption. Brain drain is itself a result of major inequalities in Greek society today and a source of future long-term inequalities both within the country and between Greece and other countries.
7. Taxation, as shown in our analysis, has been the predominant tool of fiscal adjustment. The real impact on inequality would have been different if the burden of taxation had not been distributed unevenly, either because evasion is still extremely high or because large swaths of Greek society, especially in the regions, reject the rules of the game, while governments turn a blind eye.
8. Real estate property, a likely source of significant inequalities, is also distributed unevenly. Unlike many other European countries, Greece is characterised by a much higher share of low- and middle-income strata in total real estate property. The imposition of high real estate taxes, which by definition are unrelated to income, affected disproportionally the tax obligations and disposable income of medium- and low-income groups.
9. Perhaps the greatest inequality, which continues to determine the poor performance of Greece and has played a decisive role in both the emergence and protracted nature of the crisis, is intergenerational inequality and the deficitary social security system. After 2000, public expenditure on the pension system rose sharply, both in absolute figures and as a percentage of GDP, rising from €7.4bn or 5.2% of GDP in 2000 to €31.2bn or 10.4% of GDP in 2012. Cumulatively, between 2001 and 2009,

public expenditure on the pension system sky-rocketed, reaching €133bn, while between 2010 and 2014 it came to €96.4bn, accounting for 83.6% and 405% of the respective *increases in public debt* over these periods.

10. Within the group of pensioners, a structurally unequal treatment of retirees with fewer years of insurance and lower contributions versus those with longer insurance periods and higher contributions can be observed. Pensioners with limited length of insurance and low earnings/contributions receive significantly higher income replacement, irrespective of their total income and wealth. Such considerable asymmetries regarding the social security contributions and benefits lead to significant contribution evasion which undermine the viability of the pension system itself and, by extension, crucial economic, social and political relationships. They are, also, at the expense of younger generations, affecting them for years to come.

In conclusion, an analysis of the impact of the crisis on inequality (or vice versa) needs to go far beyond the typical inequality indices. The level and trends of inequality are not only determined by developments in market or disposable income or in public social expenditure. Even the aspects we examine in our analysis give merely a partial picture of the problem. To a substantial degree, inequalities are also determined by many other qualitative factors, such as the rule of law, government effectiveness, the functioning of the judiciary, meritocracy, the control of corruption, the creation of opportunities, fairness and trust in the social and political environment. Such factors can be much more important in reducing or increasing inequality and affecting its impact on economic growth or the macro economy in general.