

Research highlights from the Labour Institute, Greek General Confederation of Labour

Argitis, Dafermos and Nikolaidi (2011) analysed the fiscal system in Greece over the last two decades. Some key findings are the following: (1) in the period 1995-2009 the primary expenditures of the Greek governments were almost always much lower than in EU-15 (see Figure 2.12 in the report); (2) in the pre-crisis period the higher primary deficit of Greece (relative to EU-15) was primarily related to the low level of direct taxes (see Figure 2.5 in the report); (3) in the period 1995-2009 the average expenditures of Greece in health, education and social protection were much lower than in EU-15, in percent of GDP (see Figure 2.13 in the report); (4) the Greek government expenditures are characterised by low effectiveness (see Figures 2.14 and 2.15 in the report).

Dafermos and Nikolaidi (2011) called into question the macroeconomic assumptions of Troika's projections about economic growth in Greece. Figure 1 in their brief shows that in the period May 2010-October 2011 Troika's forecasts about economic growth in 2011 and 2012 were continuously being revised downwards, revealing that Troika's forecasting approach was problematic. They argued that the main reason behind the lower than expected economic growth in 2011 was the fact that Troika underestimated the adverse impact of the implemented measures on private consumption. They also argued that Troika's 2012-2105 macroeconomic scenario for the Greek economy was over-optimistic since it adopted non-realistic assumptions about the evolution of private expenditures and exports.

Dafermos and Nikolaidi (2012) argued that the labour cost reduction policy that has been suggested by Troika is not capable of producing a sustainable improvement in the Greek trade balance. The reason is twofold: first, in Greece these reductions do not tend to pass completely on to the prices of tradable goods and services; second, and more importantly, Greece suffers from non-price competitiveness and wage reductions cannot deal with this problem. Their brief illustrates that a sustainable improvement in the Greek trade balance could be achieved only via a new form of industrial policy that would enhance investments in sectors in which Greece has competitive advantages and produce goods and services whose demand in the global markets is growing.

Argitis and Nikolaidi (2014) scrutinised the structure of the manufacturing sector in Greece. Some key findings are the following: (1) the high and medium-to-high technology sectors have a low contribution to the total employment and gross value added of manufacturing; (2) the export performance of the manufacturing sector is very weak while, at the same time, its import penetration is high; (3) the weak performance of the manufacturing sector is to a great extent explained by low investment and low expenditures in research and development.

Dafermos and Papatheodorou (2011) presented the 'paradox of social policy in Greece': although social protection expenditures increased in the pre-crisis period,

relative poverty remained approximately at the same level (see Figure 1 in the brief). They provided two explanations for this paradox. First, the welfare system in Greece is ineffective since it is characterised by highly fragmented social transfers, bureaucracy and gaps in social protection (which are filled by families and kin, as in most Southern European countries). Second, the rise in social protection expenditures primarily stemmed from the increase in pensions; the other social transfers (unemployment benefits, health benefits, family benefits etc.) did not increase substantially. They argued that this fact reduced the impact of the social protection expenditures on relative poverty because the other social transfers have a more important redistributive role than pensions.

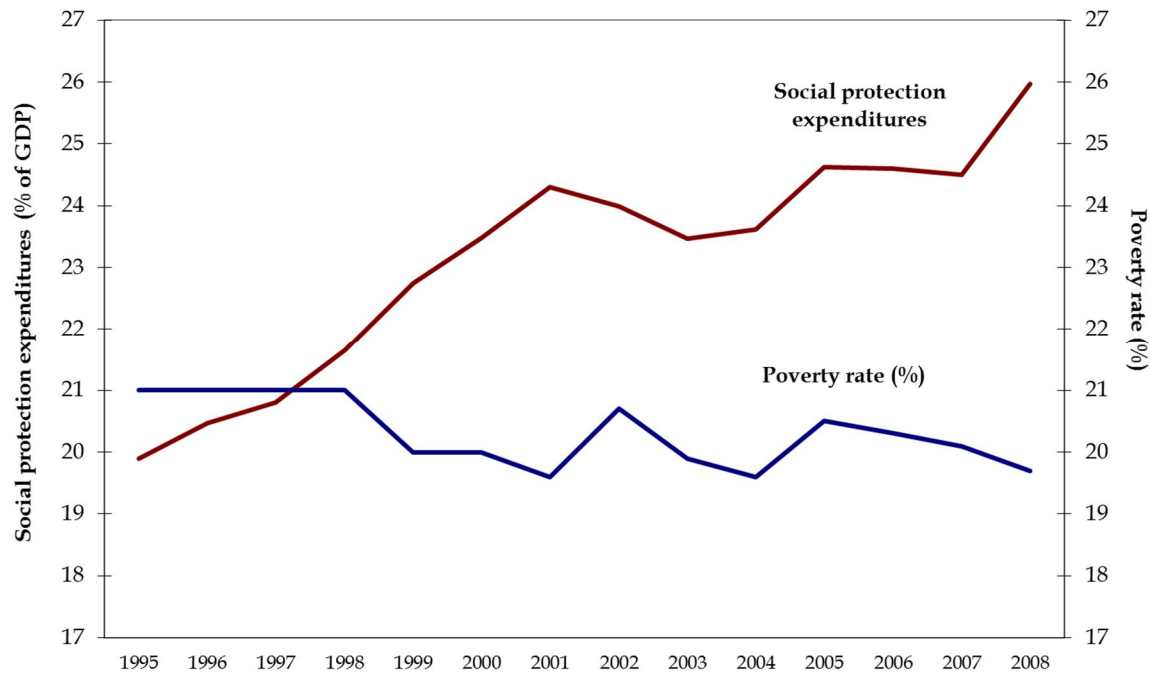
Dafermos and Papatheodorou (2013) analysed the positive impact of the social protection system on economic growth. They argued that the growth effects of the social transfers in kind are higher than the growth effects of the social transfers in cash. According to their approximate estimations (which are based on data of the last two decades), the multiplier of the social transfers in cash in Greece is 1.03 while the multiplier of the social transfers in kind is 1.44. They showed that this has two important implications: (a) an increase in these transfers would reduce, ceteris paribus, the public debt-to-GDP ratio; (b) with a given amount of government spending, a redistribution of government expenditures from social transfers in cash towards social transfers in kind would, ceteris paribus, increase growth and reduce the public debt-to-GDP ratio.

References

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- Dafermos, Y. and Papatheodorou, C. (2013). [*The Contribution of the Social Protection System to Economic Growth*](#), Study 26, Observatory of Economic and Social Developments, Labour Institute, Greek General Confederation of Labour (in Greek).

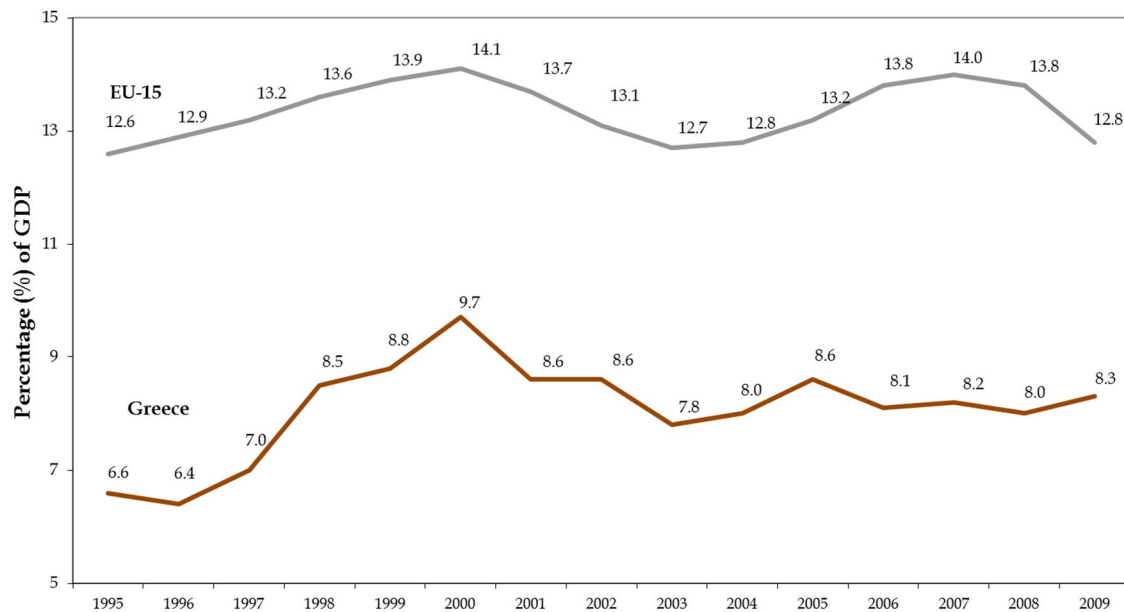
Figures

Figure 1 in Dafermos and Papatheodorou (2011): Social protection expenditures (in % of GDP) and poverty rate (%), Greece, 1995-2008



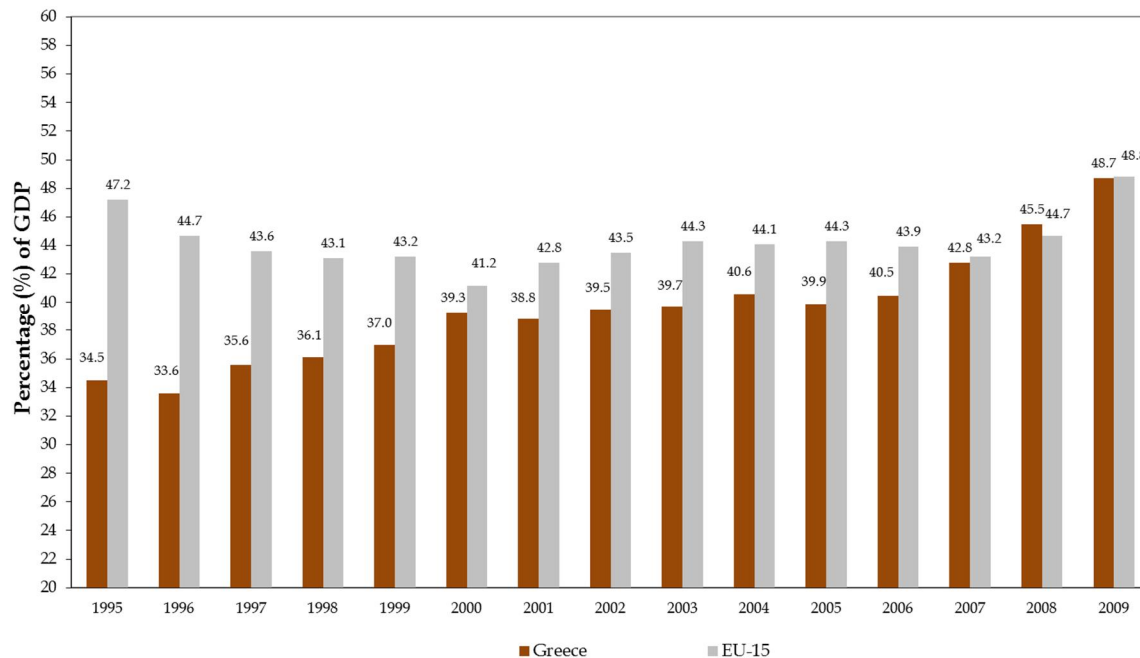
Source: Eurostat and ELSTAT

Figure 2.5 in Argitis, Dafermos and Nikolaidi (2011): Direct taxes (in % of GDP), Greece and EU-15, 1995-2009.



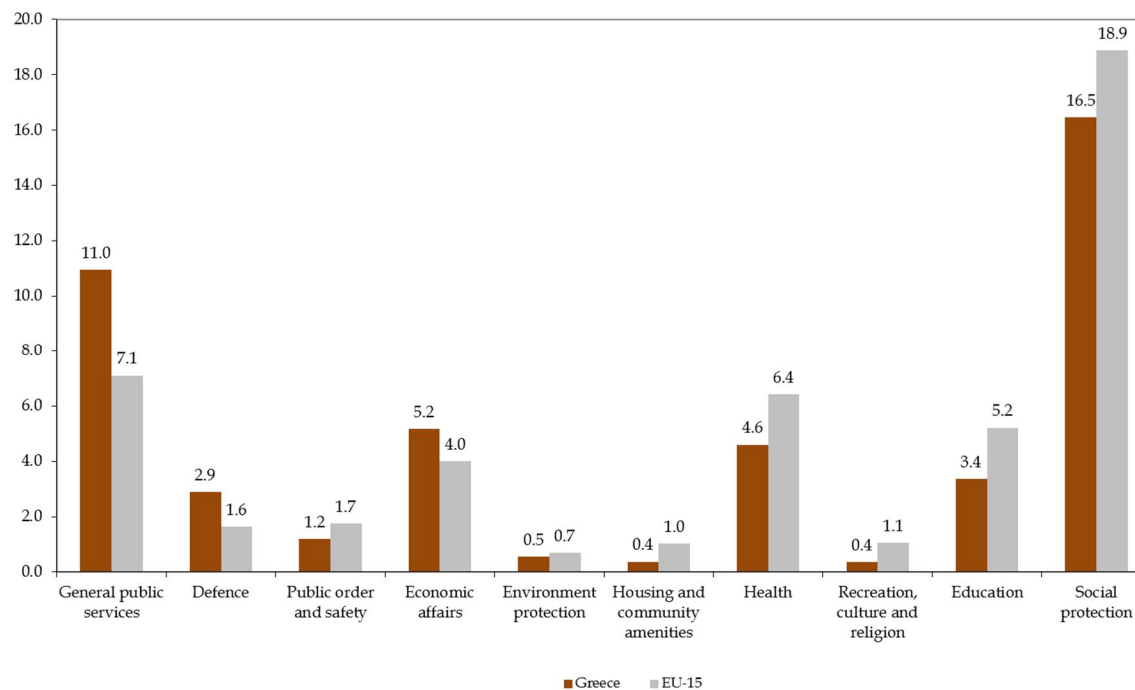
Source: Eurostat

Figure 2.12 in Argitis, Dafermos and Nikolaidi (2011): Primary government expenditures (in % of GDP), Greece and EU-15, 1995-2009



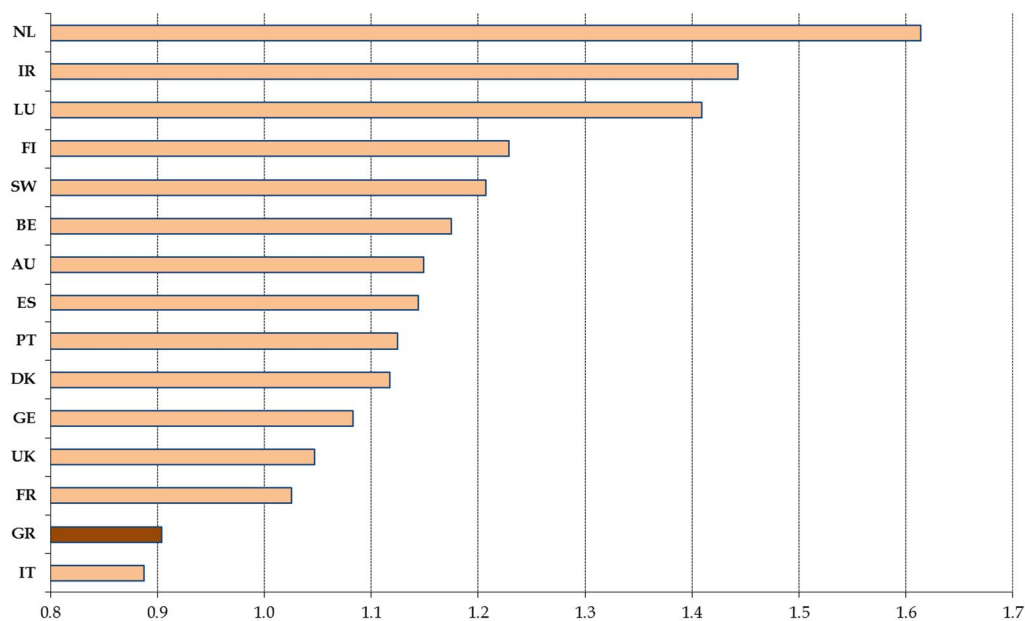
Source: Eurostat

Figure 2.13 in Argitis, Dafermos and Nikolaidi (2011): General government expenditures by function (in % of GDP), Greece and EU-15, 1995-2009 (period average)



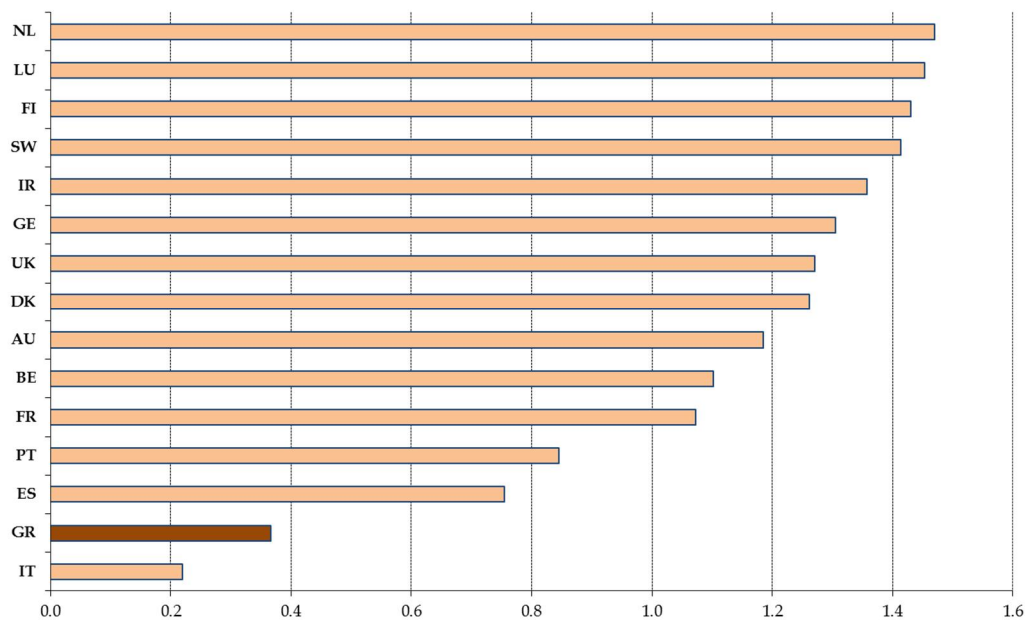
Source: Eurostat

Figure 2.14 in Argitis, Dafermos and Nikolaidi (2011): Effectiveness index for government social protection expenditures, EU-15, 1995-2009 (period average)



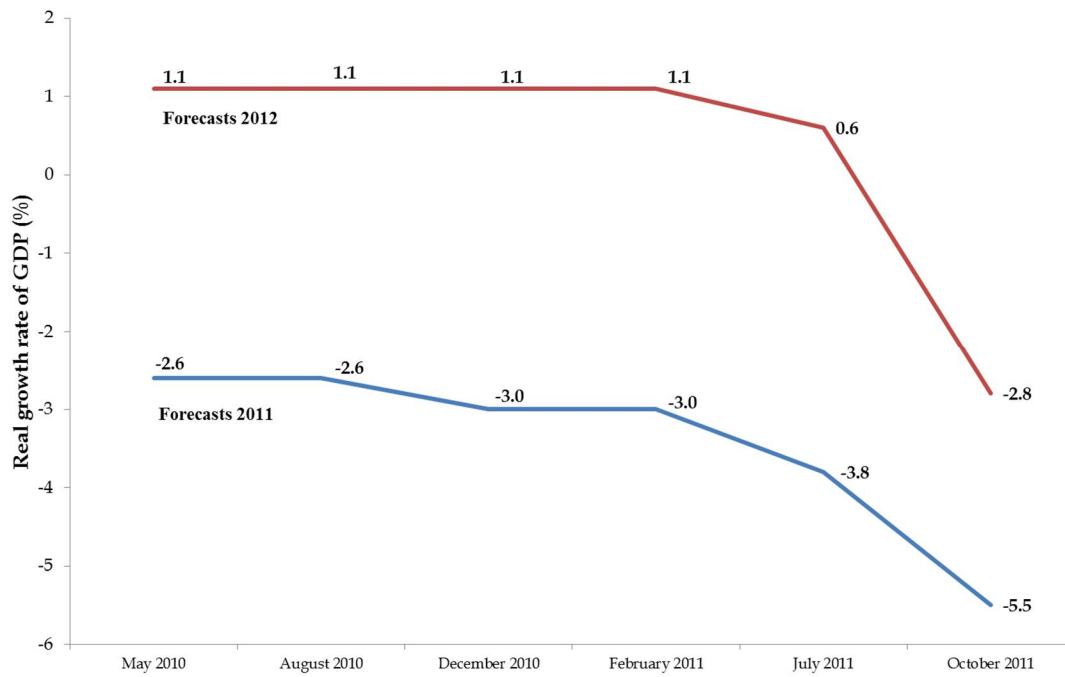
Source: Eurostat; authors' calculations

Figure 2.15 in Argitis, Dafermos and Nikolaidi (2011): Effectiveness index for the general government expenditures on economic affairs, environment protection, education and social protection, EU-15, 1995-2009 (period average)



Source: Eurostat and World Economic Forum (2010); authors' calculations

Figure 1 in Dafermos and Nikolaidi (2011): Forecasts of European Commission for the real growth rate of Greece in 2011 and 2012.



Source: European Commission (2010a, 2010b, 2010c, 2011a, 2011b, 2011c)