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Greek economic crisis management program and its impact on public employees' earnings: a case series and literature review

Spinthiropoulos, Konstantinos

Czestochowa University of Technology

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GREEK ECONOMIC CRISIS MANAGEMENT PROGRAM AND A CASE SERIES AND LITERATURE REVIEW

Spinthiropoulos K., Tsiatsiou E., Garefalakis A., Chaitidis G. Stavropoulou E.

Abstract: The economic crisis forced the Greek Government to implement a series of controversial fiscal consolidation policies, also known as Memoranda of Economic and Financial Policy (a.k.a. Memoranda), resulting in internal market devaluation and significant inflation alterations i

The purpose of our study was to review the management program of the Greek economic crisis through the enforced economic and fiscal policies and measure its impact on public sector employees' incomes. The authors also presented case series in order to investigate the magnitude of that impact. The study hypothesized that the reforms taken during the Greek economic crisis had

The authors conducted a literature review in English until June 2021. They searched Scopus, IDEAS/RePEc and primary sources, such as Greek Government Newspaper, Bank of Greece reports, Greek Ministry of Finance reports, European Commission reports, European Union reports, Eurostat reports and Greek Statistical Authority (ELSTAT) reports. Moreover, in order to present the case series, the payroll data were collected from the office of a Greek public university. The study results showed that the fiscal policies that were enforced during the Greek economic crisis period (i.e. Memoranda) had a significant negative impact on the income of the employees of the public sector, irrespective educational status, with 2012 being the year, in which the highes

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Introduction

From the mid- which Government held office. The increase of resources and cheap labor market, the rise of the developing markets, and the global economic growth, which reinforced tourism and maritime trading, resulted in its financial growth. The indices of economic development were above the EU average, cultivating a climate of high expectations and complacency (Kazakos, 2013).

Konstantinos Spinthiropoulos, **Efthymia Tsiatsiou** University of West Macedonia, Department of Management Science & Technology **Alexandros Garefalakis** Hellenic Mediterranean University, Department of Business Administration and Tourism **Georgios Chaitidis** University Western Macedonia, Department of Procurement and Estates Management

corresponding author: agarefalakis@hmu.gr

national and European resources available to revitalize the productive structures and increase its comparative advantages. On the contrary, they had been content with a status quo of widespread political corruption and unproductive investments resulting

and the continuous increase of public debt (Greek Association of Political Economy, 2011).

Consequently, since 2008, Greece has faced severe economic problems when the global financial crisis peaked. Compared with the other EU members, Greece entered the crisis while having an overblown public sector concerning employees and salaries.

In 2009, the public employee of the public sector's payroll costs was valued at three-quarters of the public sector's overall primary expenditure (European Commission, 2010). From 2000 to 2008, the General Government's public sector's salaries increased by 27.480 million Euros, namely to 11,4% of GDP only when it increased by 74%. In 2009, the increasing trajectory of public sector salaries reached 7.5%, which amounted to 29.460 million Euros, 12.4% of the GDP (European Commission, 2010).

Therefore, a chronic issue emerged, which was frequently reflected in Greek society: public employees. Public employees were considered responsible for this over-indebtedness of the country, not only because of their large number but also due to the disproportionately high payroll cost. However, the International Labor Organization (ILO) refuted the sizeable public sector's image and its contribution to the overall employment by pointing out that public employees' costs deviate from the E.U. of the 15 member states by 1,3% percentage points of GDP. The same perception was displayed in the General Government's payroll costs because its public costs were below the average of the European States (Laskos and Tsakalotos, 2012).

The public sector was such a bone of contention because its malfunctions and problems undermined its developmental role. These malfunctions have resulted from their late absence of meritocracy and opacity and the lack of accountability on the p

Many famous economists mentioned the importance of handling the problems, which have caused negative consequences in the Greek economy. For instance, the Bank of Greece Governor pointed out the urgent need for reforms in the overall public sector. In his opinion, that was necessary for handling fiscal problems because the deficits and Greece's debt must be ultimately controlled (Provopoulos, 2008). It is known that the public debt has been reduced significantly through fiscal consolidation by creating fiscal stability and taking structural measures aimed at curbing expenditures and creating primary surpluses (Liargovas, Economidis, Roumeliotis, F., Sahinidis and Hionis, 2014). That can be achieved in general by curbing expenditures and specific categories of expenditures, such as staff

expenditures, which have the most critical role in a total of the public costs (Bank of Greece, 2009).

Under that information, the public sector was indeed responsible for many plights

inevitable, and that caused many changes to the wage-setting system because wage developments influence macroeconomic performance.

An empirical analysis had revealed that significant changes in the wages of the public sector could influence the salaries of the private sector because a percentage change in the wages of the public sector has a long-term effect. That fact substantiates up to ickleness of the private sector. In comparison, a percentage change in the public sector's employment can only justify up to 3,5% of the private sector's fluctuation (Adam, 2020).

The minimization of the negative consequences of the Greek economy of the global financial crisis was deemed urgent. It was considered a chance for drastic reforms and for the application of support programs for combating it. Thus, many reforms included the consolidation of the public sector with interventions in public sector employees' income policy, and all this with Memoranda.

Consequently, it can be realized that in the last decade, the economic disturbance created in the international financial markets and the developments in the global financial status quo have influenced the Greek economy and the financial gains of the Greek people. In recent years, the salaries' adjustment through the curbing of

s

unemployment rate and the adjustment in external deficits (European Commission, 2017). This current study aims to contribute by presenting a case series and reviewing the reforms, which have transformed the incomes of the public sector's public employees in the period of the Greek crisis.

Methodology

A literature review conducted in English until June 2021. The authors searched Scopus, IDEAS/RePEc and primary sources, such as Greek Government Newspaper, Bank of Greece reports, Greek Ministry of Finance reports, European Commission reports, European Union reports, Eurostat reports and Greek Statistical Authority (ELSTAT) reports. The following keywords were used in various combinations: Memoranda; Memorandum; financial crisis, economic adjustment program, public sector, payroll. Also, the payroll data were collected from the office of a Greek public university. It was hypothesized that the reforms taken during the Greek economic

Structural Characteristics of Reforms focused on earnings (Memorandum of Economic and Financial Policy)

The 1st Memorandum of Economic and Financial Policy

interventions, generally at modulating changes in the working life and particularly at public employees' salaries.

In law 3845/2010, Annex III have included reforms of the first Memorandum because Eurozone, and the International Monetary Fund took measures to support Greece's economy by reducing the deficit by more than 2% of GDP (European Commission, 2010).

Reforms based on three main axes, which started on 03/2010 and ended on 03/2012 (European Council of the European Union, 2018):

a)

reforms to revitalize the public administration.

b)

the competition of the open market will be amplified by promoting the investments and exports, and

c) The Greek financial system's stabilization is because fiscal arrangements are included for the financial-economic sector (GREECE: Memorandum of Understanding on Specific Economic Policy Conditionality, 2010).

The first Memorandum measures aimed mostly at revitalizing the public administration by implementing a simplified system, which would manage the personnel and the salaries. The primary purpose was to reduce the public sector's payroll expenses by restricting public bodies' recruitments (Law 3899, 2010) and the

It also included the creation and the cooperation of the Single Payment Authority to define the financial gains, the size, and the employment in the public sector. The aim was not to reduce the payroll expenses but to improve transparency in the public sector (Katsikas et al., 2018). SPA's creation was proved crucial for managing human resources and its expenses because SPA constituted an essential link between human resources policy and fiscal policy. After its establishment, any payment of salaries except SPA was considered invalid and illegal (Law 3845, 2010).

According to the Ministry of Finance, the allowances' curtailment by 10% was equal to the average reduction by 4% of the salaries in nominal terms. Eventually, as a result of the curtailment of allowances by 12%, the average reduction of the monthly salaries was calculated at 3.9% (Bank of Greece, 2010).

The public sector's income policy was announced with the law 3833/ 03-03-2010,

real average earnings to be reduced by approximately 9.5% (Bank of Greece, 2010).

From 01/01/2011, there was a reduction introduced in all employees' earnings without exception by 10%, and the earnings whole sale must not be over 4.000 euro monthly (Law 3899, 2010). The allowance of a gross amount of 1.000 euro had

ayment) and the vacation allowance to the employees whose financial gains were up to 3000 euro (Law 3845, 2010).

The approaches made in the unit labor costs were based on the law's regulations 3833/2010 and 3845/2010, which were affiliated with the cuts to benefits and the

by 4% had been caused due to the strict remuneration policy of 2010 (Bank of

Greece, 2011). That happened because zero growth of wages extended through Law 3899/2010 in the whole public sector in 2011 and after. In the same period, attributable to Law 3979/2011, the working hours were increased in the public sector instead of 37,7 hours to 40 hours. Consequently, it was estimated that the decline in the public employees' purchasing power reached its lower levels since 2003. As a result, the overall average decline of the economy has been at lower levels since 2006 (Bank of Greece, 2011).

The aim of the institutionalization of the single salary in 2011 was not only to achieve the rationality of the payments and allowances between the public sector and the new

positions, to adopt the pre-reserve for the first time in the public sector (Law 4024, 2011).

The 2nd Memorandum of Economic and Financial Policy

Greece had to face a continuous economic downturn, which meant that in 2012 there was an urgent need for a second memorandum with additional reforms that would be oriented in the same directions and that would be implemented during the period 2013-2014 (Bank of Greece, 2013).

The second Memorandum was the continuation of the three principal axes that were mentioned in the first Memorandum. Mostly it pointed out the progress, the quantitative and qualitative characteristics:

- 1) reduction of the minimum basic salary by 22% from 751 to 586 euro and in decline by 32% at the newly hired employees
- 2) abolition of sectoral agreements by replacing them with individual or operational agreements
- 3) abrogation of permanence in P.U.O
- 4) opening of closed professions
- 5) offices merger
- 6) and Home Organizations
- 7) reductions in the allowance and retirement benefits and also generally in the operational expenditure of the state (European Commission, 2012)
- 8) abolition of speciali
2012)
- 9) transfer of employees with mobility throughout the public sector (Law 4093,

During the period 2012- influenced by significant legislative interventions, which were affiliated with the

remuneration expenditure was decreased by 8,6% (Bank of Greece, 2013, p. 150).

The law 4038/2012 included terms of the second Memorandum, as they had been brought in urgent regulations associated with implementing the medium-term framework budgetary strategy 03/2012-06/2015 (European Council of the European Union). According to Law 4046/2012, the procurement plans of financial facilitation

were approved by the European Financial Stability Fund, the Hellenic Republic, the Bank of Greece, and the Draft Memorandum. The public employees serving the local Government were also included in the Single Payment Authority (Law 4046, 2012). In the ambit of the second Memorandum, a multi-bill was drafted, including the medium-term Fiscal Adjustment 2013-2016 (Law 4093, 2012). It contained significant interventions for the fiscal consolidation, which included the restriction of salaries expenditure through the abolition of vacation and holiday allowances, the restriction of the cost of exceptional salaries, the adoption of income criteria for the provision of specific salaries, the facilitation of dismissals and the increase in the retirement age. All these interventions aimed to improve the labor market (Bank of Greece, 2013). The Law 4093/2012 included reforms of the third Memorandum, as the Medium-Term Fiscal Strategy Ambit contained the period 2013-2016. It was pointed out the implementation of the new measures for the salaries cuts in the public sector.

The 3rd Memorandum of Economic and Financial Policy

The third Memorandum was the continuation of the first and second programs, aiming to support Greece's economy. The third Memorandum was signed on 19/08/2015, and its terms are included in Law 4336/2015 with reforms of integration policies until 20/08/2018.

It includes pension provisions of the draft Financial Aid convention from the European Stability Mechanism and arrangements for implementing the Financing Agreement. Although the third Memorandum has many similarities with the previous memoranda, it was based on four main axes:

- a) achievement of the primary surplus 3.5% of G.D.P in 2018, substituting the fiscal sustainability of the country.
- b) insurance of the financial stability with the recapitalization of banks and the handling of the non-performing loans.
- c) reforms affiliated with the labor market aiming to improve employment, development, and competitiveness.
- d) fighting against corruption by modernizing the public sector through the State's administrative reform (General Secretariat of the Council, 2019).

To sum up, the new arrangements mention:

1. reduction of expenditure of the Mobil public employees (article 1-14),
2. improvement of the mobility and the modernization of recruitments (article 5.1 par. 2),
3. abolition of the Christmas, Easter, and vacation allowances for the public sector public employees, civilians, Armed Forces, and the Security Forces members,
4. reduction by 50% in the payroll expenses of high-rank officials serving the local Government and state-operated legal entities of private and public law,
5. abolition of the compensations of people participated in the meetings of regional councils, in the economic committees of Municipalities and other municipal councils, and also in the administrative committees of article 164 in the Law 3852/2010,

7. the reduction by 20% of the remuneration, representations' expenses, and all kinds of remuneration of high-rank officials serving the local Government and state-operated legal entities of private and public law,

8. new reduction of the basic salary of the General Secretaries of Ministries and Decentralized Administration,

9. abolition of the salaries increases in public employees who have in-service training leave. Regarding abroad, only the basic salary was taken into account for the calculation of the increment,

10. the provisions of the second chapter of Law 4024/2011, in which are mentioned the single grade-salary and the Legal entities under public and private law, which belong to the state of Legal Entity of Public Law or Local Government Organizations.

11. in the provisions' prorogation until 31 of December 2016 of article 19 of Law 4024/2011, in which are mentioned the need of incentive in to order to goals to be achieved as well as the financial goals

12. in the abolition of the allowances that are based on the years of the professional experience of the public attorneys, Legal Entity of Public Law and Local Authorities, which provide services on a permanent and periodic paid basis

Several multi-bills were voted in the context of the 3rd Memorandum through Law 4336/2015, Law 4387/2016, and Law 4389/201. These bills included:

a) cuts in main and auxiliary retirement benefits caused by the increases in health care contributions,

b) reduction in the pension affiliated with disabled people at least 25% and,

c) decrease in the minimum pension from 486 to 345.

The multi-bills contain significant interventions, whose aim was to achieve the fiscal consolidation through the abolition of Pensioners Social Solidarity Benefits the increase of Payroll Tax (FMY), Value-added Tax and the restriction of the lump sum of public employees. An improvement in Greece's economy could be achieved through the imposition of additional austerity measures, such as reducing salaries and others in case of the non-achievement of budgetary goals.

To sum up, it becomes evident that all the reforms mentioned previously have similarities to their purpose and content, except from the timetable for the implementation and their connection with the fiscal impact on the measures (Spanou, 2018, page 280).

4. Case-series: The impact of Memoranda on the four categories of public employees' incomes in Greek Public University during the period 2008-2019.

The ascertainment that memoranda impacted the incomes of a specific category of employees resulted from a study conducted by studying memoranda's effect during the period 2008-2019 on the income of public employees of the single salary who work in the University.

The study focused on public employees as a whole, paid during that period with a single salary at the University. This study's sample was determined with a random selection of the public employees, who would have thought specific characteristics

such as the educational category they belong to. The sample size was determined in each educational category according to the specific characteristics to which thousands of public sector employees belong.

The sample data were selected from the University's sample unit, the payroll department of the financial service. The data refer to the characteristics of the educational categories of employees, such as:

- 1) to an employee, who received a university education in 2008, married with two children, the working environment is located in an impoverished area and holds a position of responsibility and with no child in 2019 since their adulthood,
- 2) to an employee, who received technological education during 2008, married with two children, the working environment is located in an impoverished area and holds a position of responsibility and with no child in 2019 since the first child's adulthood,
- 3) to an employee, who received secondary education in 2008, married with two children, working environment located in an impoverished area, and holds a position of responsibility and without any child in 2019 due to his adulthood,
- 4) to an employee, who received compulsory education with two, three, and four kids, his working environment is located in an impoverished area, with no child in 2019 due to his adulthood.

The income policies mentioned above include reforms, which were put into effect because of the financial crisis. They were implemented in chronological order and caused changes, which are apparent in the following Table. Table A presents the pay charts of public employees following the data received from the payroll department of the Greek Public University and the Per educational category (University institution, Technological institution, High school education and Primary school education).

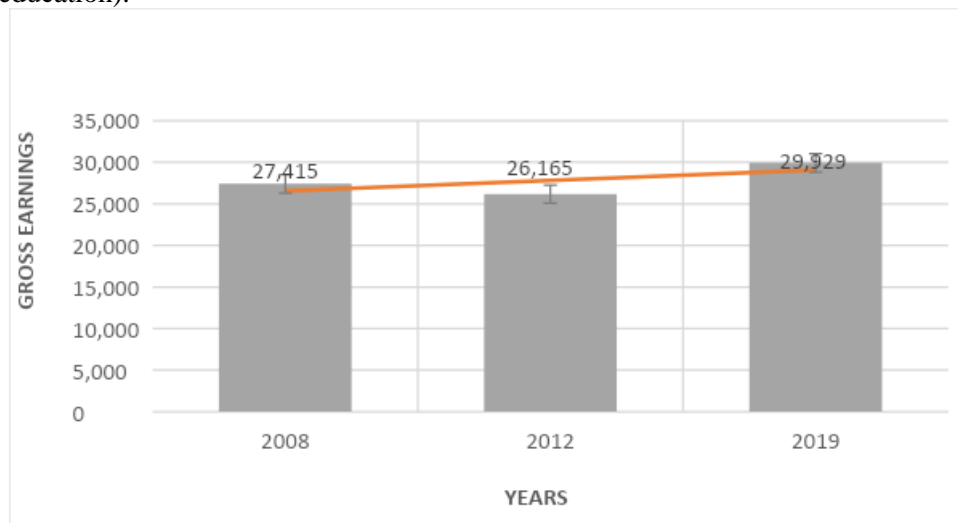


Figure 1: Gross earning per year, University institution

(the year 2008: Law 3205/2003, Government Gazette (GG) (Efimeris tis Kiverniseos in Greek, FEK) 297 / A ' 01-01-04, Law 3554/2007, GG80 / A' / 16-4-2007, Income policy of the year 2008 based on a document no. prot.2 / 36028/0022 / 13-05-2008 G.L.K.) and application from 01/01/2008; the year 2012: the adopted remuneration policy that entered into force through the first uniform salary network L.4021 / 2011, GG 218 / A ' 03-10-2011, L.4024 / 2011, GG 226 / A' / 27 -10-2011 and implementation from 01/11/2011; the year 2019: the last income policy that is valid until today based on Law 4354/2015, Government Gazette 176 / AD / 16-12-2015, Interpretive Circular no. patent 2/31029 / DEP / 06-05-2016 and application from 01/01/2016 until today.)

Figure 1 shows the growth rate of an employee's gross salary expenditure working in the public sector. In 2008-2019, that rate had increased, but in 2012 showed a significant decrease. The data were related to an employee, who had a university education, was married, and had two children in 2008, but in 2019, there were no children due to adulthood. The working environment is located in an impoverished area.

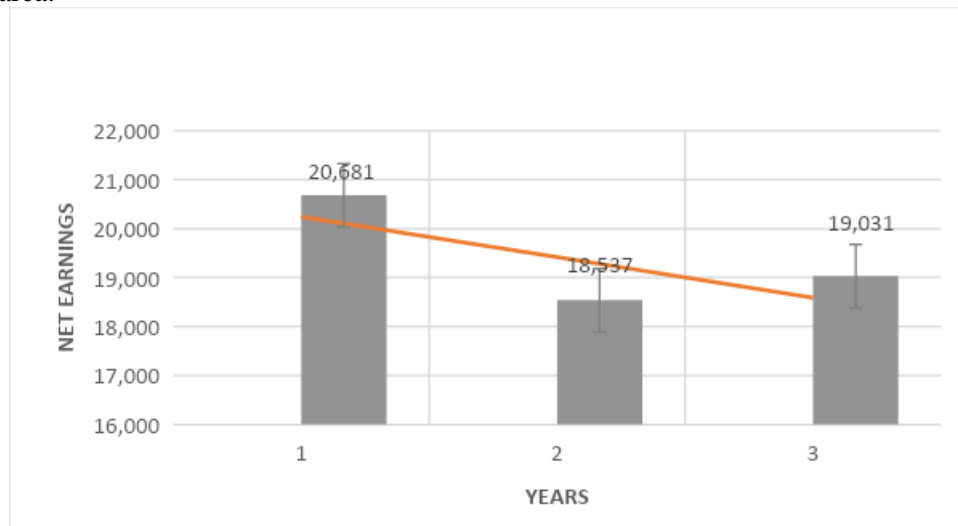


Figure 2: Net earnings per year, University institution

When comparing Figure 1 (gross earnings) with Figure 2 (net earnings), whose data related to employees of the same category, it is observed that the net earnings follow a downward trend during the period 2008-2019 with a significant decline in 2012.

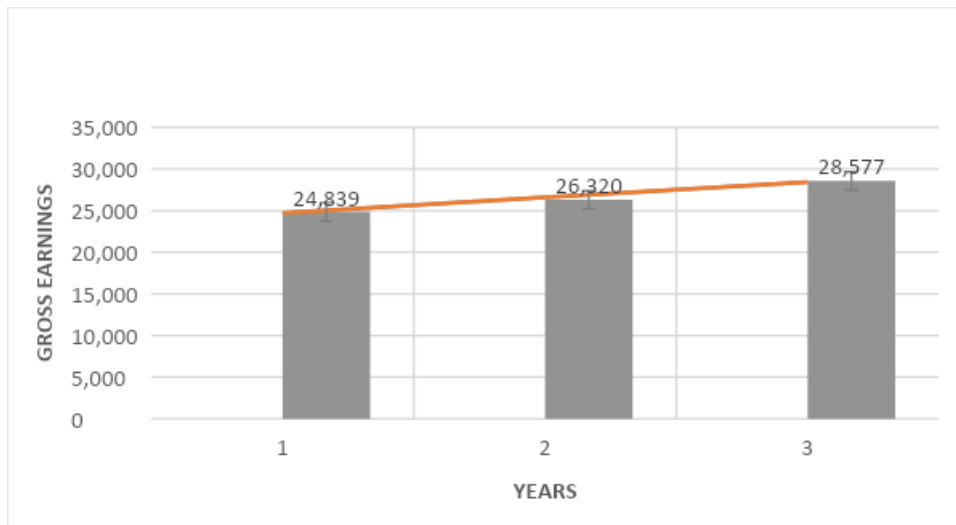


Figure 3: Gross earning per year, Technological institution

Figure 3 shows the growth rate of a public employee's gross salary expenditure that works in the public sector. In the period 2008-2019, that rate shows an increase. The data were related to an employee who had technological education and was married with two children in 2008, but in 2019 with one child due to the other's adulthood. The working environment is located in an impoverished area, and the employee holds a position of responsibility.

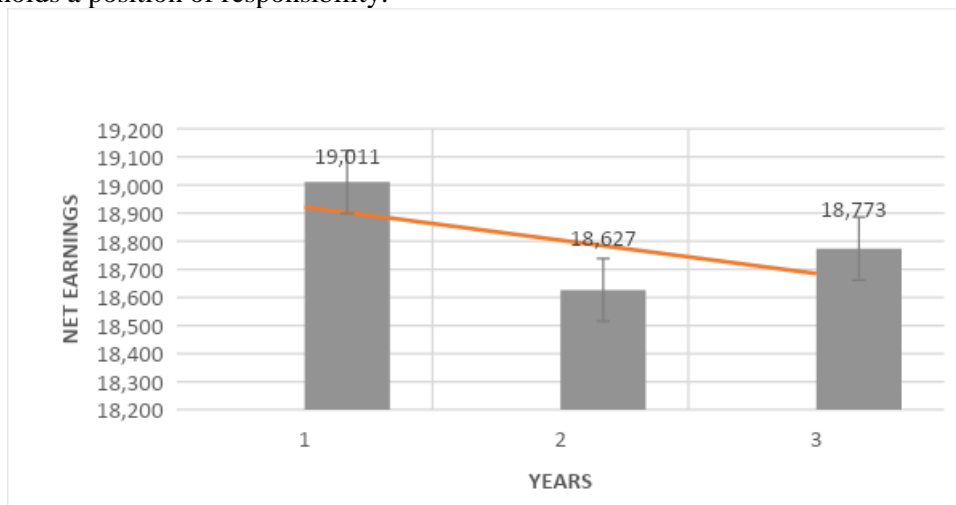


Figure 4: Net earnings per year, Technological institution

