

CEPS COMMENTARY



Thinking ahead for Europe

Poor Greeks or lazy Greeks?

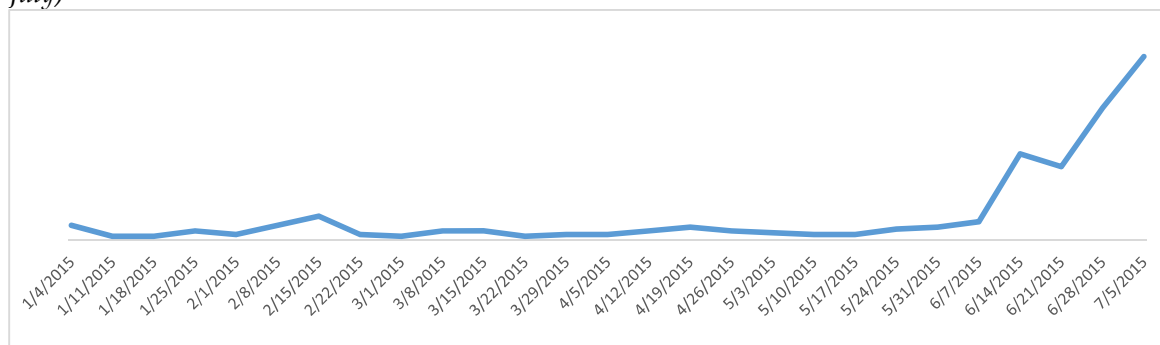
Ilaria Maselli

13 July 2015

The crisis in Greece entered a new and decisive phase on June 26th when Prime Minister Alexis Tsipras announced a referendum for July 5th. He asked his people to give him a strong mandate to reject the proposals of the creditors (fellow Europeans, the European Central Bank and the International Monetary Fund). Since then, the crisis has triggered two fundamental changes in way in which the situation is perceived in the public's mind. First of all, it has increased the intensity with which Europeans identify themselves, in the context of the debate, as belonging either in the 'German' or the 'Greek' camp. Evidence of this newfound interest in European affairs is reflected in the number of times that internet users enter the term "Greece" in the search function on Google.

Drawing on data from Google Trends, Figure 1 indicates that the number of online searches of the word "Grexit" on Google has increased dramatically in recent weeks, with the highest peak reached in the week starting July 5th, the day of the Greek referendum. Furthermore, *pro-nai* and *pro-oxi* demonstrations have been organised in many capitals (on July 2nd in Paris and on July 3rd in Rome, Brussels and Berlin).

Figure 1. Google searches for "Grexit": Trends since January 2015 (highest peak=100, week of 5-12 July)



Source: Google Trends, 12 July 2015.

The second effect of the decision by Tsipras to organise a referendum, for which only anecdotal evidence can be adduced, is that the debate polarised public opinion. Since June 26th, many of those who have developed any opinion in the last few days express it as either "oh, poor Greeks" or "oh, lazy Greeks".

Ilaria Maselli is Researcher in the Jobs and Skill unit at CEPS.

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The objective of this note is therefore to provide substance to a debate that has become quite superficial in the latest episodes. We do so by collecting indicators to answer the question: Who is right between those who accuse the Greek of being lazy and those who feel sympathy for them?

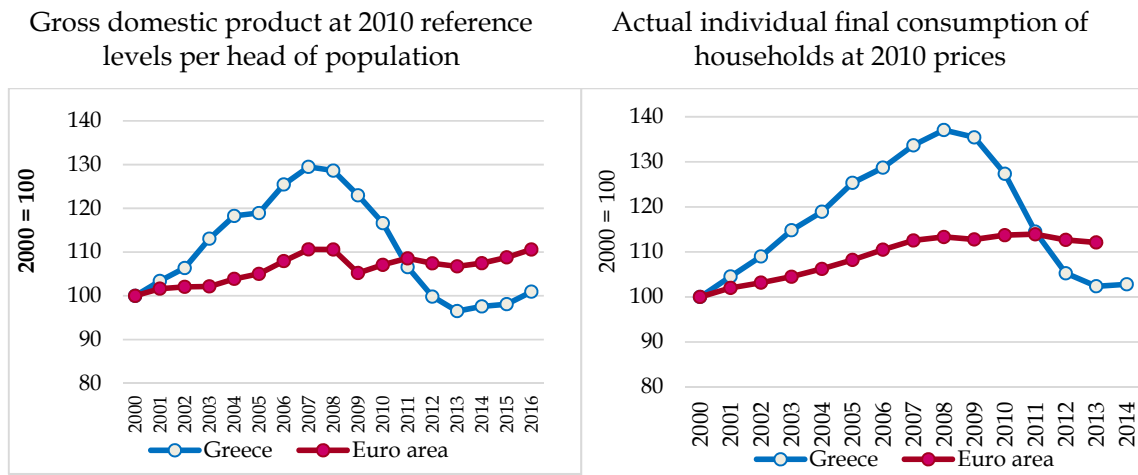
We are aware that other researchers have taken similar initiatives and started to compare how certain indicators evolved over time,¹ but they take the start of the current year as the starting point for such comparisons. We believe that this fails to take into account the fact that part of the hardship of the downturn in Greece is due to the explosive boom of the previous years. For this reason, we try to take, whenever the data are available, the years 2000-14 as the reference period, which includes the whole cycle. For some indicators, such as poverty rates, we set $t=0$ somewhat later, according to data availability. We compare the performance of Greece with that of the euro area as a whole in most cases. Please note that setting 2000 = 100 allows us to easily compare how each indicator evolves over time, either in Greece or in the euro area, but it does not allow us to draw comparisons between the two entities.

Output, consumption and unemployment: Poor Greeks?

We start with output per capita at constant prices. In the euro area it evolves very slowly between 2000 and 2016: a moderate upward trend can be observed up to 2008, which then stops with the crisis. The value at the end of the period is a modest 110. In Greece, instead, much larger fluctuations can be observed. Per capita GDP increased by 30% in only 8 years but then declined by the same amount after reaching the peak in 2007-08. The European Commission's forecasts expected it to go back to 100 in 2016.

Private consumption follows a similar path. It rises by almost 40% in Greece up to 2008 and then goes back to 103 in 2014. In Europe, by contrast, the growth is more modest: a level of 112 is reached only in 2013, with a stagnant trend since 2008.

Figure 2. GDP and private consumption, 2000 = 100



Source: Ameco.

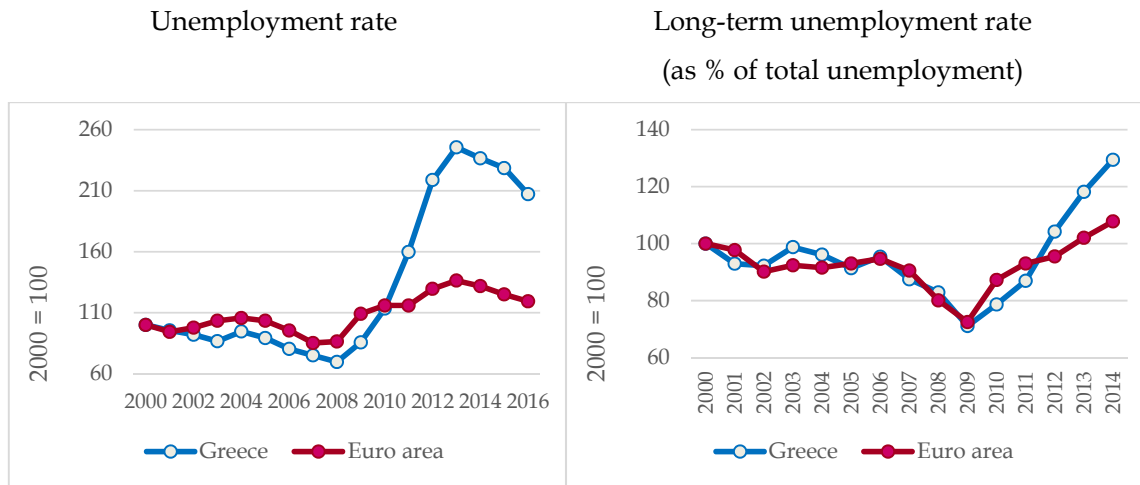
As one can easily expect that when the output grows, the unemployment rate declines. It reaches a value equal to 69 in 2008 in Greece, declining faster than in the whole euro area, where in the same year it was equal to 86. This was in fact a period of convergence for European labour markets. With the outbreak of the Great Recession, the unemployment rate

¹ See, for example, [a video](#) produced by the Peterson Institute in Washington, D.C.

went up by 30% in the euro area, and it is expected to reach 119 in 2016. It explodes in Greece, reaching levels never before observed. It goes up by two and ½ times by 2013, and is now slowly declining. Forecasts by the European Commission expect it to reach 207 in 2016.

Poor Greeks! The crisis proved to be particularly severe when looked from a labour market perspective. This is confirmed by the data on long-term unemployment: the proportion of the unemployed who have been without a job for longer than twelve months is increasing faster than in the rest of the euro area (right-hand panel of Figure 2).

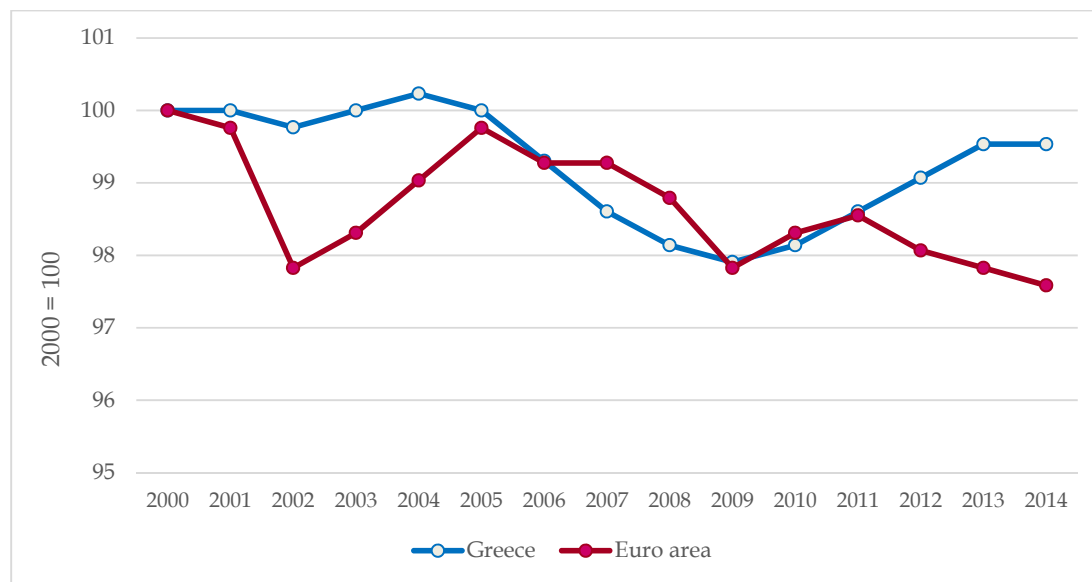
Figure 3. Unemployment and long-term unemployment rates, 2000 = 100



Data source: Ameco (left panel) and Eurostat (right panel).

In terms of hours worked, the Greeks do not seem to be lazier than other Europeans. In 2014, the average working number of hours worked was 42.8, compared to an average of 40.4 in the euro area. Moreover, the medium-term dynamic is not strictly linked to the general macroeconomic situation.

Figure 4. Average actual number of hours worked (full-time workers), 2000 = 100.



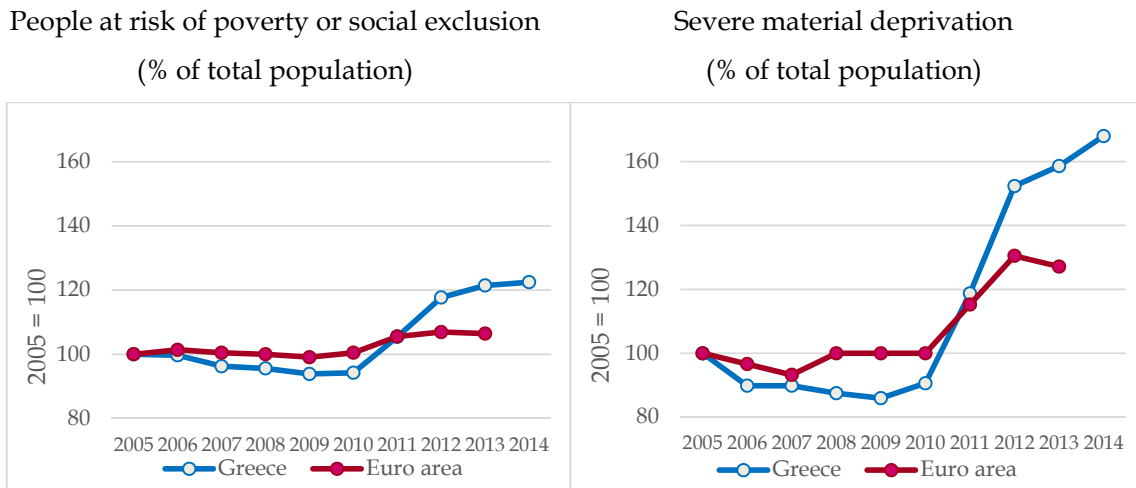
Source: Eurostat.

Poverty, social transfers and public sector wages: Poor Greeks?

Poverty indicators provide strong support for those who sympathise with the Greek situation. The poverty rate increased faster in Greece compared to the euro area, although it fortunately started to decrease again after reaching a peak in 2011-12. What increased even faster is the share of people facing severe material deprivation, defined by Eurostat as “the proportion of people living in households that cannot afford at least four of the following nine items: mortgage or rent payments, utility bills, hire purchase instalments or other loan payments; one week’s holiday away from home; a meal with meat, chicken, fish or vegetarian equivalent every second day; unexpected financial expenses; a telephone (including mobile telephone); a colour TV; a washing machine; a car; and heating to keep the home sufficiently warm.”²

The share of those who face severe poverty almost doubles in 2014 compared to 2009. Although less starkly, a substantial increase is observed also in the rest of the euro area. Poor Greeks and poor Europeans in general!

Figure 5. Poverty indicators, 2005 = 100

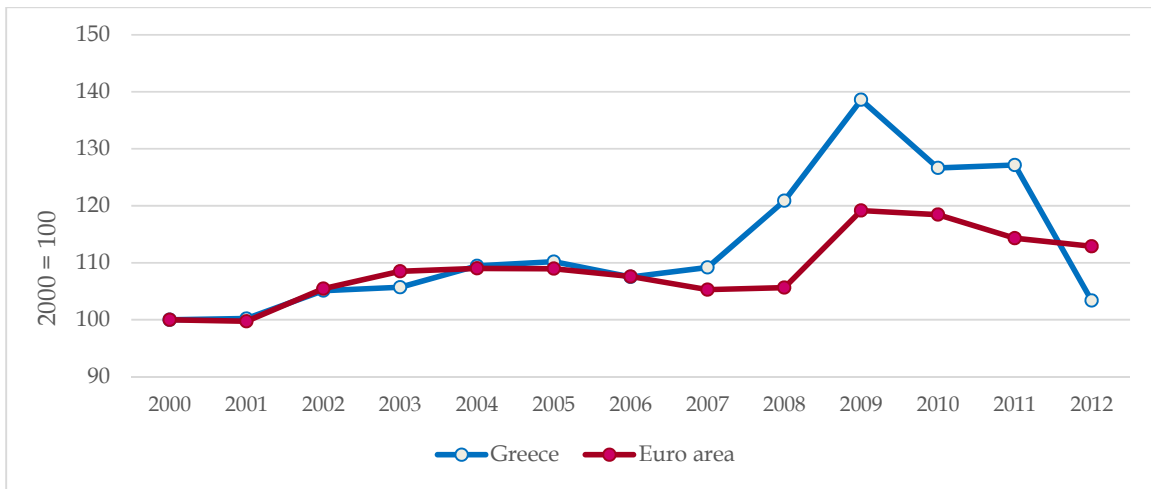


Source: Eurostat.

According to the data, the increase in poverty coincides with a reduction of social transfers made by the government from 2009 onward. Measured in euros per inhabitant, social expenditure on housing, family and unemployment goes from 100 in 2000 to 139 in 2009 and then declines to 103 in 2012, whereas in the euro area it rises more slowly with the start of the crisis, as shown in Figure 6.

² More information can be found at this link: http://ec.europa.eu/eurostat/statistics-explained/index.php/Material_deprivation_statistics_-_early_results.

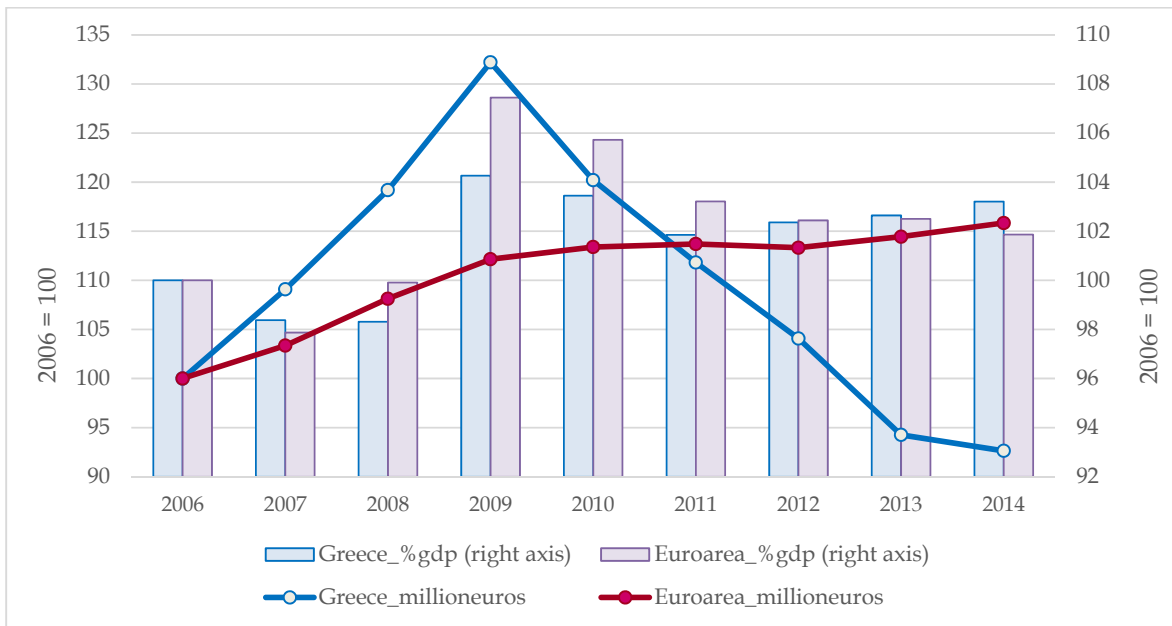
Figure 6. Social expenditure, euro per inhabitant on housing, family and unemployment, 2000 = 100.



Data source: Eurostat.

Another variable often discussed by the contenders of the “lazy vs. poor Greek debate” is the compensation of government employees. Those accusing the Greeks of being lazy will be disappointed to discover that in 2006, the wage bill of the public sector amounted to approximately 10% in Greece as well as in the euro area as a whole. Expressed in millions of euro, it grows in the euro area from 100 in 2006 to 116 in 2014, whereas it goes down to 93 in Greece after reaching a peak of 132 in 2009.

Figure 7. Compensation of employees (general government), % and millions of euro, 2006 = 100.



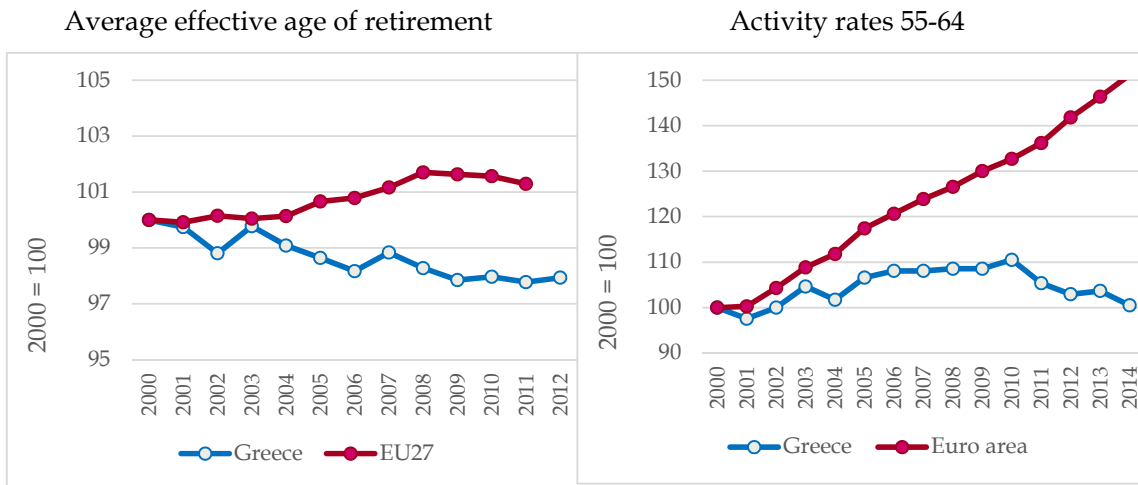
Data source: Ameco.

Structural reforms: Lazy Greeks?

One of the main battlefields in the “poor Greeks” vs. “lazy Greeks” dispute is pensions. And not only: it is also one of the points that led the negotiations with the creditors to a breaking point. We consider three series: the average effective age of retirement, elderly activity rates and the expenditure on pensions.

According to the data, Greek people started to retire earlier and earlier over the past 15 years, in stark contrast with the trend observed in other European countries. The strong divergence of Greece from the European trend is confirmed by the activity rates of the elderly. While the participation of the older part of the labour force increases by 50% in the euro area between 2000 and 2014, it remains constant in Greece over the same period.

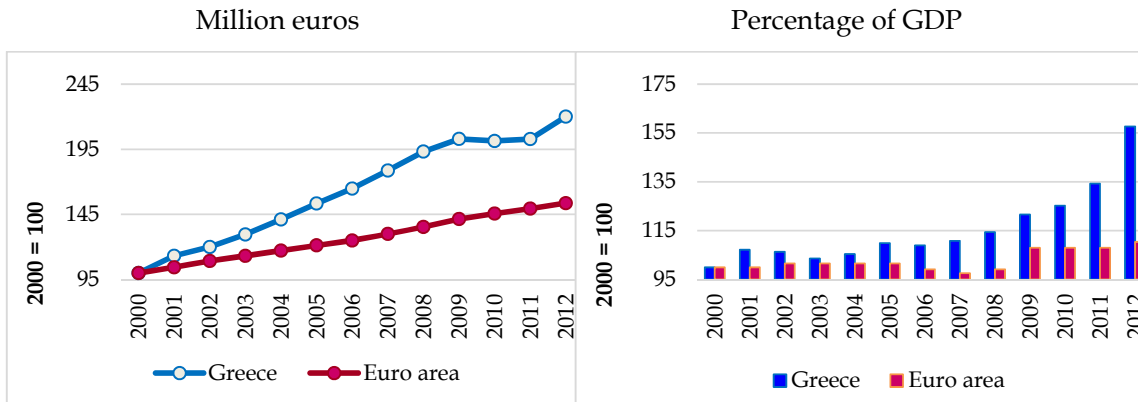
Figure 8. Effective age of retirement and activity rates of the elderly



Data source: OECD (left panel) and Eurostat (right panel).

At the same time, the expenditure on pension is growing in Greece at a much faster rate than in other countries. Setting the expenditure in millions of euro in 2000 equal to 100, it can be seen in Figure 9 how it shoots up to 220 in Greece in 2014, compared to 154 in the euro area. On this issue those who accuse the Greeks of being lazy do have an argument.

Figure 9. Public expenditure on pensions, millions of euros and percentage of GDP, 2000 = 100.

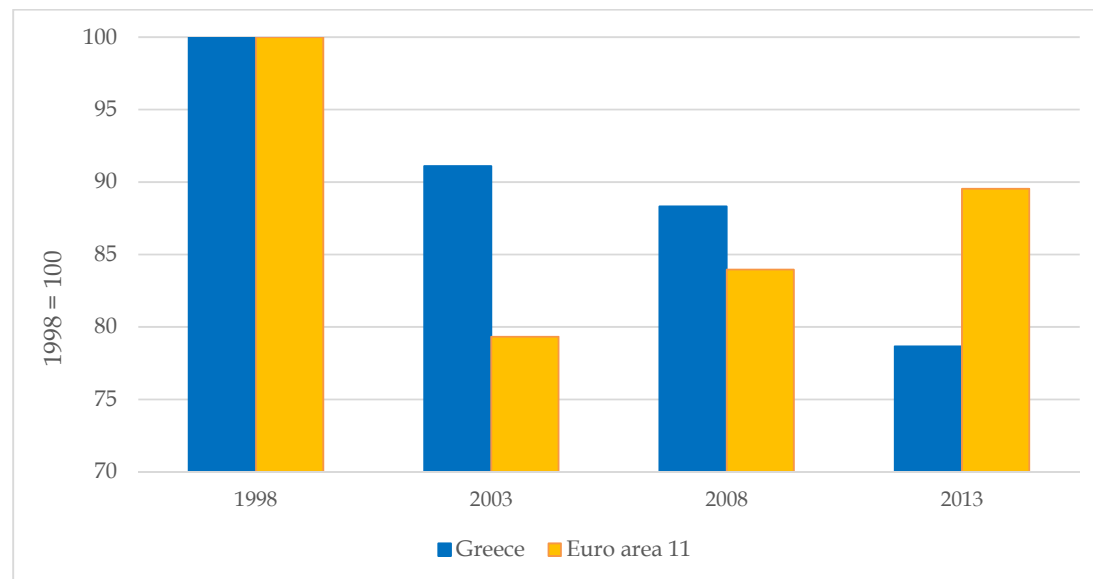


Data source: Eurostat.

Mixed results have been achieved in the area of structural reforms, a topic that economists like to discuss in times of crisis at least as much as football fans enjoy talking about penalty kicks during the World Cup. In light of the efforts demanded by the creditors to make the Greek economy more competitive, it is difficult to ignore the Product Market Regulation (PMR) indicator by the OECD, which “summarises a wide array of different regulatory provisions across countries”.³

As shown in Figure 10, substantial progress was achieved in the PMR indicator in 2013, compared to the first observation in 1998: it decreases in Greece more than in other euro-area countries. However, as pointed out by Gros et al. (2014),⁴ this index fails to capture the real situation of the economy due to the fact that it is based on legislation. In other words, the Greek government did its homework but only in part.

Figure 10. Product market regulation, 1998 = 100



Data source: OECD.

Other indicators such as the Global Competitiveness Index by the World Economic Forum, which is based on surveys and not on legislation, show no change between 2009 and 2014. As explained by the authors, “one should keep in mind that governments can only set rules, but in the end, change must take place in the market implemented by the private sector”.⁵

An area where the Greeks could have definitely achieved better results is the control of corruption. The World Governance Indicators published by the World Bank show a severe deterioration, which is not due to the crisis. The downward trend concerns the entire duration of the period considered (2000–14). This is a field that deserves much greater attention in subsequent adjustment programmes – notwithstanding the difficulties associated with capacity-building and the lack of immediate results.

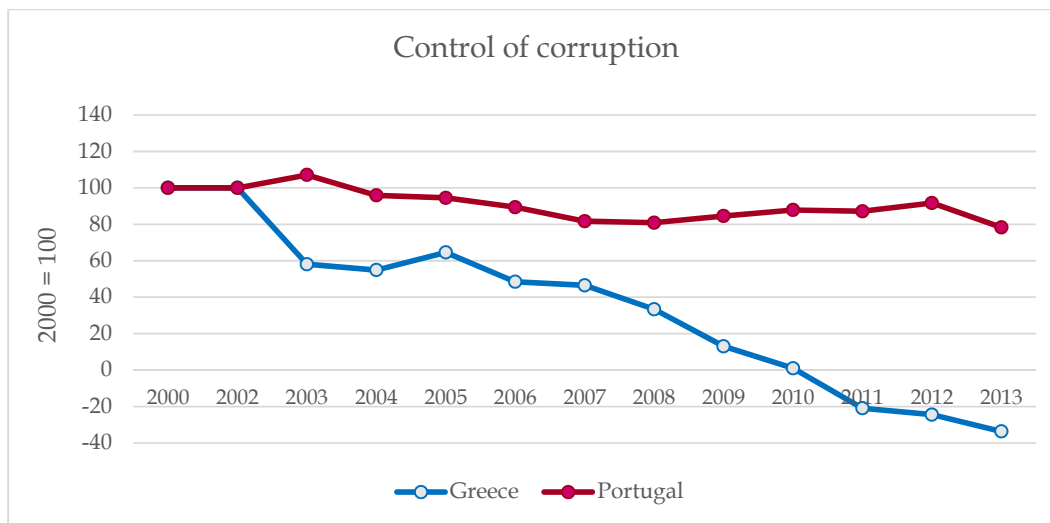
³ Detailed information can be found on the OECD website:

<http://www.oecd.org/eco/growth/indicatorsofproductmarketregulationhomepage.htm>.

⁴ D. Gros, C. Alcidi, A. Belke, L. Coutinho and A. Giovannini (2014), “Implementing macroeconomic adjustment programmes in the euro area”, study requested by the European Parliament's Economic and Monetary Affairs Committee, CEPS, Brussels, February 2014.

⁵ Ibid., p. 56.

Figure 11. Control of corruption, 2000 = 100



Data source: World Bank, World Governance Indicators.

So: Poor Greeks, but...

Over a period of only five years the economy in Greece contracted sharply. The severity of the contraction is better understood when looked as a whole with the previous boom. Many indicators presented above, such as GDP per capita and private consumption, are currently moving back to the values observed at the beginning of the 2000s. This obviously offers only minor consolation for the Greeks who saw unemployment reaching levels that are difficult for a society to accept. So, poor Greeks, especially those without a job and those who are struggling to make ends meet at the end of the month. The share of population that faces severe material deprivation doubled between 2009 and 2014.

Can this be blamed on austerity? Probably not: less corruption and better implementation of the reforms on the ground might have led to a fairer distribution of the losses and to a quicker recovery. Or, at least, it would have not given grounds to those who today accuse the Greeks of being lazy.