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**THE GREEK CRISIS AND
THE EUROPEAN UNIFICATION**

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The Apartment Building and the Index of Despair

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RÉSUMÉ

La détérioration des indicateurs sociaux en Grèce à la suite de la crise, qui en est à sa sixième année, a été confirmée avec un décalage considérable. L'augmentation dramatique du chômage et la pression sur les travailleurs à accepter des réductions de salaire en échange de la conservation de leur emploi ont conduit de plus en plus de ménages au désespoir. L'objectif de cet article est de mesurer le désespoir des ménages grecs, en utilisant un indice construit sur la base de données brutes de l'Enquête sur la population active de l'ELSTAT. Cet indice fournit, chaque trimestre, une mesure du désespoir des ménages et étudie comment le fardeau de l'ajustement budgétaire réalisé par des réductions de salaires ou des pertes d'emplois peut être considéré comme réparti «équitablement» entre les ménages.

ABSTRACT

The deterioration in social indicators in Greece as a result of the crisis, which is now in its sixth year, has been confirmed with a considerable lag. The dramatic increase in unemployment and the pressure on workers to accept wage cuts in exchange for keeping their jobs have been driving more and more households to despair. The aim of the study is to measure the despair of Greek households, using an index constructed on the basis of raw data from ELSTAT's Labour Force Survey. The index provides a timely measure, at a quarterly frequency, of the despair of households and examines how the burden of a fiscal adjustment achieved through wage cuts or job losses can be considered to be distributed "fairly" across households.

After five full years of deep economic recession (2009-2013) in Greece and well into its sixth year, a turnaround is not yet clearly in sight. Mirroring the dramatic deterioration in economic indicators during that period, social

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indicators paint a bleak picture too, although this picture emerges with a lag of about two years. We are currently in early 2014 and we know that all social indicators deteriorated sharply until 2012, which saw poverty and inequality soar. This is the last available year for the most common sources of this type of information, i.e. two distinct annual surveys conducted by the Greek Statistical Authority (ELSTAT): the Survey of Income and Living Conditions (SILC) and the Household Budget Survey (HBS), the most recent waves of which reflect household income and consumption for the years 2011-2012.

This paper, using a different methodological approach and drawing data from the Labour Force Survey (LFS), which is the most up-to-date source of relevant statistics, seeks to address this timeliness gap and provide a more recent insight into the evolution of social trends. Most importantly, it attempts to gauge, in almost real time, the effectiveness of the various policy measures hastily taken by the government in its effort to alleviate the woes of the recession. To this end, we construct an index that can serve as a tool for a timely measurement and evaluation of alternative policy options. This index can be seen as a leading indicator of the social conjuncture, i.e. an index that signals developments in the various social indicators, similarly as leading economic indicators signal developments in coincident economic indicators.

The link between labour market developments, on the one hand, and the social indicators of inequality and poverty, on the other, has been well documented, as many studies suggest that attachment to the labour market is key to preventing situations of poverty, deprivation and social exclusion. The mechanics of this link relate to such aspects as employment, unemployment and level of labour compensation, i.e. wages. From the perspective of unemployment, the continuing dramatic increase in the number of unemployed in Greece over the last six years has far-reaching and even more alarming implications for several parameters other than the unemployment rate itself. For example, unemployment has now hit the core of the social fabric, as the share of unemployed persons who report themselves as “heads of household” has risen sharply during the current crisis. This development should certainly be given particular attention, in view of its relevance for the objectives of stability and social cohesion.

The index we have constructed is designed to measure the degree of despair in households of employees and unemployed persons.² It examines how the

burden of a fiscal adjustment that is achieved through wage cuts or job losses can be considered to be distributed “fairly” across households.

A few words about the construction of the index: The reference group comprises households of employees (wage earners) and unemployed households. That is, it excludes households that do not include at least one employee or households receiving pension income. The reason for excluding households in which at least one member is self-employed or a pensioner is because the LFS does not capture income from these sources. Therefore, we only consider households with income derived solely from wages, unemployment benefits, or both.

As already mentioned, the index is based on primary data from ELSTAT’s quarterly LFS, conducted on an annual sample of 120,000 households, enabling to obtain information four times a year. The reference period runs from the first quarter of 2009 to the latest available quarter, i.e. the third quarter of 2013 which when this article was written, was implying a lag of just one quarter.

The index ranges between extreme values of zero and one. A value of zero is attached to households reporting that none of their members is unemployed and the monthly wage of each employed member is more than 1,000. A value of one is assigned to households reporting that all their active members are unemployed and none of them receives any unemployment benefit. The latter households are identified as being in a state of absolute despair.

The score of each household depends on the individual scores of all its active members. Specifically, each active member scores the maximum value of one if he/she is unemployed and does not receive any unemployment benefit. Otherwise, the score is gradually lower if this member at least receives an unemployment benefit or is employed, and drops further in inverse proportion to the level of his/her labour income. Finally, a member scores the minimum value of zero if his/her monthly wage exceeds the 1,000 threshold.

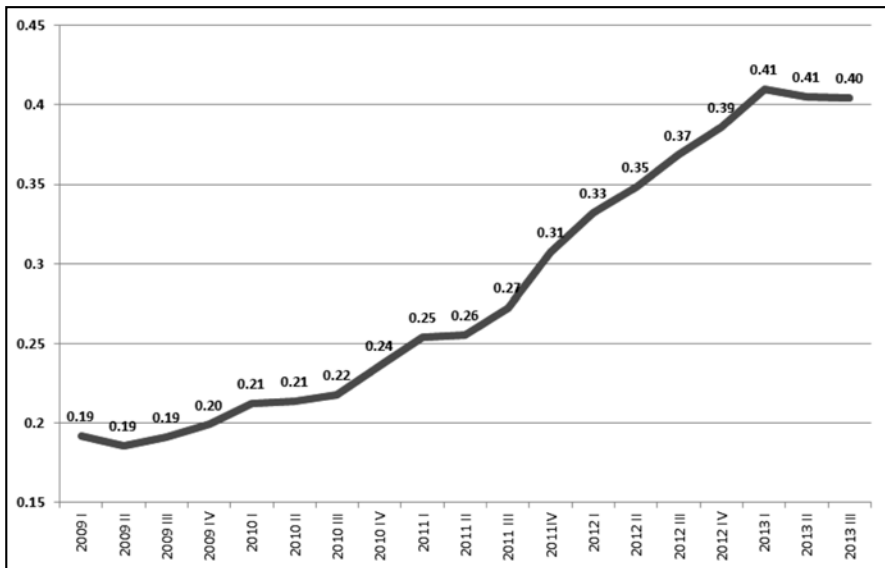
Accordingly, each active member of the household is assigned one of the following values:

- 1 if unemployed and not receiving any unemployment benefit
- 0.8 if unemployed and receiving an unemployment benefit
- 0.6 if employed and receiving a monthly wage of less than 499

- 0.4 if employed and receiving a monthly wage of between 500 and 699
- 0.2 if employed and receiving a monthly wage of between 700 and 999
- 0 if employed and receiving a monthly wage of 1,000 or higher

The total score of each household is the average of the individual scores of its active members. Children and economically inactive members in the household (students at all levels of education, soldiers, individuals incapable of work, housewives, etc.) are not taken into account in the calculation of the index.

Chart 1: Evolution of the index of despair over time
(average value for all households of employees)



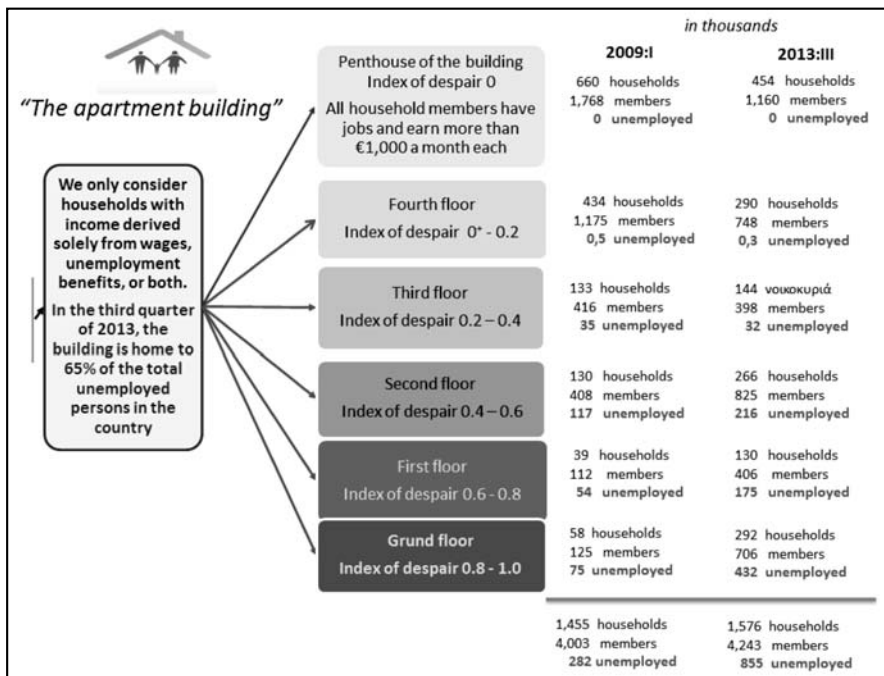
Source: Calculations based on data from the Labour Force Survey, ELSTAT.

Looking at the evolution of the index² as shown in Chart 1, we can make two important observations.

1. Between the second quarter of 2009 and the first quarter of 2013, the index of despair was on a constant rise: from 0.186 in Q2 2009, it peaked at 0.410 in Q1 2013, having increased by 120%. The path of the index implies that we have covered 41% of the distance to the point of absolute despair, i.e.

the point at which all wage earners would be jobless and without any unemployment benefits.

2. Three distinct periods can be identified in the evolution of the index. In the first period, between Q2 2009 and Q3 2010, the index increased by an average of 2% quarter-on-quarter. It seems that in its initial phase the economic crisis did not weigh so heavily on the index of despair. In the second period, until Q1 2013, developments were dramatic, with the index rising quarter-on-quarter by 7% on average. It is worth noting that during a quarter alone, between Q3 2011 and Q4 2011 it increased by as much as during the entire first period. Finally, in the third period, the index showed for the first time signs of stabilisation, remaining almost unchanged at the still high level of 0.405-0.404 for two consecutive quarters.



By construction, the index can improve if any of the following conditions are fulfilled (all other factors remaining constant):

1. some of the unemployed persons find jobs;

2. some of the unemployed persons who had ceased to receive unemployment benefits are reinstated as eligible for such benefits under the reformed framework;
3. the wage of low-paid workers (earning less than 1,000 per month) is raised.

Based on the above, we could argue that the strong tourism season of spring-summer 2013, when a number of unemployed persons found jobs, even on a temporary basis, and subsequently the parallel implementation of a programme creating community service jobs for the unemployed (prioritizing households with more than one unemployed member) have led to a slight improvement in the index of despair (first condition).³ On the other hand, the introduction of benefits for the long-term unemployed during this period helps to fulfil the second condition.

As the “average” tends to mask extreme values thereby shedding a flattering light on the situation, let us use the metaphor of an apartment building to illustrate what is really going on. The households under review are assumed to live in an apartment building with several floors; the floor on which a given household lives depends on its respective degree of despair. We are particularly interested in identifying those households that are the most in despair, as these are the most urgently in need of social protection. The building has five floors. On the ground floor, there are households with an index of despair of over 0.8. As we climb to higher floors, the index decreases, until finally in the penthouse we find households in no despair at all, since all of their members are employed and receive monthly wages of more than 1,000. The building also has a basement. There we can find people who sleep on sidewalks, households of illegal immigrants, socially excluded people and, generally, parts of the population that are not recorded by surveys or official statistics.

As the crisis unfolds, we can see movements in the building, which can be grouped into two types:

- The first type of movement is horizontal. This is the case when a household moves into or out of the building. The number of tenants in the building is currently 4.24 million, up from 4 million before the economic crisis, having increased by 240 thousand. This increase reflects cases of households moving into the building as their self-employed members lose their jobs and thus qualify as tenants. There are also flows out of the building, which

occurs when a member finds a job as a self-employed or becomes a pensioner.

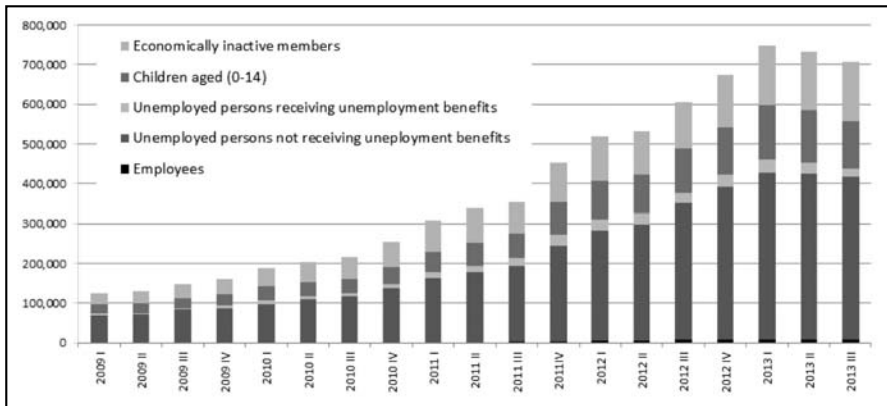
- The second, and most important, type of movement is vertical, when households move from upper floors and the penthouse to lower floors down to the ground floor. When a household member loses his/her job, when his/her wage is reduced and gradually falls below 1,000, below 700 or below 500, when the duration of unemployment benefits ends and their payment is discontinued, then the degree of despair of the household rises, and the household takes the elevator to a lower floor. When it has lost everything, it ends up on the ground floor of the building. Living on a specific floor is therefore not a given.

In the third quarter of 2013, the building is home to 65% of the total unemployed persons in the country, or 855 thousand people, up from 282 thousand before the economic crisis. Specifically, 292 thousand households with a total of 706 thousand members, of which 432 thousand are unemployed, live on the ground floor. That is, more than half of the unemployed persons in the building live on the ground floor. Of these 292 thousand households, 181 thousand have one unemployed member each, 89 thousand have two unemployed members, 15 thousand have three, while the remaining 6 thousand households have four or more. These figures have increased more than five times in just four years.

As mentioned above, 65% of the unemployed persons in the country live in the building; the remaining 35% live outside the building in households which, by definition, include at least one self-employed member or a pensioner and are therefore better off than the unemployed persons living on the ground floor of the building.

On both of the first two floors of the building, the number of tenants has increased. In contrast, upper floors are home to less and less households (gradual pauperisation) due to flows out of the building. For example, the number of tenants in the penthouse has shrunk by 600,000 individuals (or 200,000 households). These households moved to lower floors during the crisis or, if they were extremely unlucky, went right down to the ground floor.

Chart 2: A visit to the ground floor of the building - households in absolute despair. Evolution of the number of household members on the ground floor

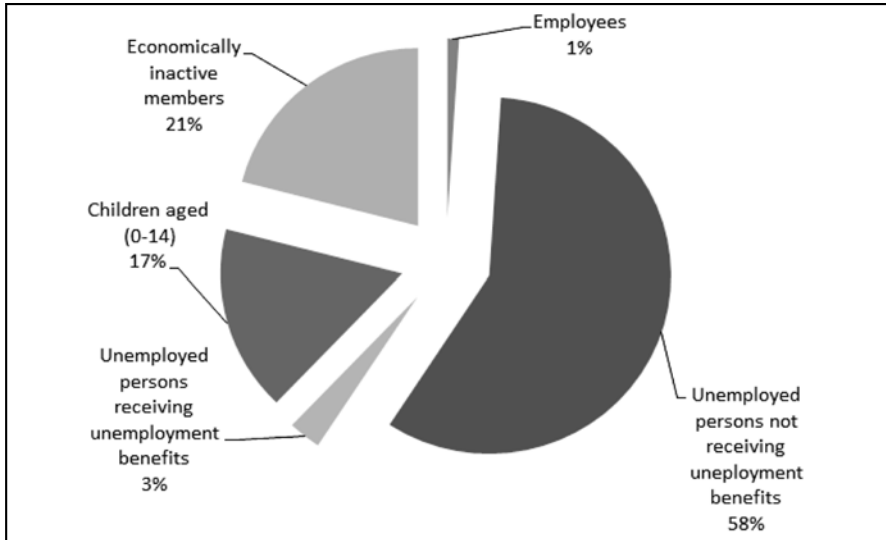


Source: Calculations based on data from the Labour Force Survey, ELSTAT.

Chart 2 shows changes in the structure of the population on the ground floor over time. The colours in the stacked bars denote the different groups as follows: red: unemployed persons not receiving unemployment benefits; green: unemployed persons receiving unemployment benefits; purple: children aged 0-14; blue: economically inactive members (housewives, students, soldiers, persons incapable of work, etc.); and black, at the bottom of each column: employees who support the members of the previous categories. These are barely discernible, almost non-existent. When a household's index of despair is higher than 0.8, this means that, at best, it includes one employee, who is paid less than 500 a month. At worst, which is the most likely case, all members of the household are unemployed and few of them receive unemployment benefits.

There are 706 thousand people living on the ground floor. These households include no pensioners or self-employed, but only few employees, some unemployed persons, children and economically inactive members. Their only source of income therefore consists in wages and unemployment benefits. Employees paid less than 500 (denoted by the black bar in the chart) should “theoretically” provide for all the other members.

Chart 3: Structure of household members living on the ground floor of the building in Q3 2013



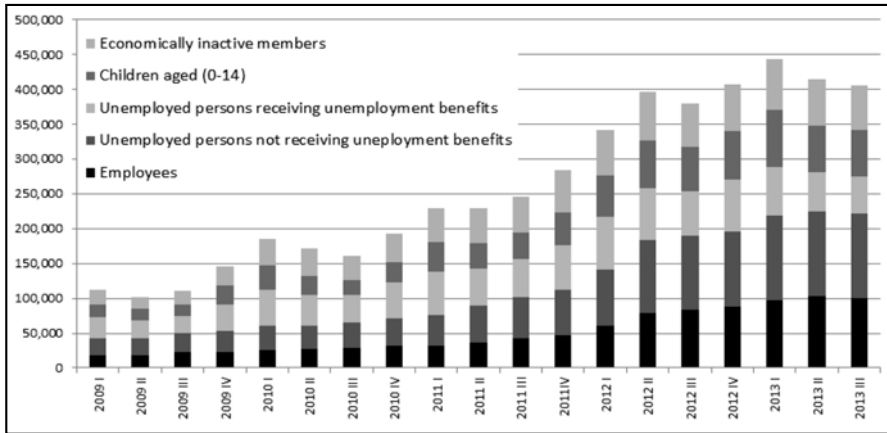
Source: Calculations based on data from the Labour Force Survey, ELSTAT.

The proportion of breadwinners to dependents is as follows: For each employee who lives on the ground floor of the building and earns a month pay of no more than 500, there are 100 dependent members; for each unemployment benefit there are 35 dependent members.

We realise that here on the ground floor households have no money. They cannot benefit e.g. from a heating allowance, as they cannot afford to buy heating oil in the first place. Rather, they would need a survival allowance or a food allowance. Here the cold can be suffered, hunger cannot. And there are about 120 thousand children under 14 living in these households.

Things are somewhat better upstairs (Chart 4). Employees are more in number, and so are unemployment benefits. Of course the unemployment benefit will cease at sometime in the future and the risk of falling back downstairs is high. The income gap from households on the ground floor is no more than 500. As mentioned above, the higher the floor, the better the situation. The unemployed persons who live on higher floors are better cushioned by family income.

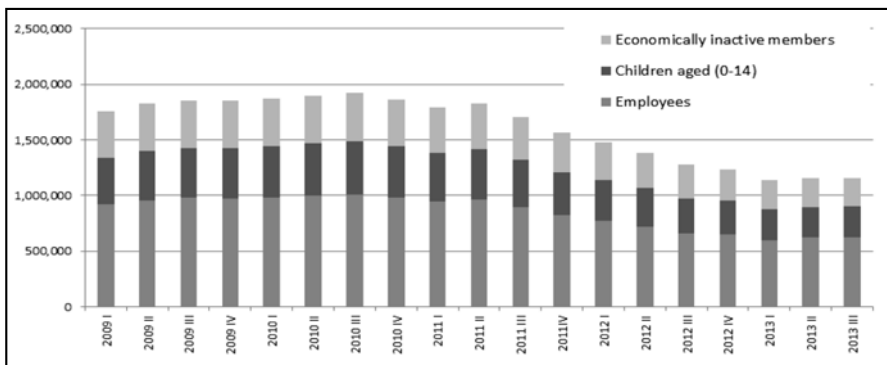
Chart 4: Evolution of the number of household members living on the first floor of the building



Source: Calculations based on data from the Labour Force Survey, ELSTAT.

In the penthouse (Chart 5), there are no unemployed, all household members have jobs and earn more than 1,000 a month each. The economic crisis has certainly reduced the number of tenants here too, with some households taking the elevator to lower floors when their members lose their jobs or face wage cuts.

Chart 5: Evolution of the number of household members living in the penthouse of the building



Source: Calculations based on data from the Labour Force Survey, ELSTAT.

The tenants of the penthouse have most certainly suffered reductions in their income, but these changes are not reflected in the index of despair. A decline in the monthly wage from e.g. 3,000 to 2,000 is outside the scope of our investigation.

Over the last two quarters (Q2 and Q3 2013), some stabilization can be seen in the index of despair, with a slight decline in the number of tenants on the overpopulated ground floor. Indeed, some households have managed to move upstairs, for the first time since the start of the economic crisis. In figures, this appears to be the case with about 42 thousand household members, including 21 thousand unemployed persons (of which 14 thousand receive unemployment benefits) and 18 thousand children.

What households live on the ground floor? Are they known to us? Are they immigrant households? Are these the households that in earlier national action plans on social inclusion had been identified as being at greater risk of poverty, such as: households with an elderly head, households living in mountainous and inaccessible rural areas, single parent households or households with many children, households with low skills, households with disabilities, etc.? According to LFS data:

- 84% are Greek (only 9% are Albanians)
- 66% are male
- 47% are married
- 33% are aged 20-39, 55% are aged 40-59 and 12% are aged 60+
- 21% have completed tertiary education, 48% secondary education and 30% primary education
- 8% of tertiary education graduates have a doctorate or master's degree
- 17% had a job one year earlier and 69% are long-term unemployed
- 83% of those who had a job one year earlier were employees
- 83% report that they have not rejected any offer of work
- 40% live in Athens, 11% in Thessaloniki
- just 0.8% have a job and their monthly wage is up to 499

We should keep in mind that the LFS does not record homeless persons or households without a residence. On the other hand, illegal immigrants as a

rule are afraid to open the door to strangers and will not respond to surveys conducted by the Hellenic Statistical Authority.

The next question would be: how do these households cope?

According to responses to the LFS:

- 51% depend primarily on people outside the household (neighbours, friends, acquaintances...)
- 16% receive some allowance, benefit or small pension (e.g. disability, death, old age...)
- 8% are supported by other people in the household
- the remaining 25% report that they depend on a combination of sources (neighbours, an allowance, relatives, occasional work...)

The new poverty does not have the characteristics of the pre-crisis poverty. For example, the proportion of the elderly (65+) and the proportion of pensioners (of any age) who are at risk of poverty have declined significantly. Rather, the new poverty is closely linked to unemployment.

Given budgetary constraints, it is clear that government policy should step up its efforts to reduce the adverse impact of the current economic crisis. In this regard, as suggested by the findings of this paper, the main focus should be on the unemployed: in addition to (mostly short-term) income subsidies that help them to better weather the crisis, particular attention should be paid to facilitating their access to the labour market as well as to social services (health, education, childcare, etc.), thereby also reducing the likelihood of long-term social exclusion for some of these people. At the same time, the cost of these policies would be money well spent, as this group represents a potential new enclave of economic precariousness and poverty. Furthermore, it is essential that access to the labour market should be combined with a shift towards higher-quality jobs and to more secure attachment to a well-structured labour market. This could be sought e.g. by establishing, and making accessible to as many unemployed persons as possible, programmes of on-the-job training, retraining and education in the skills required in the new conditions, as shaped by technological change and challenges.

In the current period, with limited or no budgetary resources, social protection will be more efficient and effective when it targets more the overall

needs of a household rather than the needs of individual members.

As suggested by the results of our research, a part of the population took the elevator and were zipped down to the ground floor of the building, without any intermediate stop. These people are currently the most vulnerable. On the ground floor of the building, people have nothing to lose now. Unless of course they have loan arrears, unpaid electricity bills, unpaid taxes....

Another part of the population take the elevator and goes down gradually, with increasing despair. If nothing changes, it will not be long before they reach the ground floor of the building.

The drafters of the Memorandum were aware of the problem even before the austerity measures began to be implemented. It was for this reason that they set a MoU requirement for the implementation of a pilot income support programme (minimum guaranteed income) by 2014. After this pilot run, it is necessary to roll this programme out nationally.

This time we must channel the scarce available resources to the citizens who are facing the most severe difficulties. We all know that in the past only a small part of social resources reached their intended recipients. The most part was lost to mismanagement and ended up in the pockets of people who were not the true beneficiaries. We should not forget that tax evaders steal from the state twice. Once by hiding their incomes and not paying the corresponding taxes, and again, as on the basis of their understated income they take advantage of for social transfers. At present, it is absolutely necessary that resources should be directed at households in absolute despair. The community service jobs programme that gives priority to households with more than one unemployed member is moving in the right direction. But we must not forget that the recession and the problems remain. And the ground floor is suffocatingly packed with despair.

NOTES

1. For a more extensive presentation of the index construction methodology, see Zografakis Stavros and Theodore Mitrakos (2012), "The low-income risk of households of employees and unemployed during the current crisis", in *Social Policy*

and Social Cohesion in Greece in conditions of economic crisis, Bank of Greece, pp. 175, June (in Greek).

2. The above index is calculated for different groups of households according to the characteristics of the household (e.g. depending on the level of education, age, region of residence, degree of specialization, profession, sector of activity, years of service, nationality, type of employment, etc.).
3. The dampening effect that the strong tourism season of 2013 had on the index of despair is evidenced by the evolution of the index broken down by place of residence of households: the index fell markedly in Crete, the Ionian Islands and the South Aegean, all areas with high tourism activity.