The Rise and Fall of Selectivity à la grecque

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Abstract

In 1996 selectivity became the buzzword of Greece's "new social policy". After one apparent success, the strategy soon ran out of steam. Later attempts at introducing new targeted benefits ran into trouble or came to nothing, as the fact that Greece remains the only EU country without a guaranteed minimum income scheme illustrates. In the light of this experience, the structural limits to targeting are discussed, in a context that is not unique to Greece but is common elsewhere. The paper concludes that the strategy of selectivity is seriously flawed as a recipe for welfare reform from a progressive perspective.

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1. Introduction

Income testing is a relatively novel concept in Greece. In fact, it would be fair to say that until recently few people beyond an extremely restricted circle of specialists knew what it meant. References to income testing (or to targeting or to selectivity, as these terms are used interchangeably) in the policy discourse began to appear only in 1996. Indeed, key figures in, or close to, the new "modernising" government which took office in that year presented selectivity as the *leit motiv* of the new social policy paradigm.

In the pages that follow it is shown that, after a brief flutter of activity, all this eventually came to very little. Moreover, it is argued that the failure of selectivity as a strategy to reform the welfare state (what is more, from a centre-left perspective) was inevitable. The reasons for this are to be found partly in the particular version of selectivity pursued, but mostly in the nature of social protection arrangements, features of which are not unique to Greece but are common elsewhere.

The structure of the paper is as follows. The next section contains a brief summary of the story so far, presenting an account of attempts to introduce targeted benefits or to income-test existing ones. This is followed by an analysis of the structural limits to selectivity in a welfare state of the conservative-corporatist model (Esping-Andersen, 1990) and, in particular, of its southern variant (Ferrera, 1996). The last section brings together the main insights of the preceding analysis in a comparative perspective.

2. Selectivity *à la grecque*

2.1 The rise of selectivity

The year 1996 marked a turning point in Greek politics. In January, Costas Simitis was elected prime minister after a closely contested ballot of socialist MPs. A mild-mannered European-minded social democrat, he could not have been more different to his charismatic nationalist-populist predecessor and party founder Andreas Papandreou. The new PM quickly consolidated his position first

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by becoming party leader in June, then by calling and winning an early general election in September. On presenting his cabinet and his programme to parliament in October, Simitis declared EMU membership to be an overriding aim, while also pledging his government's commitment to a "cohesive society" (Parliament Proceedings, 1996).

It was at that point that the concept of selectivity was hit upon as a rather obvious way to square the circle. Already in June, the introduction of the income-tested pension supplement • • • • had enabled the government to escape an earlier pledge to restore the link of minimum pensions to the minimum wage. Before the year was out, the "Introductory Report" on the 1997 Budget (the first of the new government) included a sounding endorsement of the welfare state, while at the same time announcing a significant shift in policy (Ministry of National Economy, 1996, pp. 22-23):

> "A modern and effective welfare state is a key aim of this Budget. (…) Our policy rejects the notion that social protection cannot be expanded because resources are unavailable. Resources will never be adequate when allocated across the board, with no planning, no evaluation of their effectiveness. We adopt the policy of targeted intervention, of efficiency savings and of reinforcement of social protection. (…) Emphasis will be given to initiatives supporting the weakest groups through policies based on identifying real need, not by wasting resources on negligible benefits to all directions."

The new policy began to be promoted in the daily press. In the words of its most enthusiastic theorist (Mouzelis, 1996): *"Austerity can go hand-in-hand with social justice when we finally realise that in a society where two thirds prosper and one third is marginalized, social benefits for all do not reduce but intensify the gap between rich and poor."*[1]

[1] Since this is a common fallacy, it ought to be pointed out that, as a matter of fact, this is incorrect: increasing everybody's incomes by a fixed transfer reduces inequality, unless the transfer is financed by a poll tax.

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The ingenuous manner with which targeting was being propounded seemed to spring from a profound lack of awareness of the various fundamental difficulties involved. Or, in a happier turn of phrase (Sen, 1995, p. 12):

> "If the so-called targets were all identifiable and unreacting, that would be the end of the matter – we could converge on a fine strategy whose merit we would all accept. Some of the resonant appeals to the case for more targeting give one the haunting feeling that this is indeed the way the problem of poverty removal is seen by some advocates of no-nonsense targeting."

Nonetheless, the government's reforming zeal still had some mileage left. In February 1997, it passed a law changing eligibility conditions for the three so-called "many-children benefits" (lifetime pension for many-children mothers, large family benefit and 3rd child benefit). The benefits, introduced in 1990 by an all-party coalition government as a reaction to declining birth rates, had been intended as a "reward" to large families. The new criteria for access to the three benefits, as well as to the pension supplement • • • • introduced a few months earlier, included a test of incomes based on tax returns. That feature was hailed by the government as a milestone in social policy.

Table 1. Income-tested benefits in Greece (2001)

	Beneficiaries		Expenditure		Average benefit	
	Thousand	% population	• million	% of GDP	• per month	% minimum wage
Ppensioners' social solidarity benefit *ΕΚΑΣ*	373.0	3.4	350	0.27	75	14.2
social pension for non-insured elderly	43.5	0.4	107	0.08	144	27.4
Lifetime pension for many-children mothers	183.6	1.7	179	0.14	78	14.9
Large family benefit	82.0	0.7	103	0.05	140	26.7
Third child benefit	38.3	0.4	64	0.08	136	25.9
Unprotected child benefit	34.4	0.3	18	0.01	44	8.4
OEK rent subsidy	31.0	0.3	31	0.02	85	16.1
Repatriation benefit for low-income elderly	25.0	0.2	11	0.01	35	6.7
Miscellaneous benefits	16.5	0.2	12	0.01	n.a.	n.a.
Total	827.4	7.6	877	0.67	87	16.5

Notes:(i) The monthly minimum wage in 2001 was • 526.
(ii) The total in average monthly benefit excludes miscellaneous benefits, some of which are paid as a lump sum. *ΕΚΑΣ* and the social pension are paid 14 times a year.
(iii) Monthly benefit values are rounded to the nearest euro.

These benefits, new or newly income tested, considerably expanded the rather modest space reserved to targeted benefits within the social security system.

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As seen in Table 1, the four benefits accounted for 80 per cent of all expenditure on income-tested benefits in 2001. Nonetheless, rather than setting a precedent, they remained an exception. On one further occasion, eligibility for a disabled person's travel card was restricted to those below a certain income threshold, but that was about it for the moment. The new strategy ran out of steam, presumably for lack of obvious targets, before it drifted into incoherence.

2.2 The fall of selectivity

Later attempts to introduce new-targeted benefits ran into serious trouble or simply came to nothing. On the other hand, unexpected policy reversals also took place. Three characteristic episodes are briefly reported below.

Selectivity in trouble

Selectivity was dormant for the rest of the modernising government's first full term in office, but was revived in the run-up to the April 2000 general election. Indeed, the introduction of a new scheme aimed to boost take-home pay of low earners was presented as a key social policy pledge of the ruling socialist party – so much so that it was announced by the Prime Minister in a speech to the party faithful at a mass rally in Athens on the last day of the electoral campaign.

After the incumbent government's re-election, the new scheme was promptly introduced in August 2000. It provided that workers on (or just over) the minimum wage were entitled to a full refund of that part of their social insurance contributions that is earmarked for pensions (6.67 per cent of gross wage). On a monthly basis, the new scheme was worth about • 29, a modest but welcome addition to low earnings.

Nevertheless, reports began to come in that participation to the scheme was lower than expected. The matter became public in February 2001, at which point the PM asked the Ministry of Labour and Social Insurance to conduct an internal inquiry. The latter revealed that, six months after the scheme's launch, out of the 470 thousand workers expected to benefit only 40 thousand actually did (i.e. a non-take up rate of 91.5 per cent). In view of the design flaws and administrative

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problems identified, it was decided that the refund would thereafter be administered as a tax credit.[2] While it is possible that matters have improved as a result, no information on participation to the scheme has yet become public.

Selectivity reversed

The rise of selectivity was not linear. As Table 2 implies, income testing was introduced or revised and then abolished on various occasions in the past. An early example of policy reversal was the fated attempt to standardise rules concerning means testing of disability benefits. In 1987 a ministerial decree determined income thresholds that varied with family status, household size and age of beneficiary, but were otherwise identical across type of disability. A new procedure was introduced, by which income was to be self-reported through a signed statement, supported by previous year's income tax return. However, 14 months later the decree was revoked after protestations by officials at the impracticalities and disproportionate costs of controls. A new ministerial decree, issued in February 1989, abolished all income testing of disability benefits.

Different was the case of the family allowances provided by the tripartite "Manpower Employment Organisation" • • • • to private sector workers, irrespective of social insurance affiliation (though conditional on contributory record).[3] Until recently, the allowances were income tested, in the sense that the amount of benefit was inversely related to income: there were four income bands, with higher rates of benefit corresponding to lower incomes. The benefit was not withdrawn from higher-income workers, but was simply paid at a lower rate. The structure of income bands was abandoned in October 1999, taking effect retrospectively from January 1999. Since then, the allowances are no longer related to income, though they still rise with the number of children as before. The

[2] Benefit rules required that employers pay eligible employees a net wage plus the rebate and then pay the social insurance agency IKA the usual contributions minus the rebate. Therefore, the scheme depended on the ability and willingness of employers to carry out the necessary procedure and then pass on the benefit to eligible employees. Experience showed that many employers were unable or unwilling to do so.

[3] Note that a separate, more generous and better-run scheme operates for civil servants.

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change was not noticed widely. After all, the value of • • • • allowances is so low (• 6 a month for a family with one child, • 18 a month for a two-children family in 2001) that, arguably, it mattered little whether they varied with income or not.

Table 2. Policy changes with respect to income testing of selected benefits

	Introduced	Revised	Abolished
Disability allowances	1951	1987	1989
ΟΑΕΔ family allowances	1959		1999
Unprotected child benefit	1960	1983	
Social pension for non-insured elderly	1982	1992	
Pensioners' social solidarity benefit *ΕΚΑΣ*	1996		
Lifetime pension for many-children mothers	1997		2002
Large family benefit	1997		2002
Third child benefit	1997		2002
Unemployment assistance (aged 45-65)	2002		

Notes:(i) The year 1951 was when the oldest disability scheme (for the blind) was introduced.
(ii) Before 1999 *ΟΑΕΔ* family allowances were not withdrawn from higher-income families but simply paid at lower rate. From 1999 there is a single rate for a given number of children irrespective of income.

The case of the three "many children" benefits were more clamorous. Income tests to these benefits, as explained earlier, had been presented as evidence of a paradigm shift in social policy towards "providing benefits to those who really need them". For all the earlier rhetoric, the same income tests were dropped – rather less ceremoniously, this time – in December 2001. Not much was said publicly on that curious policy reversal by way of explanation. It can only be assumed that the original pro-natalist objectives were reaffirmed, leaving aside considerations of selectivity.

Selectivity repudiated

The absence of a national scheme of last resort, acting as the ultimate social safety net, was only a few years ago correctly identified as a defining feature of the "rudimentary social assistance regime of south Europe" (Gough 1996). Nevertheless, policy developments over recent years have been quite spectacular in this policy area. In Portugal, *rendimento mínimo garantido* was launched in 1996 as a pilot scheme and generalised nation-wide in 1997. In Italy, a formal experiment with *reddito minimo di inserimento* began in 1998 in 39 municipalities

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and extended to another 260 in 2000. On the other hand, Spain has no national minimum income programme, but various schemes – such as the Catalan *renda mínima d'inserció* – have been operated by "autonomous communities" for over a decade. In other words, given that every other EU country had long before adopted a minimum income scheme or equivalent (CEC, 1998), Greece risked remaining a deviant case: an exception even within the family of south European nations.

The largely successful experience of guaranteed minimum income programmes in Italy and Portugal raised the question of whether Greece should not follow suit. After all, the three countries shared those features that had earlier been considered inimical to the introduction of minimum incomes (extended families, informal employment etc.). Moreover, all three were at that time ruled by centre-left majorities. What better opportunity for a government committed to Europe to bring the country's patchy safety net up to European standards! What more natural for a government committed to targeting than to prepare the ground for the introduction of the targeted programme *par excellence*!

As a matter of fact, a proposal setting out a plan to introduce a guaranteed minimum income programme in Greece was actually presented to the Prime Minister in January 2000. A shorter version of the same proposal was submitted to the committee responsible for the preparation of the National Action Plan for Social Inclusion (NAP/incl) in March 2001.[4] After brief consideration, the proposal was rejected. As is customary, the reasons for that decision were not made public, but the NAP/incl hinted that the decisive factor had been that income tax returns were not reliable enough for income testing purposes (NAP/incl, 2001, p. 7).

[4] The proposal had been drawn up by this author, in an earlier life as an adviser to the Prime Minister. The proposed scheme, in line with standard policy, would combine financial support in case of extreme hardship with individual social reintegration plans. It was estimated that the cost of cash transfers would be the equivalent of 0.23 per cent of GDP. A full account of the methodology used can be found in Matsaganis et al. (2001).

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Such a discovery notwithstanding, three new targeted benefit programmes were announced: a scheme of unemployment assistance plus two less significant tax credit schemes, whose beneficiaries were all to be selected on the basis of the very same income tax returns. Concerns about their reliability were quietly put aside again.

3. Limits to selectivity

The literature on the limits to selectivity is quite extensive.[5] No attempt is made to rehearse the standard arguments here, other than to remind that: *"The scope of governments to target benefits effectively is limited not just by the budgetary cost (…), but also by administrative factors, by the impact on economic incentives and by considerations of political economy."* (Atkinson, 1998, pp. 130-131)

The reflections that follow address that literature only indirectly, focusing instead on factors that are either additional or qualitatively different to the ones usually cited. More specifically, these relate to the implications for selectivity of the fact that Greece is (a) a continental European welfare state, (b) a south European welfare state and (c) a welfare state with a low degree of "stateness".

These arguments are fully spelled out below. At this point, it is ought to be noted that the discussion on selectivity in Greece was mostly conducted out of context, in a sort of institutional vacuum. It looked as if the country under consideration had suddenly and mysteriously moved from the south east to the north west of Europe. For reasons related to the personal histories of many of those involved, the merits of selectivity were praised by reference to British experience alone. In the words of a powerful figure in the Simitis government:

[5] For a concise review of the main issues, see Atkinson (1995, pp. 223-304) and (1998, pp. 119-149). Sen's paper quoted earlier (1995) introduced a lengthy volume dedicated to targeting, sponsored by the World Bank, whose findings are summarized by van de Walle (1995).

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"The income tests and targeted interventions in social policy started by the Simitis government are similar to those adopted by the Labour government in Britain."[6]

In fact, the modernisers' infatuation with targeting went far beyond the narrow confines of social policy. Far from it being simply seen as a technique to allocate social benefits, selectivity became no less than the key to the revival of the centre-left, invested with wider significance and assigned almost mystical qualities (Mouzelis, 1998a): *"If the centre-left forces manage to break the taboo of universal benefits, it will be possible to restructure the welfare state in a much more positive manner for the social classes that really need it."*

Soon, it was selectivity that became a taboo: questioning its wisdom implied a departure from the faith. More problematically, selectivity was presented as the answer to the all-important question of welfare reform. But the question itself was poorly understood. That welfare reform was badly needed could not be seriously doubted. But whatever the proponents of selectivity might have thought, an excess of universality was not among the many faults of the Greek welfare state.

3.1 Selectivity in a Bismarckian welfare state

The label "conservative-corporatist" (Esping-Andersen, 1990) fits Greece quite well. Social security is dominated by the Bismarckian principle of contributory earnings-related benefits, provided by a large number of social insurance agencies or "funds". By contrast, as Table 3 indicates, income-tested benefits account for no more than 4.7 per cent of total spending on social security.

Table 3. Allocation of total expenditure on social security benefits (2001)

	Income tested	Not income tested	Total
Contributory	0.2	83.5	83.7
Non-contributory	4.5	11.8	16.3
Total	4.7	95.3	100.0

Note: Total expenditure on social security benefits in 2001 was • 18,644 or 14.28 per cent of GDP.
Source: Matsaganis (forthcoming).

[6] Interview of Nicos Christodoulakis, then finance under-minister, now minister of the economy and finance. The interview was published in the Sunday newspaper • • • • • • • on 12 April 1998 under the title "We apply the Blair recipe".

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Non-contributory benefits that are not already income tested represent a further 11.8 per cent of the social security budget. These benefits may be thought of as a natural candidate for income testing. However, the largest programme of that category (the farmers' basic pension) is being phased out, as from 1998 the "Agricultural Insurance Organisation" • • • has been gradually phasing in a new contributory pension. In terms of Table 3, this marks a move from the bottom-right to the upper-right part of the matrix, not from bottom-right to bottom-left as the proponents of selectivity might have wished.

The eventual disappearance of the farmers' basic pension will complete the Bismarckian imprint of Greek social security: the remaining non-contributory non-income-tested benefits amount to a mere 2.5 per cent of total expenditure.

That leaves only one possibility: income testing social insurance. Nevertheless, restricting access to contributory benefits on grounds of high income usually proves to be a politically risky and legally ambiguous exercise, given that contributors have come to regard such benefits as theirs "by right": a right earned precisely through paying contributions.

That the predominance of social insurance has serious implications for the prospects of selectivity has not escaped attention. On the contrary, it has been noted that such a context allows limited room for manoeuvre (Ferrera, 1998, p. 90): *"Even if the insurance logic has in large part become a façade, nonetheless it is a façade that considerably constrains selectivity."*

In fact, examples of successful attempts to restrict social insurance benefits on the basis of income are few and far between. The often cited case of high earners in Germany and the Netherlands being exempted from compulsory health insurance (Ferrera, 1998, p. 86) points to a counter-productive outcome: the exclusion of high earners not only weakens the contribution base, but (since they tend to pay more into the social insurance fund than they get out from it) redistributes resources in their favour.

Nor is the strategy of targeting contributory benefits supported by the French experience (Levy 1999, pp. 246-252). In the 1998 budget, the first of his

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government, Lionel Jospin announced the introduction of income tests aimed to exclude “the rich” from access to contributory family allowances. Nevertheless, the new policy came under criticism “from Left and Right”. In line with the recommendations of various policy reviews commissioned by the government, Jospin confirmed the restoration of universal family allowances in the 1999 budget. The additional costs were financed by a restructuring of the highly regressive “family quotient” system of child tax credits – arguably, a more plausible target for a progressive government all along.

That selectivity was the wrong answer to a wrongly formulated question also became evident in Greece. Universal benefits, as seen earlier, have been so weak that it seems incredible that they could possibly offend anybody’s sense of justice. On the other hand, a modernising government wishing to promote equity at the same time as efficiency hardly needed to look any further than at pensions. This is a vast and separate subject, more extensively treated elsewhere (Matsaganis, forthcoming). Nonetheless, it might be useful to list the main conclusions here.

In terms of efficiency, spending on pensions accounts for more than 90 per cent of all benefits and is among the highest in Europe as a proportion of GDP, while it also rises fast. Moreover, the design of pension programmes favours early retirement and contribution evasion, leading to the seemingly paradoxical effect that many pensions are at once too low (compared to earnings) and too high (compared to contributions paid).

In terms of equity, categorical fragmentation often results in variations in level of pension that are not only positively related to income but also negatively related to prior contributions. More specifically, between identical workers in terms of age and income, current arrangements systematically favour those in “noble” funds over those in “popular” ones, civil servants over private sector workers, the middle-aged over the young, men over women, unionised over precarious workers and so on.

It could be well argued, as this author would certainly be inclined to, that the survival of the pension system in its current form constitutes a gross violation of

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any principle of justice, while also being a serious obstacle to the growth of the smallest (relative to population) national economy in Europe.

In few words, pension reform was and still remains the litmus test for reform-minded progressives, in Greece as everywhere else in continental Europe. Here, the "modernising" government's record (by the standards it had set itself on taking office) can only be described as disappointing. Faced with unrealistic expectations it had fanned when in opposition, the government stumbled from one policy failure to another, found itself repeatedly constrained to deny what it had announced shortly before, before it finally settled for a limited (though face-saving) exercise of tinkering at the margin.

In such a context, the preoccupation with selectivity proved truly irrelevant, a distraction from the main task. Once more, the problem was redefined in order to fit the solution. In the words of the government figure cited earlier:

> "There exist pensioners with high pensions and particularly privileged treatment, while there also exist pensioners with incomes around the poverty line. The greatest unfairness would be a policy of across-the-board rises that would not benefit the privileged, nor would they help the poor substantially. The correct and fair solution in this case would be greater support for the weaker, as with • • • • ."[7]

Whether that was indeed "the correct and fair solution" has in the meantime become clearer. Six years after the Simitis government came to office announcing pension reform as a key priority, the perennial "privileges" remain largely intact. At the same time and for all its expansion, • • • • (the celebrated income-tested supplement to low pensions) only accounts for about 2 per cent of total pension expenditure.

[7] Interview of finance under-minister Christodoulakis (• • • • • • , 12 April 1998).

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3.2 Selectivity in a south European welfare state

As seen above, categorical fragmentation is often at the root of all that is wrong with social security in Greece. Unlike elsewhere in continental Europe, the traditional division of schemes along occupational lines has not been mitigated by equalising measures aimed to unify social rights across categories.

As a result of that, the parameters defining e.g. pension rights (contribution rates, minimum length of contributory period, reference earnings, replacement rates, even retirement age) are subject to a bewildering array of rules that differ systematically between categories. Obviously, the distribution of privileged treatment is anything but random: it can usually be explained by a category's ability to bend rules in its favour. This may be due to political influence, as in the case of the "liberal professions", or simply a matter of proximity to power, as in the case of civil servants (Sotiropoulos, 2001).

The "particularist-clientelist" (Ferrera, 1996) aspect of social protection arrangements in Greece had been noted in the late 1980s by a socialist backbench MP who was later to become prime minister: *"The welfare state in Greece has been built haphazardly. (…) It is the product of repeated compromises with pressure groups or of short-term crisis management." (Simitis, 1989)*

The outcome of this historical process might be termed "fragmented selectivity". The breakdown of the pension system into a plethora of social insurance funds, each with its own rules, was noted above. Some random examples of the same phenomenon might also be added.

Disability allowances are highly heterogeneous by type of disability and often by category of recipient. There are 10 categories and 22 sub-categories of disability allowances. These include a special benefit for blind practising lawyers (claimed by 26 persons in 1999), worth 2.3 times as much as the standard benefit for blind workers and pensioners.

The main form of housing assistance to tenants is the rent subsidy provided by the tripartite "Workers' Housing Organisation" *OEK*, covering private sector workers irrespective of social insurance affiliation. The benefit is income tested

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and at the same time conditional on contributions. Single applicants need a contributory record of at least 10 years, although lower eligibility criteria apply to various categories of claimants (such as families with many children, single mothers, the disabled, young couples, temporary workers, residents of remote areas, return migrants and others). By implication, no housing assistance is available for those lacking sufficient contributions (e.g. workers in the large informal economy).

In the area of unemployment protection, the most important scheme is “ordinary unemployment benefit”. This is available on a contributory basis, for a maximum period of 12 months. Because of the strict contributory conditions, coverage is limited (44 per cent of registered unemployed in 1999). By way of compensation, there also exist a variety of “extraordinary” unemployment benefits with less stringent rules. These include a 5-month benefit for first-time job seekers aged 20-29 who can prove they are out of work for over a year, lump-sum support for former recipients who remained unemployed after eligibility expired, special schemes for seasonal workers, other irregular workers, return migrants, former prisoners etc.

Income transfers to families with children come in many forms as well. The common characteristic of the various schemes is that the amount of benefit increases almost exponentially with the number of children. Occupational family allowances introduce a further division between civil servants and private sector workers, as the former receive much more substantial and timely assistance than the latter. Since most children live in families not headed by a civil servant and with fewer than three children, the structure of family benefits exposes many to the risk of poverty.

The list could be easily expanded almost *ad infinitum*. The point is that fragmented selectivity, apart from offending rather basic notions of equity, leaves in place a typically south European social protection system that combines welfare privileges and coverage gaps:

> “This dualistic system of income maintenance tends to generate a peculiar polarization within the social clientele of the southern welfare states. On the

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one hand we find in these countries a group of hyper-protected beneficiaries: typically public employees, white collar workers and private wage-earners of medium and large enterprises working on a full contract, with job security (…). On the other hand we find large numbers of under-protected workers and citizens, who only (occasionally) draw meagre benefits and may thus find themselves in conditions of extreme hardship: typically irregular workers in weak sectors without job security, workers of the informal economy, young and long-term unemployed people etc." (Ferrera, 1996, p. 20)

Naturally, the corollary of that dualism (aggravated by the absence of a minimum income benefit of last resort) is that the social safety net is full of cracks, through which a large number of individuals and their families fall into poverty.[8]

Recent policy has left untouched this rather perverse form of selectivity, when not intensifying it further. Indeed, the recent National Action Plan for Social Inclusion (NAP/incl) even had a go at theorizing "fragmented selectivity": *"Precisely because the causes of poverty are complex and often vary among different vulnerable groups, our policy focuses on specific target groups."* (NAP/incl, 2001, p. 7)

In line with this assessment, three new schemes were introduced from 2002. The first, unemployment assistance for older workers, is a significant step in the direction of strengthening the social safety net. Still, the maximum duration of benefit (12 months) is too short by unemployment assistance standards, while there seems to be little reason to impose an age requirement (over 45), given that an income test applies as well. The other two, even more in keeping with the tradition of fragmented selectivity, are tax credits aimed at households in mountainous and less favoured areas and at families with children aged 6-16. This choice of "specific target groups" was not explained. Households in flat and more

[8] Relative poverty in Greece is higher than in most EU countries, while the impact of social transfers in terms of poverty reduction is considerably lower than is the European norm (CEC, 2001, pp. 169-176). For an extensive analysis of poverty and social assistance in Greece, see Matsaganis (2002).

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favoured areas and families with younger children remain ineligible for assistance, even if poor.

At the level of policy, the "danger that some groups experiencing poverty may not be eligible for income support" (CEC, 2001, p. 34) remains largely undiminished. At another level, the concept of selectivity, promoted as the quintessence of progressive politics for the 21st century, proved flexible enough to mutate into a wholesale embrace of the most antiquated traits of welfare *à la grecque*.

3.3 Selectivity in a "soft" state

"Targeting welfare in a 'soft' state" is the title of a recent paper on Italy, which introduces its subject with the following remark (Ferrera, 2001, p. 160):

> "Effective targeting requires some institutional preconditions that are often taken for granted in much of the comparative debate: an efficient state administration, a reliable tax system and, more generally, a civic culture capable of circumscribing fraudulent and corrupt behaviours on the part of both users and bureaucrats."

This is certainly true, though there has recently been considerable interest in imperfect targeting, mainly though not exclusively on the part of economists.[9] For instance, Atkinson (1998, pp. 131-132) analysed this as a case of imperfect information:

> "In the operation of a transfer programme, there is often an asymmetry of information in that the needs of the individual are known to him or her but not to the administering agency. (…) It is possible to imagine circumstances in which there is no problem of information. *If* the government operates a personal income tax, *if* everyone files a tax return, and *if* this information is deemed sufficient to determine the payment, then in theory it would be possible

[9] See Atkinson (1998, pp. 130-140) and (1995, pp. 247-255). On the determinants of low take-up of benefits and its implications for equity, see Duclos (1995a) and (1995b). For an extensive study of take-up of *Sozialhilfe* in Germany, see Rihpahn (2001). Van Oorschot's survey (1991) is an early of empirical research on low take-up by a non-economist.

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for the agency to identify from the income tax records those people with low incomes, calculate the necessary benefit amount, and *if* the administrative machinery exists, to mail a payment to the beneficiary. (…) In this situation, one could operate an 'automatic' income-related programme. However, these conditions are highly unlikely to be satisfied."

Benefit delivery and administration

In the absence of an automatic system of targeted transfers, the availability of information about benefits to potential claimants becomes an elementary requirement. On this count, the performance of Greek benefit agencies leaves much to be desired:

> "The Office of the Ombudsman on a daily basis receives citizens' requests concerning inadequate or inexistent information on the part of the administration. In this sense, inadequate information emerges as one of the greatest problems of administrative practice. On many occasions, citizens are constrained to look for information from unofficial sources, with the result of being referred from desk to desk, unable to obtain authoritative information on the issue that concerns them. Yet, in an area such as social security, characterised by the technical nature and complexity of the relevant legislation, authoritative information is a decisive factor for access to benefits, while conversely lack of information translates to *de facto* negation of citizen rights." (Ombudsman, 2002, p. 108)

More generally, benefits are often administered by agencies that were not originally established for the purpose: for instance, the "many children" benefits discussed earlier are actually provided through the "Agricultural Insurance Organisation" • • • . The requirement of timely provision (a desired feature of social assistance) is, as a rule, not satisfied: benefits are often delivered with great delay and arrears are common, while some schemes pay benefits once a year or every two months. Instead of an open system of applications to ensure that urgent needs can be met whenever they arise, such periods are usually short and with strict deadlines: if missed, beneficiaries must wait for another year. Until recently, no effective procedure for addressing grievances was available. Since October 1998, when the "Office of the Ombudsman" was created, it has become the main

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depository of complaints about benefit agencies' alleged failures (30 per cent of all cases taken up in 2001). Finally, benefit agencies do not normally take the view that ensuring a decent level of take up is their responsibility, with the result that the issue does not receive the attention it deserves. Such failures might be blamed on under-staffing were it not for the fact that the various agencies employ over 1 per cent of the workforce.

Of course, the other side of the information coin is the reliability of methods to assess the incomes of potential claimants. With no exception, all agencies rely on signed statements supported by evidence from the previous year's tax return. Nevertheless, poor tax compliance is known to constitute a serious obstacle. A recent OECD report listed a variety of causes: the size of the informal economy (estimated at between 24 per cent and 40 per cent) of GDP, the large share of self-employment in the workforce, an inefficient tax administration, the lack of a land register, the complexity and "continuous revisions and amendments" of tax laws, the loopholes due to numerous tax allowances and exemptions, as well as "the extra burden of so-called 'third-party' taxes that are extensively used to fund various institutions (e.g. the pension funds of lawyers, engineers and media workers)" (OECD, 2001, p. 93).

It was seen earlier that concern about "leakages" to illegitimate beneficiaries (due to unreliable tax data) lay behind much of official opposition to the idea of a minimum guaranteed income scheme. It has also been noted that such a concern did not stop the government from introducing two new tax credit schemes aimed to low-income families. In any case, a legal exemption from filing an income tax return operates below a certain threshold, affecting 1.4 million individuals (about 13 per cent of total population). As a result, income tax data are of little use for identifying the poor, even if they were credible. The point about a guaranteed minimum income scheme is that it would combine assistance in cash with

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participation in reintegration programmes, the latter acting both as an "activation" mechanism and as screening device.[10]

Benefit design

On the other hand, decent targeting needs to conform to some minimum standards in terms of design. For example, the amount of benefit must be inversely related to claimant's income, either linearly or at least in a "graduated" form, with higher rates corresponding to lower income bands. To avoid the "poverty trap", the rate of benefit reduction as income rises must be less than 100 per cent. Income disregards (exceptions from income as assessed by the benefit agency) are also useful, as they play a similar role. Income must be defined in a uniform fashion. Care must be taken to calculate incomes net of the benefit itself, if already received.

The above conditions may seem obvious, but the fact is that more often than not they are violated. As Table 4 shows, most income-tested benefits are paid as a lump sum to all those who meet the eligibility criteria. That means that individual A with original income just below the threshold ends up better off than individual B with original income just above the threshold: A will receive the full rate of benefit while B will get nothing.[11] This clearly contradicts common sense (not to mention optimal taxation theory), while it also constitutes an obvious incentive to manipulate income tax returns.

[10] Admittedly, this smacks of workfare and the Poor Law, but this is not necessary. The French *revenu minimum d'insertion* includes a participation requirement that does not extent to a work availability condition. For a more benevolent view of such requirements as self-selection mechanisms, see Sen (1995, pp. 18-19).

[11] The pension supplement • • • • was originally better designed, with four benefit rates carefully interacting with an equal number of income bands. Nonetheless, successive revaluations of both benefit rate and income thresholds distorted the original design. As a result, in 2001 a recipient of lower-rate • • • • risked ending up worse off than a full-rate recipient: for annual pension income up to • 5,263 full benefit was awarded (• 1,146 a year), while for higher pension income (up to • 5,469 annually) benefit was reduced to • 859 a year. In other words, total pension income including • • • • was lower for the pensioner with higher original pension (• 6,328 vs. • 6, 409). Incentives are complicated further by the fact that the other incomes taken into consideration (total personal income and total family income) are not "graduated" but only have a single cut-off point.

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Table 4. Programme design features of income-tested benefits

	Graduated benefit	Income concept	Benefit itself included	Income disregards	Benefit taxed
Pensioners' social solidarity benefit *EKAΣ*	yes	taxable	no	none	yes
Ssocial pension for non-insured elderly	no	declared	no	social assistance	no
Lifetime pension for many-children mothers	no	presumptiv e	yes	none	yes
Large family benefit	no	presumptiv e	yes	none	yes
Third child benefit	no	presumptiv e	yes	none	yes
Unprotected child benefit	no	total	no	expenditure on rent	no
OEK rent subsidy	yes	declared	no	interest on savings, benefits	yes

Notes:(i) *EKAΣ* has a full rate and three reduced rates that correspond to four pension income bands (personal and family incomes are also taken into account but there is a single income threshold for each). *OEK* rent subsidy is reduced euro for euro as income rises within a certain band. All other benefits are paid at a single rate and withdrawn totally as soon as income crosses the threshold.
(ii) Declared income is higher than taxable because various exemptions operate. The income concept used to assess applications for many -children benefits included "presumptive income" if greater than declared (income testing of these benefits was abolished in 2002). In the case of unprotected child benefit, the income concept includes private transfers and social benefits. The income concept used to assess applications for *OEK* rent subsidy excludes income from interest on savings, family benefits, unemployment compensation (both ordinary benefit and severance pay), disability allowances, as well as pension payments in arrears.

Furthermore, the income concept varies between benefits and agencies, for no apparent reason but with implications for eligibility. Income disregards are rare and non-standardised. Some benefits are taxed as income (a feature usually associated with universal benefits), while others are not. Finally, on three occasions the benefit itself is included in the definition of income used when assessing claims. This gives rise to a rather bizarre situation in which year 1 beneficiaries whose income from other sources remains fixed risk losing the benefit in year 2, qualifying again in year 3, losing it again in year 4 and so on.[12]

Indexation of benefits (and of the relevant income thresholds) is a closely related issue. Here, the minimum requirement is consistency. On the contrary, as Table 5 shows, indexation is usually *ad hoc* and sometimes skipped altogether.

[12] The possibility of this "seesaw pattern" was drawn to my attention by Spyros Yannopoulos (personal correspondence dated 6 May 1998), then director of the "Agricultural Insurance Organisation" • • • .

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Revaluation policy is erratic; with some benefits receiving higher rises than others, with no explanation given. More often than benefit rates, income thresholds fail to keep pace with inflation or are left unchanged in nominal terms, so that beneficiaries with fixed real income risk crossing the threshold and thus be disqualified.

Table 5. Indexation and revaluation of selected benefits (1996-2001)

	Indexation		Real change in:	
	Method applied	No. of times skipped	Benefit amount	Income threshold
Pensioners' social solidarity benefit *EKAΣ*	Inflation	1 / 1	108.1	9.0
Social pension for non-insured elderly	Ad hoc	0 / 0	63.8	63.8
Lifetime pension for many-children mothers	Inflation	1 / 3	-1.3	-12.5
Large family benefit	Inflation	0 / 3	14.5	-6.3
Third child benefit	Inflation	0 / 3	16.2	-2.8
Unprotected child benefit	Ad hoc	4 / 4	6.4	49.9
OEK rent subsidy	Ad hoc	2 / 1	11.3	-0.1
IKA minimum pension	Ad hoc	0 / n.a.	11.6	n.a.
Unemployment insurance	Minimum wage	3 / n .a.	3.0	n.a.
Disability allowances	Ad hoc	0 / n.a.	37.0	n.a.

Notes:(i) *EKAΣ* and (on one occasion) 3rd child and large family benefits have been raised above inflation. The inflation rate applied is that of the year prior to revaluation.
(ii) Unemployment insurance benefit was originally set equal to two thirds of minimum wage "if resources permit". In 2001 the relevant ratio had fallen to 48 per cent.
(iii) The figures in the "no. of times skipped" column refer to benefit amount and income threshold respectively. The length of the period examined is five years (1996-2001) except for lifetime pension for many-children mothers, large family benefit and 3rd child benefit, which became income tested in March 1997. *EKAΣ* was introduced in mid-1996 and was not revalued until 1998.
(iv) The income threshold in the case of the social pension (for a two-person household) is the farmers' basic pension (if received by the claimant's partner). The value of these two pensions is fixed at the same rate.
(v) *IKA* minimum pensions, unemployment insurance benefit and disability allowances are not income tested. Disability allowances are proxied by severe disability allowance, claimed by over 55 per cent of all disability allowance recipients.

On a final note, it has been rightly pointed out (Ferrera, 1998, pp. 87-93) that there are different types of selectivity. For instance, stringent means tests aimed to identify the poor are qualitatively different from "affluence tests" intended to exclude the rich. It might therefore be interesting to see exactly where along that spectrum the Greek case lies. After all, the argument in favour of targeting was conjured in terms of "generous selectivity" vs. "miserly universality" (e.g. Mouzelis, 1998b).

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Table 6. Income thresholds as percentage of the poverty line (2001)

	Single	Couple plus (no. of children)					
		0	1	2	3	4	5
Pensioners' social solidarity benefit *ΕΚΑΣ*	124	129	107	92			
Social pension for non-insured elderly	36	24	20	17			
Lifetime pension for many-children mothers	189	126					
Large family benefit			300	257	225	200	198
Third child benefit					180		
Unprotected child benefit			29	27	25		
OEK rent subsidy	151	101	97	94	91	90	88
Unemployment assistance (aged 45-65)	52	38	35	32			

Notes:(i) The poverty line was assumed to be 60 per cent of median equivalent income, adjusted for family size with the OECD modified
equivalence scale also used by Eurostat (which assigns a value of 1.0 to the household head, 0.5 to other adults and 0.3 to each child). The poverty line for a family of four in January 2001 was • 951 (• 992 in January 2002). Poverty estimates were drawn from
Tsakloglou & Mitrakos (forthcoming).
(ii) The figures for *ΕΚΑΣ* were derived by taking the personal income threshold for claimants living alone and the family income threshold for all others.
(iii) Unemployment assistance for those aged 45-65 (and out of work for more than 12 months) was only introduced in 2002. The figures given in the last row were calculated with respect to the poverty line of that year.

Table 6 gives the position of the income thresholds for access to various benefits in relation to a survey-based poverty line, set at 60 per cent of median equivalent income. While a clear pattern is difficult to discern, most benefits except for "many children" are below or just over the poverty line. The example of the social pension, the only benefit in Greece coming close to the definition of a last resort safety net, is illustrative – and sobering, given the overall generosity of the rest of the pension system. If an elderly couple's resources are below the equivalent of 24 per cent of the poverty line, then the social pension may be awarded to one of the two. Not the finest example of "generous selectivity", surely.

4. Conclusion

As the preceding discussion revealed, the most serious challenges facing Greece's welfare state have little to do with targeting. The key priorities remain the same as in 1996: reforming pensions to restore equality of treatment across categories, reversing fragmentation by unifying conditions of access across

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programmes, rebalancing the welfare mix to cater for new risks, strenghtening the social safety net by introducing a benefit of last resort.

In contrast, the insistence on targeting was based on an inadequate understanding of the institutional context, ignoring the structural limits to selectivity in a Bismarckian, southern European "soft" state. Therefore, it is hardly surprising that six years after it became the buzzword of Greece's "new social policy" selectivity has very little to show for it. More problematically, it diverted energy and resources from the main task of modernising Greece's welfare state, to which it had little to contribute. In the light of this, it can only be concluded that as a recipe for welfare reform (what is more, from a progressive perspective) the strategy of selectivity was seriously flawed.

More generally, the quest for positive-sum solutions goes well beyond the simplistic assumption that targeted benefits are always superior and includes the recognition that universal ones may well be both equitable and efficient. In any case, as long as propping up a fragmented and over-stretched social insurance edifice continues to be official policy, the selectivity vs. universality debate will remain largely irrelevant. The clear separation of contributory from non-contributory benefits (funding the latter out of general taxation and the former through payroll contributions) would provide a more rational framework in which to assess alternative options.[13]

As an illustration, the redeployment of state finance away from subsidies to social insurance funds towards a non-contributory pension programme would allow the incorporation of existing instruments (minimum pensions, social pensions and • • • •) into a more effective system of income support in old age. The resources freed would be large enough to enable the provision of a universal basic pension to all residents aged over 65, worth to an elderly couple nearly 60

[13] Neatly separating contributory from non-contributory benefits is a promising policy path recently taken in other southern European countries. In Spain, the principle was enshrined in the "Toledo Pact" and confirmed in the tripartite "Accord to improve and develop the social protection system", signed in 2001 (Blanco Angel, 2002). In Italy, it had been a key recommendation of the *Commissione per l'analisi delle compatibilità macroeconomiche della spesa sociale* (1997).

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per cent of the poverty line on a fiscally neutral basis.[14] Whether first-pillar pensions ought to be means-tested or universal can be more usefully debated at that point, not before.

The preceding analysis emphasises institutional features of social protection arrangements that are not unique to Greece but are common elsewhere, especially in southern Europe. However, the conclusion of selectivity's failure in Greece seems to contradict more encouraging evidence from Italy (Ferrera, 2001; Baldini et al., 2002).

Yet, a closer look at that evidence shows that the contradiction is only apparent. For a start, pension reform in Italy was tackled earlier and more successfully, removing many inequities and inefficiencies of the *régime ancien*. Furthermore, targeting was part of a wider reform aimed to overcome the corporatist fragmentation and rudimentary nature of social assistance, mainly through the unifying influence of the *indicatore di situazione economica*. Last but not least, the experimental introduction of *reddito minimo di inserimento* marks serious progress towards establishing a national scheme of last resort. On the whole, social assistance in Italy has been made more targeted but at the same time more universal in scope: a case of "selective universalism" (Baldini et al., 2002, p. 72).

In fact, this critique of selectivity *à la grecque* is not motivated by a rejection of selectivity *tout court*. The choice between selectivity and universality (even for a lifetime member of BIEN!) can be more sensibly tackled in terms of striking the right balance. Or, as the earlier cited World Bank survey concluded (van de Walle, 1995, p. 616):

> "The key question is what *degree* of targeting is optimal. (…) In general, what is needed is a combination of universalism in certain categories of spending

[14] Own calculations, from unpublished work on a pension reform proposal submitted in summer 2001 to the government by the small left-of-centre organisation *AEKA*. The proposal involved a three-tier pension structure with a "notional defined contribution" main tier, as in the Swedish and Italian systems. For a wider discussion of the issues involved, see Schokkaert & van Parijs (2001). For a not incompatible ILO view, see Gillion (2000).

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and finer targeting in others, such as in providing safety nets. Such a two-pronged approach is a sound starting point for policy design. In implementing it, one should, however, never confuse the ends and the means of policy. Targeting should be seen as a potential instrument, never as an objective in its own right."

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