West European Politics,
Vol. 28, No. 2, 403–420, March 2005

Routledge
Taylor & Francis Group

Pension Reform in Greece: 'Reform by Instalments' – A Blocked Process?

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ABSTRACT *The dominant characteristic of the process of pension reform in Greece is policy immobility: key measures rationalising the public PAYG pension system have been characterised as 'extremely urgent' for the last half-century and remain so today. This policy immobility – or 'reform by instalments' – is explained on the basis of key structural features of the Greek pension system, chief amongst which is fragmentation. These features allow short-termism of political actors to thwart reform efforts and to rely on external stimuli to initiate progress. Experience since the mid-1990s, despite some early promise, has largely confirmed traditional patterns.*

INTRODUCTION AND OVERVIEW

J.M. Keynes wrote 'Practical men who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist' (Keynes 1936: 383).[1] This was intended as indirect praise for those clear-sighted economists who were independent enough to set the agenda for policy.

In the case of pension reform in the face of ageing societies, until very recently two generalisations could be said to set the scene for the interplay of politics and economics: on the side of economists, near unanimity on the necessity of reform, as well as on the characteristics of (at least a core set of) prescriptions; on the side of policy (the practical men and the politicians), a determined immobility. In many European countries since the 1980s, pension reform has been continually just on the verge of being implemented. In the conflict between the clear-sighted economists and the politicians, it seemed as though the politicians were both setting the pace and deciding the agenda. Keynes' dictum could be turned on its head: *economists* were the slaves of defunct and irrational *politicians*.

This paper focuses on Greece: a pension reform aiming to consolidate the extremely fragmented public system and to encourage longer contribution periods has been on the agenda continuously and frequently as 'an urgent matter' for the last half-century, since the mid-1950s.[2] The fact that the agenda for the next four years remains largely identical makes Greece an extreme – and therefore interesting – case of the phenomenon of pension reform delays. This paper attempts to characterise and explain the

ISSN 0140-2382 Print/1743-9655 Online
DOI: 10.1080/01402380500060346

persistence of delays as arising from key structural features of the Greek pension system.

These characteristics, chief amongst which is fragmentation, set the scene for a political economy of reform which in the absence of external shocks will tend to lead to inaction. This paper runs through 40 years' pension history in order to distil four 'stylised facts' that can characterise the situation in Greece. It then proceeds to examine three general processes inherent in the economics of pensions rather than the specificities of Greece, which underlie these stylised facts. The third section takes a more applied look at processes that have characterised the attempts to break the log-jam in the last few years. Finally, the paper gazes ahead towards the prospects for reform in the medium term.

SETTING THE SCENE FOR 'REFORM BY INSTALMENTS'[3]

In April 2001 the Greek government, having earlier declared that 'it is time
1 to cut the Gordian knot of pension reform' (PASOK 2000), publicised a set of proposals. These proposals amounted to a rationalisation of the public pension system and hence a strengthening rather than an abandonment of its public character. The proposals succeeded in mobilising the largest demonstrations that Greece had seen for a long time, and were withdrawn after less that a month.[4]

A sober analysis of the 2001 proposals could reveal them to be in many respects identical to those outlined in a government report of 1959[5] (Ministry of Coordination 1959, quoted in Tinios 2001: 72–74). For example, the 1959 report recommended that the number of public pension providers (which then stood at 153) should be drastically reduced; the 2001 proposal contained the same recommendation, the only difference being that in the meantime the number of providers had risen to over 240. Financial viability was then (1959) described as 'the most serious and *urgent* problem facing the system' (emphasis added). Today, Greece stands out as the country with the largest expected pension expenditure to the year 2050 (Economic Policy Committee 2001). Appendix 1 provides a chronology of the 'Reform by Instalments' since the mid-1970s.

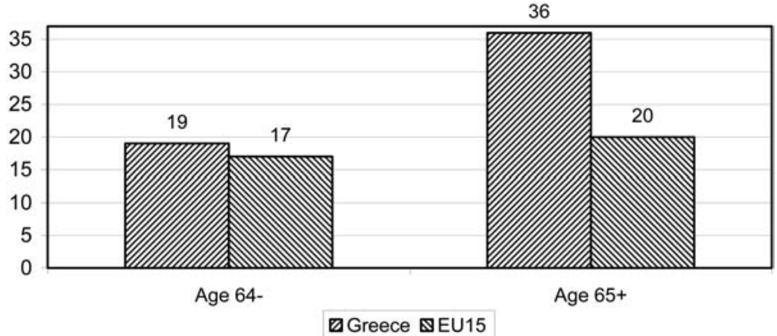
The first stylised fact thus has to do with the nature of reform: Reform is postponed and comes by instalments. The comparison with the 1958 report shows two key facts: firstly, the analysis of the problems was not at fault. Secondly, in the intervening period the overall effect of institutional and legislative change was actually in the wrong direction.

The key feature of the Greek system, and in much of what has been called the 'Mediterranean welfare state' (Ferrera 1996), is fragmentation. The system – though invariably financed by Pay-As-You-Go (PAYG), on social insurance lines – is fragmented in three dimensions: along sectoral lines, according to tier of protection and by birth cohort. The fragmentation involves inequality in financing burdens, in entitlements and carries over into organisational details.[6] This fragmentation imposes a kind of 'Kaleidoscope effect' on public discussion – in that no generalisation can be proffered without being immediately challenged by several counter-examples. This kind of fragmentation is responsible for two phenomena, which are key to understanding the political economy of the system: the ease of cross-subsidisation of one sector of the economy by another, or of one group in the population by another.[7]

Secondly, partly as a result, the system is marked by the coexistence of 'islands of privilege in a sea of insufficient provision' . Hence, the system 2
displays the seemingly paradoxical coexistence of very high expenditure on pensions as a percentage of GDP and a concentration of poverty among the old (Börsch-Supan and Tinios, 2001). Figure 1 shows that (on the basis of the Laeken indicators of the risk of poverty) poverty in Greece is overwhelmingly concentrated among the elderly: more than one in three Greeks over 65 live at risk of poverty. In the words of the 2001 National Action Plan for Social Inclusion (NAPincl 2001), 'Poverty is grey in 3
character'. Thus the Greek system manages to do badly in two key functions of the pension system: in financial viability and in adequacy of pensions. Thus, the next 'stylised fact' concerns the structure of the system: The system is highly fragmented. Fragmentation seems to be increasing over time.

The complexity of the system results in making it very opaque. This greatly facilitated the process of 'playing the system' by groups of the population, and of using the pension system in directions other than old age income support (e.g. securing privileges for a sector, cross-subsidisation, evading general restrictions such as incomes policies). In this way, fragmentation in organisation is transformed to fragmentation in objectives and this in turn to fragmentation in perceptions.

FIGURE 1
POVERTY RISK IN GREECE AND EU15 (ECHP 1998)



Source: *Ministry of Labour: 2002 Pension Strategy Report.*

Indeed, one of the characteristics of public discussion of pension problems in Greece is that the sectoral problems as stated, when taken together, do not add up to the overall problem facing society. Typically, each sector of employment will define its pension problem by comparing the generosity of its provisions with those of other sectors. The invariable conclusion is that their situation is not generous enough. This in trade union parlance is known as the demand for ‘equalisation upward’.

Greece as a country has the second fastest ageing society in the EU (after Italy – Economic Policy Committee 2001) in an entirely PAYG system, which has contrived to have widespread cash shortfalls well before ageing started (Provopoulos and Tinios 1993; OECD 1997). This, by any counts, should have led to a massive pension problem. Yet public opinion, though aware that experts and politicians talk among themselves, is oblivious that these matters could translate to adjustments at the individual level. Thus, pension problems are seen as a (macro) problem for society, which does not concern anyone in particular.[8] Table 1 speaks volumes: to the question on whether population ageing might necessitate retiring later, all other Europeans, including those in the South, appear to be aware of a potential problem in 1992, an awareness which has grown by 1999. In sharp contrast, Greeks, alone among Europeans, appear to be unaware of any compulsion. What was already a very low percentage (13% positive reply) was more than halved in 1999.[9] Thus, the next stylised fact is that there is a wide gulf of understanding between ‘experts’ or ‘technocrats’ on the one hand and public opinion on the other.

TABLE 1
EUROBAROMETER OPINION SURVEYS, 1992 AND 1999
(percentage saying that in the future people will have to retire later)

Country	**1992**	**1999**
Denmark	26.8	53.8
Finland	–	67.1
Sweden	–	80.5
Luxembourg	25.1	40.6
Netherlands	47.8	50.7
UK	24.8	31.8
Austria	–	67.8
Belgium	28.8	40.8
France	41.6	60.5
Germany	45.5	41.2
Ireland	29.7	25.9
Italy	32.9	40.4
Portugal	22.9	25.1
Spain	29.0	37.3
EU 12 (1992) EU 15 (1999)	35.2	40.1
GREECE	13.6	5.9

Source: Börsch-Supan and Tinios, 2001 from Walker 1999.

This gulf of understanding goes hand in hand with a very narrow scope for pension discussion. Politicians, whose function should have been to look at the wider picture, shy away, being convinced that saying unpleasant things can only hurt those saying them – what is known as the logic of the '*political cost*'.[10] The public discourse on pensions takes place largely in the absence of politicians and deals only with technical issues that cannot be avoided. It thus resembles a discussion among accountants as to 'where to find the money'; that is, the debate is conducted in a defensive manner as if pension viability were the only problem. Pensions' wider role in society, or even links between pensions and broader issues such as population ageing, remain outside the discussion. Thus, the final stylised fact is that the discussion is characterised by a very narrow view of pensions, cut off from the wider economic, social and political choices facing society.

These four stylised facts together can provide an explanation for the dysfunctional state of pension reform in Greece. These stylised facts are not products of, say, a particularly unfavourable political situation, or of historical specificities peculiar to the country in question. Instead, they can be easily understood as outcomes of processes which result from the structure and economics of pensions in general, and not of Greek pensions in particular. Their presence to such a large degree in Greece in particular must be ascribed to fragmentation of the PAYG system as the dominant characteristic.

In order to examine this idea, three blocking mechanisms will be dealt with: (i) the missing generation and the absence of a budget constraint; (ii) fragmentation and the economics of the second best; (iii) stocks, flows and the need for a fresh start.

The 'Missing Generation' and its Advocate

PAYG pensions are an example of intergenerational solidarity. In the simplest form, they appear to be a mechanism for redistribution between three generations: those retired, those currently working and those who will work in the future. Given that no new product is involved, the transaction between all three generations (in an established system) should be zero-sum:[11] what one-generation gains, the other generation loses.

However, by the nature of the case, the future generation cannot be physically present at the table of negotiation. What is a zero-sum game for three players is positive-sum for two. The two represented players will simply divide the takings between themselves, and agree that the bill should be sent to the third, which is unavoidably inconvenienced. The generation of future workers thus becomes the 'missing generation', who will 'pay-as-it-arrives' and will hope to have the time to 'pass-the-bill-as-it-goes' to the next generation.

This analysis has three implications: firstly, there is a secular tendency for expenditure to grow. Part of the current pension problem is due to the fact that current workers were the 'missing generation' when the parameters of the current system were decided three decades ago. Secondly, pension reform in political terms is *negative-sum*. It is always easier to pass the problem on. Moreover, pension reform in a PAYG world necessarily involves the reneging of a promise; reformers must admit that the (unconditional) promise given in the past actually had a limited application. Thirdly, PAYG pensions have much in common with pyramid schemes, known in economic theory as 'Ponzi games'. Albanians had discovered that it pays to join a pyramid scheme, as long as you made sure you got out fast enough, and you were not the one left 'holding the can'. Politicians (especially Ministers of Finance) know they 'are handling an unexploded bomb', but also that nothing will happen as long as it does not explode in their hands.

Breaking this process requires an advocate for the 'missing generation'. The role of the advocate is twofold: (a) to provide and ensure the visibility of the 'missing budget constraint' and (b) to try to turn the pension reform game to a positive-sum, win–win situation.

The Visibility of the Budget Constraint

The problem of an ill-defined budget constraint is not confined to public PAYG pensions. The Maxwell case in the UK in the 1990s and the ENRON collapse in the USA both underlined the fact that pension obligations were easy to disguise. Accounting for company pension obligations is the object of International Accounting Standards-19. IAS-19 treat pension obligations as an outstanding loan granted by the staff to the company, a loan that has to be accounted for in the balance sheet and serviced out of operating revenue. In doing so, they enforce visibility and provide incentives to manage obligations in a more rational way.[12]

Accounting for future PAYG pension obligations is thus the key to reform, by reminding public opinion that a budget constraint ultimately exists. Techniques such as generational accounting, calculating the 'implicit debt' or simply projecting expenditure forward[13] are common ways to attempt it. In a low trust political environment, such as Greece, the question of who is to conduct a long-term projection study was solved in 2000 by engaging an international firm of actuaries after an international tender. As the example of IAS-19 proves, a common methodology and benchmarking against other countries are indispensable additions.

Turning the Pension Debate to Win–Win

Providing the missing budget constraint is only part of the story, which can be thought of as its negative side: communicating the cost of inaction. In a PAYG system, the adjustments that would need to take place to entitlements and contribution rates are very specific and easily understood by those affected. By contrast, the cost of maintaining the system in its present form is diffuse and often seems theoretical. Part of the task facing the reformer is thus to specify and communicate both the negative effects of the current system and their prospects over time. Naturally, one would expect that the larger the effects, the easier it would be to communicate them.

This is the rationale for what may be termed the 'fiscal Apocalypse view', whose key message is 'the money has run out'. Though it is usually the first weapon at hand, the ability of such an approach to convince is frequently limited. The credibility problem of 'fiscal Apocalypse' is compounded by the dissonance with other acts and statements of governments (e.g. rises to pension benefits) sharply at variance with extreme fiscal rectitude.

A reform needs advocates, and presenting pension reform simply as a process of minimising and reapportioning losses can find few volunteers. To enlist supporters, a reform must have something new to offer. In this way the opportunity cost of initiatives foregone can be added to the cost of inaction. Reform in the direction of prefunding certainly excites expectations among the financial community and investors. Alternatively, the ability to finance meaningful additions to social protection to better provide for groups currently bypassed could excite interest in some parts of the population which often have no interest in what happens to pensions.

To turn pension reform into a win–win situation two things help decisively. Firstly, a reform design which concentrates on 'adding value' to pensions can be made by exploiting the link between pension finance and growth. If indeed a shift towards funding can add to saving and hence lead to a higher capital stock then there can be net overall gains from the process. Added value can be provided by serving existing social functions in a better way, or finding new roles in the context of a rapidly changing labour market.[14]

A second means of creating a win–win situation is to abandon the idea that pensions are a technical issue suited to discussion among technocrats. To enable politicians to build support for change, the discussion should be able to see pensions in the bigger picture of how people live, work, and what they expect from society. In doing so, they must be able to link the matters to be decided in pension reform to values, and general views on which the 'person in the street' has an opinion.

The Second Best and the Future

The inability to put into practice a reform package first outlined more than one generation ago, for which, presumably, gainers in the long term would have outnumbered losers, demands explanation. Was the Greek public pension system as dysfunctional as the many reform advocates held, or did it (or does it) fulfil other roles which justify its permanence?

The social security system is financed on PAYG lines, but on a sectoral basis by means of (public) occupationally based pension providers. Thus, the PAYG ability to shift the burden among generations is compounded by horizontal shifting between population groups at a point in time. Two observations result: firstly, following the earlier discussion, in such a pension system the last remaining operative budget constraint, the 'last line of defence', is the macroeconomic budget constraint of the government as a whole. It was under pressure from generalised extreme cash problems of the early 1990s which led to the first meaningful phase of pension reform in Greece, that of 1990–92. In future, and in the context of EMU, behaviour within the Stability and Growth Pact will be crucial (Buti and Costello 2001). Secondly, the other side of the coin of fragmentation is the possibility of multiple speeds, of a variable and varying geometry that could be translated into flexibility in coping with problems as they came up. This flexibility, given that it did not presuppose finding solutions of universal application, was on occasion translated into ingenuous solutions for specific problems.

The varying geometry of the system facilitated coping with issues such as the rapid reconstruction, industrialisation and urban migration of the 1950s and 1960s.[15] It also allowed the pension system to play a central role in the clientelistic politics that characterised the post-war period, by enabling the 'buying of influence' in particular sectors (or locations). It is unlikely that these problems, both social and economic, could have been solved with a less flexible or more transparent system.

For a social protection system to be devoted to solving matters in industrial policy, in fomenting political allegiance or other issues peripheral to old age security, it is important to be sure that the needs associated with old age income security are somehow met. This role in Greece is played by the 'informal' system of social protection of the family and relatives. The 'formal' social protection system could venture into unusual territory because it could safely assume that family would do the 'real job' of protecting the poor.

Börsch-Supan and Tinios (2001) rationalise the phenomenon of multiple speeds by characterising it as a valid second-best response to problems of the past, at the cost of generating horizontal inequities, which are now felt more keenly. They go on to argue that, once given functions no longer need to be pursued indirectly, the costs of maintaining a system addressing problems of the 1950s begin to outweigh the benefits.

Stocks, Flows and the Need for a Fresh Start

From what may be called the 'Ministry of Finance view', the pension problem consists chiefly of the excess of pension payments over dedicated system revenue.[16] This gives rise to annual payments to cover pension costs. The cost of these payments and their likely course over time is identified as the key public finance problem connected with the system. If the problem consists of a flow of payments, then it naturally has a time dimension. It makes eminent sense to talk of solving the problem for 'x years'. Indeed, given the kind of uncertainties finance ministers have to deal with on a daily basis, it would appear to them as hubris to 'solve it' for more than 10–20 years. Indeed, the key claim made for the 1992 pension reform was that it provided 'a breathing space until 2010', which was thought at the time remarkably long-sighted. The implication of the flow view of pension reform is that policy-makers can choose how much of the problem they can bear to solve. This view logically leads to a preference for 'reform by instalments', which characterises the situation in Greece.

The contributor's view, on the other hand, naturally sees participation in PAYG social security as a long-term savings contract. While they work they will pay contributions, which would entitle them to a specific stream of payments. For the individual (and abstracting from uncertainty and knowledge of legal entitlements), the pension contract is essentially a stock concept: a sum of payments and entitlements, which can be expressed independently of time.[17] Participation in the pension contract is like buying a commodity, albeit on an instalment plan.

This has three implications for pension reform. Firstly, most people understand the system as if it were funded. They invariably talk as if personal pension accounts existed in terms of 'my money'; the idea that their money does not physically exist is very hard to digest. Thus, in popular discussion, the issues can very quickly acquire theological overtones. Secondly, for the vast majority of the population, the right to a pension would constitute (possibly along with their owner-occupied house) the largest part of their wealth. It is significant that the valuation of that wealth is entirely dependent on decisions of the state, which could choose to devalue simply by altering the law. The implied trust that the state would keep its side of the bargain could be seen as part of the social contract on which the welfare state was based. The shocked disbelief when the state appears to be reneging on its side of the bargain (e.g. after the announcement of the subsequently withdrawn 2001 reform proposals) could be put down to this factor.[18] Thirdly, current workers will probably receive less. Consider the case of a contributor aged 40 today, when told that a particular reform package 'will solve the problem for the next 20 years' (after which, presumably, another round of reform will govern the following 20, and so on). The state is informing him that he will contribute with absolute certainty for the rest of his working life. When he is just about to claim his entitlement, that entitlement will be renegotiated. The renegotiation cannot be divulged now, but (given the known demographic prospects) will certainly be worse that the current situation. In other words, he will certainly pay more in order probably to get less, though no one knows how much less.

The difference in viewpoint between the reform as a flow and reform as a stock is most evident in the treatment of new entrants to the labour market. If reform is seen as a *flow*, their relevance is solely as minority contributors. In contrast, if the pension contract is integrated into a *stock* then new entrants are at the heart of the process. It is in their case that proposals will have most effect (as they will have the greatest effect on the stock to be accumulated); more importantly, if behaviour is seen as a central part of the reform, relatively young workers will be the most crucial group.

This discussion has a bearing on the choice between limiting a reform to parametric changes (which are unlikely to be understood or to matter to new entrants) or to proceed to a thoroughgoing systemic reform – to a fresh start. The attraction of reforms initiating systems of individual accounts (whether actual as in funded systems, or notional as in Sweden or Italy) is that a visible change is effected even to individuals who would normally not be interested at all in pensions and would see their contributions as a particularly onerous tax on wage earnings.

The three mechanisms outlined above – ill-defined budget constraints, sectoral fragmentation and differences of perception between politicians and the electorate – are not unique to the Greek case. In systems that base pension provision on social insurance mechanisms – for example Italy, Spain and France – sectoral fragmentation in public PAYG systems can easily be the outcome of the gradual spread of social insurance. As long as pensions are seen as simply redistributing funds from one group to the other, sectoral fragmentation can lock each sector of the population into a prisoner's dilemma: whatever others do, it is worth holding out in defence of sectoral privileges or even to try to increase them.

To break out of the dilemma needs a perception that pension reform can be a positive-sum process in which the possibility exists to generate a surplus that can be distributed in a way that can benefit all participants. This could transform the prisoner's dilemma into an assurance game, that is, into a situation where you are certain that all will abide by the rules, and agree with the rules themselves, and it pays to cooperate. To turn the prisoner's dilemma into an assurance game, of course, requires the existence of a high level of (implicit) trust that promises will be delivered.

In this way, the structural characteristics described can lead to two types of equilibrium: a low-trust, no-change scenario, where the lack of trust implies the ossification of current arrangements and reform is blocked; and a high-trust, cooperative scenario, where the system is able to break out of the log-jam and proceed to reform. Successful pension reform is co-terminus with constructing trust and instilling a notion that the rules to be established are fair. The role of the political system amounts to an attempt to switch the low trust to the high trust cooperative solution.[19]

This analysis can be thought of as providing an underpinning based on the economic theory of 'the Greek specificity' – the question of why pension reform in that country should lag far behind other countries that share some of the same 'objective' characteristics. Political actors are unable to mobilise the kind of support and form the kind of coalitions that can allow them to bear the short-term costs of reforming in order to reap the long-term benefits. Moreover, the case of pensions is seen in this light to be only a specific instance of a more general problem of breaking out of a low trust–low social capital–low cooperation scenario. Thus, though the scene is set by the *economic* features of the case, the ultimate outcome is dependent on *political* considerations.

PENSION REFORM 2000 – ATTEMPTING TO UNBLOCK

Pension reform in Greece, ever since the 1950s, has been understood to comprise two overwhelming characteristics: rationalising the fragmented nature of the PAYG system and altering the very strong incentives that exist for some individuals to obtain pension benefits unrelated to social policy considerations and disproportionate to their contributions. It is important to note that such an agenda amounts to correcting system dysfunctions and is independent of the more ideological discussions about the benefits of alternative pension financing systems, or of the role of the private sector in pension provision.[20] The lack of ambiguity in the prescriptions is reflected in unanimity among commentators about the long-term desirability of the changes involved: the two possible equilibria can thus be ranked unambiguously, so that almost any reform scenario is deemed superior to one where reform is blocked, at least in the medium to long term. Thus political actors – the state, political parties and the social partners – are called to persuade the electorate of the benefits of moving away from a theoretically inferior situation to a potentially superior one.

Featherstone and Tinios (2005) examine the strategies of political actors 5
and conclude:

> the encouragement to think of the short term and of the particular, parallels the time preferences of the most powerful actors. Their short time horizons preclude policy agendas that stretch over time, as these defer the main gains and the initiatives become more vulnerable to derailment … The system can appear to be log-jammed, a '*société bloqué*', as a result of domestic veto-points thwarting reform and a lack of political will to secure it. The points of view that have an interest in thwarting reform are well represented. In contrast, there is no one to play the role of the 'advocate of the missing generation'.

The end result is that changes, which are repeatedly admitted to be essential, are postponed. This process has been termed a 'reform by instalments'.

To break out of the log-jam required a 'suspension of disbelief' so that the benefit of the doubt be granted to reform. This entails a switch from a defensive backward-looking perspective to a mindset more open to the

future: from itemising the costs of *acting* to appreciating the opportunity
6 cost of *inaction* – the ‘cost of non-reform’ (Spraos Committtee 1998). Attempting to achieve this by top-down efforts – what Lyberaki and Tsakalotos (2002) called ‘changing society without society’ – was supposed to be the central objective of the ‘modernisers’ associated with the Simitis government after 1996. Consistency in declarations and methodical pursuit of stated goals were expected to lead to a cumulative improvement, something like an investment in building trust in society.

Pension reform was always understood to be a central part of the ‘modernisation’ package; pension privileges are a key component of the clientelistic mechanisms which were its ostensible target. Thus it was no surprise that as part of its repeated commitment to ‘modernisation’ the Simitis government was elected, both in 1996 and in 2000, on a clear promise to institute pension reform. Moreover, expectations were increased at the EU level. Following the Gothenburg and Laeken meetings of the European Council, and under the ‘Open Method of Coordination’ (OMC), member governments have been engaged in a process akin to multilateral surveillance, required to circulate strategy reports on how they propose to tackle commonly identified issues related to pension systems (DRV 2002; Rodrigues 2002). This developing process, involving peer pressure and testing reputations, could become an additional lever for domestic reform by providing another actor in the political economy of reform. If so, it could parallel the existing constraint of EMU and the Stability and Growth Pact as a *vincolo esterno* or source of external discipline (Dyson and Featherstone 1999; Featherstone 2001).

The domestic picture, though, proved less encouraging and the forces arrayed against reform no less resilient. In the face of public protests, the Simitis government failed to act on the initiative of the Spraos Report on
7 pensions in 1998 . Even after receiving a mandate for reform in the 2000 election, PASOK had to withdraw reform proposals in May 2001. In doing so, it conceded the point that a more thorough preparation of public opinion and greater consultation with the social partners were needed. Nevertheless, even after an extraordinary party congress convened essentially on the issue of pension reform, the government did not abandon the position that meaningful pension reform was needed. A further round of debate occurred, and in March 2002 the government, under a new minister, announced a new reform framework, leading to a new pension law in June (Law 3029/2002). The framework was attacked for its moderation and temerity (often by the same people who had accused the previous attempt at reform of the opposite). It certainly put far less emphasis on financial viability as an aim and stressed instead improvements in horizontal justice and giving an impetus to new institutional instruments such as a legal framework for occupational pensions and a new Actuarial Authority to provide authoritative projections of expenditure. The 2002 law thus followed accepted practice by only providing a partial answer to the

problem; similar to its predecessor a decade earlier in 1992, it prided itself on setting the scene for more thoroughgoing changes later on. This progress depended on the ability to pursue the reform strategy, of which the law was part, consistently over a number of years after its passage.

To provide an example, the Pension Strategy Report submitted to the EU in September 2002 concedes a point that previously would have been considered taboo: 'freeing existing auxiliary pension funds from some of the constraints imposed by the organisational and legal identification with primary pensions'. This, together with some other statements, can be interpreted as intending to dilute the extent of state involvement in supplementary pensions and opening the way towards second pillar 'collective' organisations. Moving those pensions in the direction of pre-funding – 'with the passage of time' – in the form of occupational pensions is admitted to be an objective. The circumspection and caution in the wording used, however, also speaks volumes for the ossification of public discussion in Greece.

For the strategy to unfold, institutional changes and public discussion should not be halted. The election campaign in early 2004 did not appear to augur well for such a gradualist strategy. There were unequivocal statements on behalf of both parties aspiring to government exorcising any need for changes in pension arrangements. In contrast, a key part in the election process was played by commitments to raise pension levels *irrespective* of financing. In the terminology of the Laeken objectives, pension adequacy was centre-stage, while the need to secure viability and modernisation was sidestepped. This situation can easily be interpreted as a return to the old situation of expecting external stimuli on their own to initiate reform. Certainly, the Stability and Growth Pact and the centrality in the Lisbon Strategy of structural changes and reforms to react to an ageing population will oblige by providing stimuli for discussion in 2005. To do so, however, should necessitate reviewing many of the statements made domestically during 2004. The old problems of credibility may well reappear.

The final conclusion of Featherstone and Tinios (2005) still remains valid: 8

> Which way the gamble will turn out cannot be pronounced with certainty at this time. The possibility of success is associated with the presence of the very factor that has made reform so difficult so far, the existence of widespread trust in society. Trust would enable any deal struck to stick and a wide consensus to take root without being overturned. The evidence, so far, can be read both ways; only time can tell how many more instalments are due.

APPENDIX 1
CHRONOLOGY OF THE REFORM BY INSTALMENTS

Year	**Five Phases of the Social Security Problem in Greece: 1978–2001** **Situation of Social Security**	**Political Initiative**
A. –1985: The maturing of the problem – the inability to serve a social welfare role		
1978	Reduction in real pensions as a result of inflation from 1973	Pensions linked to wages Extension of the geographic coverage of IKA
1980/1	Concern about pension adequacy and poverty in old age	Increase of minimum pension 50% → Short-term Borrowing from Banks
1983	Concern about supplementary cover, need for finance to pay increased minima→ Deficits	Compulsory supplementary pension cover for all employees in TEAM
B. 1985–89: The realisation of the need for structural measures – fruitless attempts		
1985	Stabilisation programme.Deficits in IKA, NAT	Exemption of pensions from income curbs. Stabilisation to be attained by structural measures.
1986	Ballooning of interest payment due from IKA to banks	IKA subsidy from State Budget to pay for interest obligations
1987	Continuation of deficits	Reform aborted Committee under Prof Kremalis leads nowhere.
1987/8		Additional pension in OGA (farmers)
C. 1990–93: 'A pause for breath' – Public Finance retrenchment		
1989/90	Extreme cash flow problems. Generalised public finance problem	Angelopoulos Report (All Party)
September 1990	A general response to public finance problem	Law 1902 voted as a 'first phase' of solution
1991	Re-examination of strategy – change of course	Law 1976 'corrects' L 1902 Fakiolas Committee IMF Report
Sept 1992	Continuation of pension deficits	Law 2084 'Room to breathe until 2010'.
	Maastricht treaty – general public finance problem	Contributions increase New entrants system
D. 1994–2000: In search of a two-phase strategy		
1994–96	Debt Relief of pension funds	Conserving system Absorbing of changes
1996	Concern about low-income pensioners, after large real losses	Means tested supplement introduced Announcement of intention to solve in two phases: Dialogue in two phases
1997	Attempt to meet EMU criteria Concern about long term pension prospects	New Farmers' pension system Two-phase dialogue on governance 'Spraos Committee'
1998	Discussions about labour market flexibility, Unemployment, Migration	OECD Report on pension 'Mini pension bill' (Law 2676)
2000	EMU entry 'Sustainability of public finances' –	Announcement of overall solution Outsourcing of projections to international actuaries.
F. 2001–: Reform at last?		
April 2001	Actuarial Study released	Government simultaneously publishes its proposals (distinct from Study)
May 2001	Massive demonstrations	Proposals withdrawn. Persistence that solution must be found

(*continued*)

APPENDIX 1 (*continued*)

Five Phases of the Social Security Problem in Greece: 1978–2001

Year	**Situation of Social Security**	**Political Initiative**
October 2001	PASOK Party Congress largely as reaction to pension debacle	New leadership in Ministry of Labour
March 2002	Publication of letter of general principles	New phase of dialogue starts in a consensual climate.
May 2002	Consensus proposals – emphasis on pension adequacy/new institutions	Law 3029/2002
Sept 2002	EU Open Method of Coordination	Pension Strategy Report
Early 2004	Election Campaign	Commitments not to alter pension parameters and to increase pensions.
March 2004–	New Democracy Government	Public Finance set to return to centre-stage. Reconsideration of statements?

NOTES

1. He goes on: 'Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back'.
2. It is important to realise that these reform proposals refer to the operation of the PAYG system and are independent of the more ideologically charged debates on the role of the private sector, the method of finance, etc.
3. For a comprehensive analysis of the Greek pension system in English, see Börsch-Supan and Tinios (2001).
4. The success of the mobilisations was widely thought to amount to a renaissance of the Trade Union movement.
5. An interesting fact is that one of the authors of the report is the parent of one of the government ministers who failed to implement its recommendations four decades later.
6. The fragmentation extends within organisations. In an analysis of new pensions granted by the main private sector provider, it was found that the 'normal' retirement age applied to only 20% of the pension applications (Börsch-Supan and Tinios 2001).
7. Mylonas and de la Maisoneuve (1999) attempt to quantify the inequality of treatment by calculating implicit real rates of return to contributions for several types of contributors. These range (for identical career paths), from 5.2% to −0.2%.
8. This, of course, is the obverse, of the non-adding up of individual problems. Support from this hypothesis was inferred by O'Donnell and Tinios (2001) through multivariate analysis 9
   of survey data.
9. Boeri *et al.* (2001) arrive at rather more optimistic conclusion by analysing a carefully specified questionnaire applied to Germany, Italy and France. See also Taylor-Gooby (1995).
10. See Featherstone *et al.* (2001) for an analysis of reactions to a publication of a technocratic report by a committee (Spraos 1997) urging action. He also contrasts the situation in Greece with that in Italy, where pension reform was successfully integrated in the overall adjustment towards EMU. The equivalent chance in Greece went unexploited.
11. This holds, of course, in the steady state. When a system starts out the first generation normally benefits, a gain balanced by the loss of the last.
12. The Public Power Corporation is an example of the effect of IAS-19 on a previously PAYG company system (similar to book-reserve system) (Börsch-Supan and Tinios 2001). The publication of pension accounts subject to IAS-19 was instrumental in changing workers' perceptions of the problem facing them. Their attitudes were sufficiently altered to enable a deal to be struck. On IAS and pension reform see Tinios (2002).

13. For example OECD (1988), Chand and Yeager (1996) and Oxley (2001) provide a retrospective of OECD projections from the 1980s on. The results of EPC 2001 relied on getting national authorities to coordinate in order to maximise comparability, in a kind of cross-national revealed preference. Disney (2001) examines the measurement issue in some detail.
14. Better provision for the needs and requirements of women in the labour market is a case in point.
15. Börsch-Supan and Tinios (2001) cite the example of the accumulated surpluses of the early years of operation of the pension, which could provide a source of finance for industry at a time when the financial system was mistrusted and would have been unable to cope. The pension funds were indirectly repaid by rapid contribution growth from the new industries in the 1950s and 1960s. It should not escape notice that this practice is widely condemned as the 'robbery of pension reserves'.
16. The precise meaning of dedicated system revenue at a time when there exist a plethora of public payments to the pension system is not defined and is frequently an issue in the public discussion. As an example, civil servants' pensions are paid out of the Ministry of Finance budget; employee contributions are collected but are added to general revenue and not subtracted from pension payments; no employer contributions are levied. In this case, the apparently simple question of 'how much do civil service pensions cost public finances' may receive at least four different answers, all with claims to be true in one sense or another, based on the same data, from the same ministry.
17. The same goes for gradualness in introducing measures (e.g. raising the retirement age by half a year every calendar year). Though they might be gradual for a collection of individuals, they are always sudden for a particular individual, who will be interested in the integral of the changes as it affects him or her – a stock rather than a flow.
18. The courts interpret the legal status of PAYG pensions in ways different to (private) funded pensions and allow changes (in some cases with a retrospective character) to safeguard viability (Spraos 1997). IAS-19 differs with this view drastically.
19. Laying emphasis on trust brings out the salience of social capital; delays in pension reform can be said to be due to a deficiency in social capital. Overcoming short-termism and myopia requires an element of trust that has been absent for a long time in Greece.
20. They are thus akin to the so-called 'X-inefficiency' where no trade-off is involved in a policy choice and an unambiguous prescription can be made.

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