

The Politics of Pension Reform: Lessons from Public Attitudes in Greece

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While the construction of a rational case for pension reform is often straightforward, the political implementation of such reform can be somewhat more difficult. In large part, this can be attributed to sceptical public opinion. The precise role played by public opinion in constraining the political feasibility of pension reform is, however, unclear. The purpose of this paper is to distil the ways in which public attitudes influence pension reform. This is done through examining survey data from Greece, where progress with the implementation of pension reform has been particularly modest. Political opposition to pension reform appears to be rooted in a general lack of public appreciation of the case for reform combined with the desire to protect interest group privileges. Public ignorance and insecurity breed attitudes not conducive to reform. Public attitudes do not simply act as a given constraint on reform but are a product of the structure of the pension system and the reform process itself. In this path-dependent process, implementation of a reform agenda of rationalisation is more difficult from the starting point of a severely fragmented and distorted system.

Pension reform is high on the political agenda of many countries. While there has been widespread enactment of such reform, it is recognised to constitute a formidable political challenge (Schwarz and Demirge-Kunt, 1999). There tend to be substantial gaps between the scale of reforms analysts argue are necessary and the package of reforms politicians implement. The discrepancy, at least in part, can be attributed to sceptical public opinion, which constrains the political feasibility of pension reform. The precise role played by public opinion is, however, unclear. Different theoretical models accord public opinion different roles in the pension reform process. The purpose of this paper is to distil the ways in which public attitudes influence pension reform. This is done through the examination of survey data from Greece, where a pension reform agenda of rationalisation has been considered, intermittently, since the late 1950s but where progress with the implementation of such reform has been modest. This lack of political progress, despite the strong distributional and economic case that exists for pension reform, makes Greece a particularly interesting source of evidence on the role played by public attitudes in the policy process.

Spatial models of electoral competition grant public opinion a central role in explaining policy. The successful politician proposes the policy that is consistent with the preferences of the rational, well-informed median voter (Downs, 1957).

If pension reform is blocked, it is because the majority of the public does not support it. On the other hand, according to a model of collective action (Olson, 1967), even a minority holding antipathetic attitudes to reform can be sufficient to block the process. Given incomplete information, population sub-groups united by a common interest in the existing pension settlement have an incentive to organise and lobby for the preservation of the status quo. The precise effects of large-scale reform, particularly in a policy area as complex as pensions, can never be known with certainty. The losses from reform tend to be more transparent than the benefits, which are likely to be experienced at some time in the future. In this context, public attitudes to reform can be expected to display risk aversion in the form of a *negativity bias* toward maintenance of the status quo (Pierson, 1996). Thus, the public may block pension reform because it fears what might happen and not because of a strict preference for the current pension settlement. The role of public opinion need not be restricted to that of an external constraint on the pension system. The nature of the existing system might be expected to influence public expectations and attitudes to reform. That is, public opinion can be *endogenous* to the pension system and the reform process. This would generate *path dependence*; the initial nature of the system affects public opinion, which, in turn, constrains the reform possibilities (Pierson, 1996, 2000).

Ascertaining the relative weight to be accorded to these different theoretical arguments is crucial to an understanding of the politics and the feasibility of pension reform.¹ The strategy of this paper, in common with recent contributions (Boeri *et al.*, 2001, 2002), is to examine data on public attitudes to pensions in order to establish the degree of empirical support that exists for the assumptions and predictions of the alternative theories. Specifically, is public opinion well informed and self-interested with respect to pensions, as the electoral competition model assumes? Do the majority resist pension reform and support the status quo, or is this achieved by a powerful minority? Does the public voice considerable uncertainty with respect to pensions? Is there active enthusiasm for the current pension settlement or is it a case of 'better the devil you know'? Are public attitudes given, or are they reactive to the structure of the pension system and the accumulated experience of reform?

From examination of Greek attitudinal data, it appears that political opposition to pension reform is rooted in a general lack of public appreciation of the case for reform combined with the desire to protect interest group privileges. Attitudes not conducive to reform feed on ignorance of how the system works and insecurity about its future development. Therefore, the electoral competition model assumption of well-informed voters appears to be strong. Allowing for voter uncertainty over the policy alternatives in a theory of policy determination in this area is, apparently, important. Public attitudes do not simply act as a given constraint on the reform process but are a product of the structure of the pension system itself. This two-way, reinforcing relationship between public attitudes and system characteristics makes the reform process more difficult. There is also some evidence to suggest that proceeding slowly with pension reform and by instalments, although politically logical in the face of opposition, may be counterproductive. Such a process can generate attitudes that inhibit reform in the medium term.

The paper is structured as follows. The next section provides a brief description of the Greek pension system and the case for reform within the broader international context. A brief review of the political response to pension reform in Greece is also included in this section. The empirical approach to the analysis of public attitudes and the results are described in the third section. The final section concludes with an interpretation of the results, both within the context of Greece and with respect to the wider lessons they contain for the politics and the design of pension reform.

Background: Greek Pensions, Reform and Politics

The Greek Pension System

The public pension system in Greece is a product of the *Mediterranean Welfare State* (Ferrera, 1996). The system as a whole is fragmented, lacking a unitary philosophy and widely adhered to operational rules. As a result, it is rather opaque and tends to be used as an instrument of *clientelism* within a general environment of state corporatism (Featherstone and Tinios, 2002). Spending on pensions is high (12.1 percent of GDP compared to the EU average of 10.5 percent) but is poorly targeted with respect to distributional justice.

Public pensions are financed on a Pay-As-You-Go (PAYG) basis and mainly organised through occupation specific 'funds', which, to an extent, are self-governing but are under State supervision and guarantee. There are approximately 236 of these 'funds'.² Civil servants' (primary) pensions are paid directly from the government budget, without the intermediation of a fund. The system is under severe fiscal pressure. Ad hoc public subsidies to the system, financed from general government revenues, amount to 3 percent of GDP and are not sanctioned by any law. The distribution of these subsidies varies tremendously across pension providers, as do minimum retirement ages, replacement ratios and contribution rates (see Table 1). Indeed, the variation in treatment within a public pension system is a striking feature of the Greek case.

There exist providers of primary pensions (typically offering up to 80 percent replacement), supplementary funds (replacement around 20 percent) and 'welfare funds' (offering lump sum severance payments on retirement). By international standards, average replacement rates (pensions relative to previous earnings) are high but display tremendous variation: civil servants, 109 percent; public enterprise workers, 98 percent; professionals, 90 percent; private sector employees, 62 percent; self-employed, 54 percent (Mylonas and de la Maisonnette, 1999, Table 3).³ There is a considerably less generous system for those entering the labour market after 1 January 1993.

Pensions in Greece are dominated by the public system. Private occupational funded pensions (*second pillar* pensions) are rare, absorbing less than 0.3 percent of GDP (NSSG, 2000) and are, arguably, crowded out by the generosity of the public provision. Private cover is essentially confined to *third pillar* individual arrangements, provided by the life insurance industry. These typically offer only lump sum payments, the annuity market being underdeveloped.

Table 1: Pension Benefits and Finance by Main Providers in 1999

Pension provider	Benefits provided	Average monthly pension (€)	Social subsidy per pensioner (€)	Employee contribn. as % of total contribn.	Average Pension / total contribn.	Pension payment as % of GDP
Private sector employees	P + S + H	485	80	37	2.6	4.5
Civil servants	P + H	730	551	100	5.8	2.2
Farmers	P + H	Low	Large	100	?	1.3
Small businessmen	P + H	357	97	100	2.7	0.7
Seamen	P	521	389	45	1.7	0.4
Telecommunications	P	1120	?	35	1.8	0.3
Power corporation	P + S + H	1335	?	37	2.1	0.3
Haulers and drivers	P	317	138	100	2.1	0.2
Merchants	P + H	473	93	100	5.8	0.2
Engineers	P + S	642	86	100	3.2	0.1
Doctors	P + S	916	203	100	6.2	?
Lawyers	P + S	681	528	100	7.6	?

Notes: Benefits provided are: P = primary pension, S = supplementary pension, H = health care cover. The average pension figure is monthly average (Euro, 1999). The social subsidy per pensioner figure is financed from general government revenues and is the monthly average (Euro, 1999). The employee contribution figure shown in the fourth column is as percentage of employee plus employer contribution.

Source: Social Budget, Government Budget and NSSG, 2000.

The Case for Reform

Myles and Pierson (2001) distinguish between two types of pension reform agenda: transition from PAYG to funding and rationalisation of the PAYG system. In Greece, as in other countries that had extensive, mature PAYG earnings related pension systems at the time demographic and economic conditions turned against PAYG, the move to funding has not been a realistic option and the reform agenda has been restricted to retrenchment and targeting of the PAYG system. In contrast to elsewhere, however, population ageing has been less of a motivating factor (Provopoulos and Tinios, 1993). The key issue is system fragmentation, which has important implications for both the fairness and sustainability of the system (Börsch-Supan and Tinios, 2002). The core of the Greek reform programme has always been system consolidation. It was only in recent years that the response to an ageing population was added to a case that was already, arguably, very strong.

The *necessity* for reform is a common locus between 'mainstream' critiques (IMF, 1992; Spraos Committee, 1997; OECD, 1997; Börsch-Supan and Tinios, 2002) and analyses originating in the trade unions (INE-GSEE, 1998, INE-GSEE, 1999).⁴ Briefly, there are three strands to the argument: weaknesses internal to the system itself; deleterious effects of the system on the wider economy; and, external pressures which render the system increasingly unsustainable.

Deficiencies in the design of the system give rise to four major problems of inequity and inefficiency:

- 1 *Horizontal and vertical inequity.* Tremendous and anomalous cross-occupational differences in pension levels, subsidies and returns on contributions (Table 1) frequently betray principles of both horizontal and vertical equity. For example, retired lawyers and civil servants, on average, enjoy subsidies from general government revenues equivalent to more than 75 percent of the average pension received, while the equivalent figures for private sector employees and small merchants are less than 20 percent.
- 2 *Weak budget constraints.* The coexistence of PAYG finance with a multitude of sector specific pension providers results in a bewildering mosaic of cross-subsidies, which obfuscates the notion of a binding budget constraint. Such an environment encourages a *clientelistic* game of distributing privileges to specific sectors of the population and provides little incentive to control expenditures.
- 3 *Ineffective relief of poverty.* The combined effect of 1 and 2 is that state expenditure on pensions is high but is not targeted to those most in need. Paradoxically, spending on pensions (as a percentage of GDP) is above the EU average but poverty is more concentrated among the elderly than is the case in the EU as a whole (NAP/Incl, 2001). This points to substantial perverse inequality in the distribution of public pensions.
- 4 *Perverse incentives.* High contribution rates and the lack of actuarial relationships between contributions and benefits create strong incentives for evasion of pension contributions. For example, high pension minima ensure that 70 percent of pensioners belonging to the main scheme for private sector employees receive the minimum pension, irrespective of contributions paid. Although the statutory retirement age is now 65 and 60 for males and females respec-

tively, there are many exceptions. The lack of actuarial adjustment to benefits on early retirement, as well as other regulations such as the possibility to work and draw a full pension, creates strong incentives to take advantage of these exceptions.

The remaining arguments for reform are those that have propelled the pension reform agenda across the world – deleterious economic effects of the system and demographic and economic pressures on the system. These arguments, however, are particularly compelling in the case of Greece. A pension system that accounts for 12 percent of GDP obviously has substantial effects on the economy. These effects are amplified by the nature of the system. A deficit financed PAYG pension scheme is not best placed to provide the flexible supply of investment funds required by a modern economy. In addition to the impact on the capital market, the pension system impinges on the labour market. High and variable pension contributions depress the average demand for labour and distort the allocation of labour across sectors (Börsch-Supan and Tinios, 2002). The high rate of early retirement represents a substantial under utilisation of labour at a time when the fertility rate has been falling and the population is ageing. Greece, after Italy, is the EU country experiencing the fastest demographic deterioration. This, combined with a generous PAYG pension system, poses a major threat to meeting the Stability and Growth Pact (SGP) criteria of EMU (Bank of Greece, 2001). Further, the increased exposure of Greek markets to competition arising from the Single European Market and globalisation make it increasingly difficult to sustain the cross-subsidisation across and within industries built into the current pension system (Börsch-Supan and Tinios, 2002).

The Political Response

The deficiencies of current arrangements only provide one side of the case for reform.⁵ Public appreciation and sympathy of the case crucially depend upon the content of the reform agenda. What is the proposed alternative to the status quo? As emphasised above, replacement of a public PAYG system with a public-private funded system has never featured prominently on the pension reform agenda in Greece. Rather, the focus has been on unification, tightening budgets and removing inequities and perverse incentives within the framework of the public PAYG arrangements. Political progress with the implementation of this rationalisation agenda has been modest in the face of, often fierce, public opposition. Identification of the reasons for such opposition, within the context of a structurally weak system, is the main aim of this paper.

The related problems of fragmentation, *clientelism* and inequity have long been recognised. A 1958 Government report on the (then relatively young) pension system noted a ‘total inequality of provision, so that the constitutional principle of the equality of citizens appears to have been completely forgotten’ (quoted in Tinios, 2001). The number of pension providers, then at 153, was considered inordinately high (by 2000 this figure had grown to 236). The report concluded with the ‘need for a system which will combine what is essential with what is feasible, free of the unacceptable notion that its purpose lies in securing privileges for the few over the many’. Since then, changes have generally moved the system in the

right direction but at a very slow rate and the fundamental problems identified almost half a century ago have yet to be eliminated. The overall process has been described as 'reform by instalments' (Tinios, 2001).⁶

Attempts at consolidation started in the 1960s, but it was not until the mid-80s, when the role of pension deficits in driving overall public sector deficits became apparent, that the need for major organisational reform was perceived as urgent. Between 1990 and 1992, in the face of fierce opposition and following failed attempts by the previous government, there was some rationalisation of the pension system by a conservative government (New Democracy). However, this was intended to be only the first phase of a more thoroughgoing structural reform. The social democrats (PASOK) subsequently pursued a policy of consolidating the earlier reforms, while adding some piecemeal changes. In the election campaign of 2000, the governing party, and no other, committed itself to confronting the *pension problem* (PASOK, 2000, p. 94). Having been re-elected, in April 2001, the Government announced a set of reform proposals (Ministry of Labour, 2001). Again, there was strong public opposition, with the trade unions taking a lead role, and the Government subsequently withdrew these proposals, whilst reiterating its determination to proceed with reform within its term of office. A second attempt in spring 2002 was both more limited in scope and far less ambitious in public finance terms.

As in other countries following a pension reform agenda of rationalisation, parametric reforms have been implemented. For example, incentives for early retirement have been reduced, pension benefits have been more closely aligned with contributions, limits have been imposed on replacement ratios and there has been a move to calculate pensions on longer earnings' histories. However, relative to elsewhere, the reforms have been modest and do not constitute a programme of large-scale structural transformation of a fragmented system. Politicians have been sensitive to the political cost of pursuing measures that, while arguably necessary, are evidently unpopular (Featherstone *et al.*, 2001).

In one sense, the ferocity and effectiveness of public resistance to pension reform in Greece is surprising. Myles and Pierson (2001, p. 324) argue that a reform agenda of rationalisation is likely to be most successful where, as in Greece, the initial system is highly inequitable. There are gainers from the redirection of inequitable interpersonal transfers and losers find it difficult to justify resistance. But this argument ignores the possibility that the same societal imbalances that were exploited to extract rents in the first place might also be expected to block their removal. In addition, the opaqueness of the Greek system obscures the social injustice of many of the transfers. The root cause of the slow progress with pension reform in Greece has been identified as the absence of trust and the prevailing climate of conflict (Featherstone and Tinios, 2002). Given pension reform essentially involves a revision, if not revocation, of the contract between state and citizen, the key ingredient is an atmosphere of trust, which allows a social consensus to be built through dialogue (Myles and Pierson, 2001, p. 321). Without trust between state and citizen, public scepticism, rather than social consensus, is the likely reaction to reform proposals. The logical short-term political response is to proceed with 'reform by installments', but such a process might actually erode

trust further, and make large-scale reform more difficult, as promises are broken with each round of reform (Featherstone and Tinios, 2002).

Explaining Public Attitudes to Pensions

Attitudes to issues of public concern such as pensions materialise through complex political, economic, sociological and psychological processes. No attempt is made to base the analysis on a formal model of attitude formation and reporting. However, underlying the empirical specifications is the presumption that attitudes are based on information. This information may be both objective, such as contribution levels and replacement rates, and subjective, such as that acquired through personal experience and through the media. It may refer both to the individual specific situation and to an understanding of how the system works. Attitude formation is not presumed to be simply a deterministic process of information accumulation from a diversity of sources. Interpretation of information is influenced by personal experiences, ideology and psychological traits, such as time preferences. Of course, attitudes also reflect lack of information, uncertainty and, consequently, risk aversion. Finally, expressed attitudes will differ systematically from true attitudes if there exist strategic (or political) motives for the misreporting of opinions.

Following this framework, three types of variables are relevant in explaining reported attitudes to pensions. First, indicators of objective information held by individuals on their personal pension circumstances, for example, contribution/replacement rates. Second, factors that may provide subjective information, influence the interpretation of information and/or determine attitudes to risk, for example, age, education, region. Third, any factors which may reflect incentives for strategic misreporting.

Data

Data are from a random sample of the population aged 25–55 years living in the major cities of Greece during March–April 1999. The survey was commissioned by the Union of Greek Insurance Companies, mainly for the purpose of market research. Respondents are asked about their opinions of the public pension system, their confidence in it, reactions to possible reforms, as well as attitudes to private pensions.⁷ A key advantage of this survey is that it was conducted at a time of a relative lull in the public discussion of pensions and, therefore, might be expected to capture underlying attitudes and not simply short-term vacillations.

The exclusion of the rural and elderly populations is a limitation. However, since any reforms would have little or no impact on the pension entitlements of existing pensioners, their opinions are less crucial in evaluating the political feasibility of reforms. Similarly, the introduction of a new contributory system for farmers in 1998 has exempted farmers' pensions from the policy agenda. Thus, although the data understate variation in pension entitlements, the sample covers those persons who would be directly affected by any possible reform. The size of the sample available for analysis is 1006.⁸

Table 2: Categories of Pension Providers

Group	Constituent Providers	N
1. Private sector non-professional employees (PENSION1)	Private sector employees + Seamen + Printers	573
2. Self-employed (PENSION2)	Small Businessmen + Merchants + Haulers & Drivers + Farmers	252
3. Professions (PENSION3)	Doctors + Lawyers + Engineers	32
4. Public enterprises (PENSION4)	Telecommunications + Power Corporation	40
5. Civil service and government (PENSION5)	Civil servants + Army + Clergy	109
All providers		1006

Note: 28 cases recorded as 'other funds' have been categorised using information on self-employment status and sector of employment (public/private). The same information was used to categorise the 14 cases that were recorded as belonging to more than one fund (not supplementary fund).

Since consistent data on pension contributions and entitlements are not available, we capture these factors indirectly through the pension provider to which the individual is affiliated. Half of the sample belongs to the pension provider for private sector employees and a fifth belongs to the provider for the self-employed. The remainder of the sample is spread rather thinly over 17 other providers. To facilitate multivariate analysis, the pension providers have been aggregated into five groups according to the nature of the occupations and employment sector covered (see Table 2). These groups are obviously highly collinear with employment characteristics, which are not used in the multivariate analysis. Caution must therefore be exercised in the interpretation of the coefficients on the pension dummies; they reflect an amalgam of a pure pension effect and the effect of omitted employment characteristics.⁹

In order to assess whether the status quo is a majority outcome of electoral competition, we examine the degree of public satisfaction with the current pension settlement. The assumption of self-interest is then tested by examining the extent to which satisfaction varies systematically with treatment under the existing arrangements. We then consider possible drivers of public satisfaction with pensions – knowledge, uncertainty and confidence. Finally, we turn to attitudes to possible reforms.

Satisfaction with the Status Quo

The data indicate widespread and intense dissatisfaction with public pensions. An overwhelming 87 percent agree, at least to some extent, that pensions, *in general*,

are very low.¹⁰ Almost 60 percent believe their *own* monthly pension will not be satisfactory, more than 75 percent believe their contributions are large or very large compared to entitlements and 70 percent believe they would get a better, or much better, return from a private scheme. Cross-country comparisons make the picture of pension discontent in Greece even starker. Whereas, on average, 43 percent of EU citizens in 1992 believed pensions were too low and should be raised, even if this meant increasing taxes, the equivalent figure in Greece was 66 percent (Walker and Maltby, 1997, Table 4.3 and Figure 4.4, pp. 62–3).¹¹ While, on average, 46 percent of the EU elderly (aged over 65 years) considered pensions somewhat or very inadequate, 80 percent of the Greek elderly voiced such discontent (Walker and Maltby, 1997, Figure 4.2, p. 58).

At least at first glance, the data do not appear to support the proposition that the current pension settlement in Greece is a majority supported electoral outcome. The scale of the reported dissatisfaction is surprising given the generosity of public pensions in Greece. EU and OECD figures consistently place Greece at or near the top of the rankings for pension expenditures per elderly person as a share of GDP (Eurostat, 2000; OECD, 1997). Greece, along with Italy, is an exception to the negative relationship that exists between spending on pensions and the degree of public dissatisfaction with the pension system (Taylor-Gooby, 1995, Graph a6, p. 50). At least in part, this apparent inconsistency is probably a reflection of the target inefficiency of the system, which results in high pension spending co-existing with an unusually large proportion of the elderly among the poor. Multivariate analysis is used to determine the extent to which variation in dissatisfaction with pensions is founded on differential treatment under the current pension system.

We identify a group of individuals (37 percent of sample) that express consistent dissatisfaction with pensions across three domains: level of the pension anticipated, contributions relative to benefits and return relative to that expected from a private pension. Probit analysis is used to identify factors associated with the probability of an individual expressing consistent dissatisfaction with pensions (Table 3).¹² With the exception of a strong capital city effect, satisfaction is most strongly correlated with the occupational sector of the individual's pension provider. For the baseline case, who is covered by a pension scheme for private sector employees,¹³ the probability of consistently reporting dissatisfaction is 0.23. This probability is (significantly) raised to 0.37 for those belonging to providers for the self-employed (PENSION2). On the other hand, the probability falls to 0.06–0.10 for those in schemes covering public sector workers (PENSION4 and PENSION5). Although care must be taken in the interpretation of these effects, given the strong collinearity between the pension group dummies and omitted employment characteristics, the pattern of results is as expected given known differences in pension settlements across providers. As is clear from Table 1, average pensions are highest for public enterprise workers (PENSION4), followed by professionals (PENSION3), civil servants (PENSION5) and then private sector employees (PENSION1). The self-employed (PENSION2), on average, enjoy the lowest pensions. Public subsidies are highest for civil servants and (some) professionals (Table 1). Rates of return on pension contributions are generally highest for public sector workers followed by private sector employees and professionals and the self employed enjoying the lowest return (Table 1; Mylonas and de la Maisonnette, 1999, Tables 4–11).

Table 3: Dissatisfaction with Pensions (Probit)

Variable	Parameter	t-ratio	Change in Probability
Constant	-0.741	-4.509	(base prob. = 0.229)
MALE	-0.122	-1.431	-0.035
AGE3544	0.231	2.136	0.076
AGE4554	0.200	1.732	0.065
MARRIED	-0.247	-2.520	-0.068
HIGHSCL	0.288	1.789	0.096
LYCEUM	0.176	1.317	0.057
COLLEGE	0.024	0.136	0.008
UNIV	0.092	0.522	0.029
ATHENS	0.515	5.399	0.181
PTJOB	-0.245	-1.130	-0.067
PENSION2	0.411	4.117	0.141
PENSION3	-0.230	-0.849	-0.064
PENSION4	-0.845	-3.008	-0.173
PENSION5	-0.580	-3.513	-0.136
LR test		123.04 (0.0000)	
Pseudo-R ²		0.1205	
LR test for exclusion of pension dummies		50.31 (0.0000)	
Number not consistently dissatisfied		634	
Number consistently dissatisfied		371	
Total (N)		1006	

Notes: Dependent variable is 1 if responses are as follows: How satisfactory do you believe you will find your monthly pension? – 'Not that satisfactory' or 'not satisfactory at all'; and Generally, your pension contribution in relation to the amount you will receive is – 'Quite enough' or 'A lot'; and If you made the same contribution to a private scheme, do you think the amount you would receive would be: – 'Better' or 'Much better'. See appendix for description of the independent variables. Positive coefficient indicates increased likelihood to be consistently dissatisfied with pension. Change in probability is the change in the baseline probability (see row 1) as dummy changes from 0 to 1. Baseline case is female, aged 25–34 years, without high school education, living outside Athens, working full-time and covered by pension scheme for private sector employees (PENSION1). LR test is the likelihood ratio test i.e. $-2(\text{Ln}L_r - \text{Ln}L)$, where $\text{Ln}L$ and $\text{Ln}L_r$ are the unrestricted and restricted log-likelihoods respectively; probability value of test in parenthesis. Pseudo-R² is $1 - (L/L_r)^{1/N}$, where N is the sample size.

The purchase of private pension supplements is an indirect measure of dissatisfaction with the public pension arrangements. More than one quarter (27 percent) of the sample has private pension cover, which, in the Greek context, means third pillar life insurance cover, mostly delivered as a lump sum, rather than second pillar occupational pensions delivered as annuities. Education, most probably acting as a proxy for income, displays the strongest (positive) correlation with private cover (Table 4). In general, the same factors are correlated both with reduced satisfaction in the public system and with greater demand for private pensions, suggesting that public pensions do crowd out private ones. Relative to those in public pension schemes for private sector earners (PENSION1), those in schemes for the

Table 4: Private Pension Cover (Probit)

Variable	Parameter	t-ratio	Change in Probability
Constant	-1.429	-7.776	(Base prob. = 0.0764)
MALE	0.253	2.819	0.043
AGE3544	-0.044	-0.396	-0.006
AGE4554	-0.223	-1.836	-0.027
MARRIED	0.010	0.096	0.001
HIGHSCCL	0.182	0.991	0.030
LYCEUM	0.407	2.679	0.077
COLLEGE	0.906	4.772	0.224
UNIV	0.547	2.862	0.112
ATHENS	0.437	4.259	0.084
PTJOB	-0.558	-2.081	-0.053
PENSION2	0.289	2.779	0.051
PENSION3	-0.191	-0.684	-0.024
PENSION4	-0.214	-0.878	-0.026
PENSION5	-0.382	-2.224	-0.041
LR test		93.57 (0.0000)	
Pseudo-R ²		0.0924	
LR test of exclusion of pension dummies		17.37 (0.0016)	
Number without private pension (0)		740	
Number with private pension (1)		266	
Total		1006	

Notes: Dependent variable is 1 if have private pension cover. Positive coefficient indicates increased likelihood to have private pension cover. See Notes to Table 3.

self employed (PENSION2) are more likely to take out supplementary private cover while civil servants (PENSION5) are less likely to do so. It is an indication of the generous public pension settlement available to professionals (PENSION3) that, despite their high incomes, they are no more likely than private sector employees are to take private cover.

In contrast to the paradoxical picture that emerges at an aggregate level of high average expenditure on pensions co-existing with generally low satisfaction, the disaggregated analysis reveals a close correspondence between objective measures of pension generosity and subjective reporting of satisfaction with individual pensions. Public sector workers are treated best, report least dissatisfaction and are least likely to purchase private pension supplements. At the other extreme, the self-employed receive the least favoured treatment, report the greatest degree of dissatisfaction and are most likely to purchase private cover. In the middle, with respect to both generosity and attitudes, are private sector employees and professionals. The assumption that public attitudes are driven by self-interest appears to be well founded. This, together with the relative strength of the various interest

groups and the general discontent with the pension system, lends support to the proposition that powerful minorities maintain the status quo. The strongest labour unions are in the public sector and lobbying is more easily organised by the unified professions than it is by the disjointed self-employed.

Knowledge of Pension Entitlements

One third (34 percent) of the sample state that they do not know the age at which they will be entitled to claim a full pension and more than half (53 percent) report not knowing, even approximately, the value of the pension they will receive.¹⁴ Apparently, such ignorance about pensions is a common phenomenon in Europe. Surveys conducted in France, Germany, Italy and Spain find that the majority of the public are unable to report, even approximately, the total pension contribution rate paid by employees and employers (Boeri *et al.*, 2001). Such ignorance is obviously problematic for models built on an assumption of well-informed voters and may help explain the political difficulty of pension reform. An ignorant public is more vulnerable to the influence of organised minority interests.

Confidence in Pensions

Part of the motivation for pension reform, in Greece as elsewhere, is fiscal strain on the PAYG system of finance created by demographic and economic conditions. Public recognition of the problem is crucial to its acceptance of the reform agenda. In Greece, the sustainability problem is recognised. A large majority (72 percent) believes, at least to an extent, that the social security funds are so problematic they will never recover and 45 percent believe the position to be so serious that public schemes will not be able to provide a pension for everyone in a few years.¹⁵ Confidence in the sustainability of the pension system is not strongly correlated with individual characteristics (Table 5). Rather, it appears to reflect a generalised appreciation of public discussion of the issue, which is naturally diffused. The most potent single influence associated with decreased confidence is residence in the capital city, which may be acting as a proxy for exposure to the public debate. There is a negative association between satisfaction and pessimism. Private sector earners are less satisfied with the pension system and more pessimistic about its future. On the other hand, professionals and civil servants are more satisfied and less pessimistic.

Greeks are less pessimistic than are other Europeans about pensions. Across the EU in 1999, 63 percent agreed that in future individuals would get less of a pension for their contribution (Walker, 2000, Table 2). The respective figure in Greece was the lowest in the EU (34 percent). Greece was the only country in which a majority (52 percent) did not believe pensions would fall. Controlling for expenditure on pensions, the degree of optimism in Greece, with the highest level of spending and the second lowest fear of pension cuts in the EU, is even more exceptional (Taylor-Gooby, 1995, p. 47). Between 1992 and 1998, there has been a substantial fall in the percentage of Europeans (32 percent to 18 percent) who believe that the welfare state will continue to grow and retired people will be better off (Walker, 2000, Table 5, p. 13).¹⁶ This pattern is not observed in Greece, where there has

Table 5: Confidence in Pensions (Probit)

Variable	Parameter	t-ratio	Change in Probability
Constant	-0.774	-4.820	(Base prob. = 0.2194)
MALE	-0.035	-0.412	-0.010
AGE3544	-0.043	-0.405	-0.013
AGE4554	-0.057	-0.506	-0.016
MARRIED	0.161	1.668	0.051
HIGHSCCL	-0.052	-0.328	-0.015
LYCEUM	0.020	0.155	0.006
COLLEGE	0.135	0.778	0.042
UNIV	0.167	0.978	0.052
ATHENS	0.655	6.959	0.232
PTJOB	-0.412	-1.848	-0.102
PENSION2	-0.100	-1.004	-0.029
PENSION3	-0.668	-2.380	-0.145
PENSION4	0.119	0.558	0.037
PENSION5	-0.413	-2.686	-0.102
LR test		73.46 (0.0000)	
Pseudo-R ²		0.0724	
LR test of exclusion of all pension dummies		12.35 (0.0149)	
Number not consistently pessimistic (0)		625	
Number consistently pessimistic (1)		381	
Total		1006	

Notes: Dependent variable is 1 if agree, at least to some extent, with: 'Social security funds are so problematic they will never recover'; and 'Public schemes will not be able to provide a pension for all in a few years'. Positive coefficient indicates increased likelihood of being pessimistic. See also Notes to Table 3.

been no change in the percentage (36 percent) agreeing with the optimistic scenario. The contrast is even starker in respect of opinions about whether, in the future, people will have to retire later. In 1992, 35 percent of EU citizens predicted an increase in the retirement age, the percentage increasing to 40 percent by 1999 (Walker, 2000). Greece is an outlier, both in the size of the response and the direction of movement from 14 percent to 6 percent predicting an increase in the retirement age.

The average European is increasingly being convinced that life will have to bow to the necessities of population ageing. In contrast, the Greek public, while recognising the financial pressure on the pension system, remains optimistic that somehow the problem will not impinge on *personal* pension payments and retirement ages. One interpretation of this inconsistency is that it results from the design of the system. A fragmented system relying on PAYG finance undermines appreciation of a budget constraint operating on pensions at either the individual or the provider

level (Tinios, 2001). If this is true, then not only do public attitudes represent a constraint on reform, they are endogenous to the system itself and a vicious circle is created in which a flawed system generates public opinion that supports the system and blocks reform.

Attitudes toward Reform

There appears to be substantial public dissatisfaction with and lack of confidence in the Greek pension system. One might expect this to generate support for reform. Consolidation is the core of the pension reform agenda in Greece. In its least ambitious form, this involves condensing the current mosaic of provision into a limited number of pension providers. A majority (57 percent) of the public believes that such a merger will take place, with a large proportion (30 percent) unsure whether or not it will materialise. Opinion is evenly divided over whether such a merger would improve the pension system. Roughly one-third (35 percent) believe that merger will lead to an 'improvement', with a further third undecided. This certainly does not amount to widespread support for large-scale reform through consolidation.

The one-third of the sample that is unsure whether consolidation would be an improvement should not be interpreted as indifferent to reform. When faced with the choice between the status quo and a reform with unknown consequences, the risk averse individual will favour the former. The reform process itself, when it proceeds by instalments, might be responsible for generating an environment of uncertainty. Indeed, more than 60 percent of the sample doubt whether they will *ever* receive a pension because of uncertainty created by changes in the law (Table 6, column 1). Past and expected reforms also generate substantial uncertainty about when pensions will be received and how much they will pay out (Table 6).

Table 6: Pension Uncertainty Created by Changes in the Law

Percent responding:	The laws change so fast, I don't know:		
	that I will ever receive a pension	when I will receive receive a pension	how much I will receive
Disagree completely	7	2	1
Disagree to an extent	20	8	4
Neither agree nor disagree	11	12	11
Agree to an extent	42	53	50
Agree completely	20	26	34
Don't know	0	0.1	0
Total	100	100	100

Note: Data weighted to reflect the population age, sex and geographic (that is, city) distributions.

Table 7: Uncertainty over Pensions (Probit)

Variable	Parameter	t-ratio	Change in Probability
Constant	0.333	2.137	(Base prob. = 0.6306)
MALE	-0.068	-0.817	-0.026
AGE3544	-0.224	-2.118	-0.087
AGE4554	-0.376	-3.342	-0.148
MARRIED	0.060	0.631	0.023
HIGHSCCL	-0.130	-0.826	-0.050
LYCEUM	-0.096	-0.742	-0.037
COLLEGE	-0.343	-1.988	-0.134
UNIV	-0.343	-2.059	-0.134
ATHENS	0.509	5.694	0.170
PTJOB	-0.201	-0.998	-0.078
PENSION2	-0.272	-2.725	-0.106
PENSION3	-0.472	-1.855	-0.186
PENSION4	-0.321	-1.519	-0.126
PENSION5	-0.401	-2.829	-0.158
LR test		75.13 (0.0000)	
Pseudo R ²		0.0739	
LR test of exclusion of pension dummies		14.99 (0.0047)	
Number not consistently uncertain (0)		424	
Number consistently uncertain (1)		582	
Total		1006	

Notes: The dependent variable is coded 1 if respondents agree to an extent or agree completely with the statements used as column headings in Table 6. See Notes to Table 3.

We define a group (58 percent of the sample) that expresses consistent uncertainty in respect of *whether* they will ever receive a pension, *when* they will receive a pension and *how much* they will receive. The correlates of such consistent reporting of uncertainty are presented in Table 7. Older and more educated individuals are significantly less likely to express uncertainty over their pension entitlements. All the pension dummies are negative indicating that changes to the law induce greatest uncertainty within the pension schemes for private sector employees. This is consistent with the fact that laws governing this category have seen the greatest changes in recent years.

Of course, there is uncertainty with respect to private, as well as public, pensions. In the broader international context, where transition to funded pensions is often an important element of the reform agenda, the recent experience of plummeting stock markets might be expected to generate negative attitudes to reform. In Greece, where transition to funding is not a major item on the reform agenda, this is less of an issue. Indirectly, public reaction to a rationalisation agenda does depend upon confidence in the stock market, as less generous public pension settlements

push individuals toward private funded supplementary plans. Unfortunately, it is not possible to explore the issue with the data available, which pre-date the fall in the stock market.

Conclusion

Pension reform is recognised to be politically difficult. This is often thought to derive from the dynamic nature of the problem – a well-informed electorate has little incentive to vote in reform and every incentive to pass on costs to, yet to be enfranchised, future generations. Politicians, with short time horizons, have little incentive to protect the interests of future generations. While this paper confirms the importance of public opinion to the pension reform process, it casts some doubt on the above description of the problem.

Evidence on public attitudes to pensions in Greece does not support a simple model of electoral competition, in which the status quo is the majority choice of a well-informed electorate. There is widespread and intense dissatisfaction with the current pension system. Despite this, pension reform has been consistently blocked by fierce demonstrations of public opposition. This apparent inconsistency appears to derive from limited knowledge of the parameters of the current pension arrangements, lack of appreciation of the consequences of fiscal pressures on the system, aversion to change generated by its inherent uncertainty and, not least, the influence of powerful minorities. From this study of Greece and from elsewhere in Europe (Boeri *et al.*, 2001), there is evidence of an overwhelming degree of both ignorance and uncertainty with respect to pension contributions and entitlements. This is important to the political feasibility of pension reform. A poorly informed public is less able to appreciate the case for reform and more easily swayed by the lobbying of minority interests. The seemingly rational political response to entrenched opposition is either to postpone reform or to introduce it in a piecemeal fashion. However, this creates an environment of uncertainty and gives rise to voter scepticism, making it even more difficult to realise a programme of meaningful reform.

In Greece, attitudes to pensions are clearly correlated with treatment under the current system. Opinions are most positive among public sector workers and professionals, the groups most favoured under the current arrangements, and opinion is least positive among poorly educated self-employed individuals, the least favoured. The fact that the most favoured groups are also better informed and organised makes them highly effective lobbies against a reform agenda of rationalisation. In the context of a fragmented pension system, the political difficulty of reform derives not only from intergenerational conflict but also from the conflict of interest between occupational groups amongst which the pension system discriminates.

A key obstacle to pension reform in Greece is an apparent lack of appreciation and/or acceptance of how key pension variables are linked. Even though there is widespread recognition of the bleak prospects for the current system, there is confidence that, somehow, this will not directly affect peoples pension settlements. This suggests a general lack of appreciation of budget constraints operating on

pensions; entitlements are not viewed in relation to contributions. This is logical since the current relationship between what an individual pays into the system and what she is entitled to take from it is weak. Indeed, strengthening this relationship is a key component of the reform agenda. Rather than pension entitlements being governed by economic relations, it might be hypothesised that the public views them as the outcome of political bargaining; being linked to ability to influence political decisions, without any immediate *quid pro quo* on the part of the individual.

The possible development of a vicious circle between system design and public attitudes to the system is the most worrying inference. A fragmented and non-transparent pension system, which is lacking in accountability and financed by PAYG, breeds attitudes which do not appreciate the notion of a budget constraint, view pensions as the outcome of a political game and are therefore resistant to structural reforms designed to redress both inequities and budgetary imbalances. General lack of appreciation of the case for reform and specific opposition from sub-groups fighting to maintain their advantageous settlements derive from a common root problem – the design of the current system, which provides no incentive for the population to accept the case for reform and every incentive to appropriate and protect privileged entitlements. This is an example of a path dependent process; the system starting point, by influencing public attitudes and expectations, constrains the feasible pathways of reform.

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Appendix: Variable Names and Descriptive Statistics

Variable	Mean	Std. Dev.	Description
MALE	0.440	0.497	1 if male
AGE3544	0.313	0.464	1 if aged 35–44 years
AGE4554	0.284	0.451	1 if aged 45–54 years
MARRIED	0.703	0.457	1 if married
HIGHSC	0.132	0.338	1 if compulsory education only
LYCEUM	0.466	0.499	1 if full secondary education
COLLEGE	0.090	0.286	1 if college education
UNIV	0.141	0.349	1 if university education
PTJOB	0.049	0.218	1 if works part-time
ATHENS	0.661	0.474	1 if lives in Athens

Notes

We are grateful to the Greek Union of Insurance Companies and AC Nielsen for the data. The comments of anonymous referees were a considerable help in improving the paper.

- 1 Of course, public opinion is not the only factor that impinges on the political feasibility of pension reform. We examine the role of public opinion conditional on other constraining factors, such as demographic and economic conditions and the prevalence of *veto points* in the structure of the political institutions (Bonoli, 2001).
- 2 Given PAYG finance, the term 'fund' is somewhat of a misnomer.
- 3 Effective replacement rates calculated at 35 years of service.
- 4 The critiques originating from the unions, though not agreeing in the detail of proposed reforms, nor in the priority of separate measures, all concede that (a) reform is necessary and (b) any reform package will involve considerable organisational and legal consolidation.
- 5 See Featherstone and Tinios (2002) for a detailed examination of the politics of the Greek pension reform process and a chronology of political interventions.
- 6 The Italian experience is similar, although more effective (Franco, 2000).
- 7 The identity of the commissioner influenced the subject content of the survey but not its execution, which was handled by an independent polling company. Respondents were not aware of the identity of the survey commissioner. The origin of the survey does not jeopardise the accuracy of the recorded public attitudes. The private insurance sector is interested in uncovering *true* attitudes as a means of assessing the potential of a market. Nevertheless, where possible, we test for framing bias.
- 8 Of 11387 initial contacts, 8136 households did not respond or refused to participate. Of the remaining 3251, 1197 did not meet the age or other criteria for inclusion that is, they worked for the pension industry or had completed another market research survey recently. In a further 830 cases, the individual within the household requested for interview was not available or refused to participate. This leaves the 1224 individuals who were interviewed; of which, 218 reported not belonging to a public pension scheme and consequently were not asked for their opinions on the pension system.
- 9 In fact, experimentation revealed that inclusion of occupational classification did not change the pattern of the results substantially. The greatest effect was inflation of the standard errors on some of the education coefficients.
- 10 All frequencies are calculated from data weighted to reflect the population age, sex and geographic (that is city) distributions.
- 11 Based on 1992 Eurobarometer.
- 12 For a binary dependent variable, probit is preferable to ordinary least squares regression with respect to efficiency, homoskedasticity and the restriction of the predicted probability to the (0, 1) range. Throughout the paper, results are robust to the use of logit, rather than probit, analysis.
- 13 Other characteristics are: female, aged 25–34 years, without high school education, living outside Athens and working full-time.
- 14 Multivariate analysis reveals that males and, predictably, older age groups are better informed. Residents of the capital city are more ignorant of their entitlement, while the self-employed are better informed than private sector employees. Results available from authors.
- 15 Responses to *positive* statements about public pensions also reveal substantial pessimism indicating no strong framing bias.
- 16 The decline in optimism is not simply attributable to the change in the composition of the EU. The percentage declined in every country but Greece.

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