



URGE WORKING PAPER 3/2004

A Tale of Recurrent Policy Failure?

Tackling retirement pensions in Greece

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Introduction

Pension reform is undoubtedly one of the most intractable and closely contested issues of the political agenda. This is the case throughout Europe and beyond, but nowhere more so than in the Bismarckian welfare states of continental Europe and, in particular, in their south European variant. In these countries, external pressures for adjustment (such as adverse demographic trends and a restrictive macro-economic environment) combine with serious structural imbalances that are entirely internal¹.

To start with, continental European welfare states place heavy emphasis on contributory benefits, funded through payroll taxes. A vicious circle has been created whereby low employment leads to labour shedding (via both job losses and early retirement schemes) leading to high spending on social benefits leading to high social charges leading to low job creation. A lack of labour market opportunities coupled with a shortage of social services such as child care has led to a problematic equilibrium of low female employment and low fertility, rendering fiscal constraints tighter and demographic trends more unfavourable.

Moreover, while social insurance is perfectly suited to “fordist” norms of long and uninterrupted careers, it is inimical to those with atypical, non-standard employment records. The resulting dualism is particularly intense in southern Europe, where a true polarisation exists between hyper-protected insiders and less protected outsiders². The young and women who struggle to enter or re-enter the labour market, the long-term unemployed, those employed on a temporary or part-time basis, immigrants working in the shadow economy and others all lose out, often heavily, in terms of social rights and welfare entitlements.

The terms of this polarisation make reform difficult. Social groups such as those listed above are natural supporters of reform, but their ability to mobilise and shape public perceptions is negligible. On the contrary, those sections of the work force favoured by present arrangements (unionised workers in the public sector and large companies, enjoying job security) are considerably more powerful. Reform-minded policy makers face what has been described as “irresistible forces” meeting “immovable objects”³.

Nevertheless, pension reform, although difficult, is far from impossible. Nowhere has this been more evident than in Italy, where a succession of legislative changes under prime ministers Amato (1992), Dini (1995) and Prodi (1997) have transformed the pension system, improving its financial viability and eliminating many of the differential treatments that had almost become the rule under the *status quo ante*⁴.

In Greece, when the “modernising” socialists under Costas Simitis came to power in 1996, it looked as if reform was imminent. However, it took the government six full years before it could get a pension bill actually approved by parliament. Moreover, when reform did arrive, it proved something of an anticlimax – at least, if compared to the seriousness of the problem as had been originally diagnosed by the government itself.

¹ For a review see Ferrera et al. (2000). For an influential analysis of the “self-reinforcing negative spirals” of continental European welfare states see Esping-Andersen (1996).

² For an early analysis of the south European welfare model see Ferrera (1996).

³ See Pierson (1998).

⁴ See Ferrera & Gualmini (2000).

This paper is an attempt to make sense of the Greek experience with pension reform. Its structure is as follows. The next section describes the main pension programmes. Attention then turns to assessment and outcomes, the focus of section three. Policy changes that took place since the early 1990s are reviewed in section four. Finally, the paper concludes by taking stock of unresolved issues.

Programmes

Retirement pensions form the backbone of social protection arrangements in Greece. As Table 1 indicates, pension expenditure currently stands at about 13% of GDP, more than 90% of all social security or cash benefits are pensions, while most retirement benefits are contributory.

Table 1: Expenditure on retirement pensions (2001)

	euro million	% of all	% GDP
contributory pensions	14 474	77.6	11.09
income-tested pensions	467	2.5	0.36
other non-contributory pensions	1 902	10.2	1.45
total pensions	16 843	90.3	12.90
all social security	18 644	100.0	14.28

Note: Social security is defined as the sum total of social benefits in cash. Income-tested pensions comprise *EKAΣ* and the social pension. Other non-contributory pensions include farmers basic pension and war or national resistance pensions.

Source: Social Budget (2001), Budget Report (2001) and own estimates from data collected from social insurance funds.

There are literally hundreds of social insurance organisations providing retirement benefits. However, the large majority of pensions is provided by only a handful of schemes. IKA is the main fund for private sector employees. OΓA insures farmers and other workers in rural areas. OAEE covers own-account workers (except the “liberal professions” of doctors, lawyers and engineers). Retired civil servants receive state pensions. These four schemes account for 92% of all pensions.

The fragmentation of social insurance along occupational lines inevitably leads to large variations in demographic composition between pension funds. As a matter of fact, the dependency ratio closely follows the fortunes of the respective sector or industry. In the case of seamen (0.6 contributors per pensioners), the decline in employment has led to the severe financial crisis facing their pension fund NAT. The exact opposite trend (4.8 contributors per pensioners) explains the prosperity of the special schemes of the “liberal professions”. Similar is the case of workers in nationalised industries, except for the demographic deterioration caused by the various early retirement policies launched in advance of partial privatisation. By and large, higher-income groups tend to be members

of smaller funds facing more favourable demographic conditions⁵.

Arguably, the main characteristic of Greece's pension system may be that it is not one system but many. The parameters defining the level of pension (such as contribution rates, minimum length of contributory period, reference earnings, replacement rates, not excluding retirement age) are all subject to a bewildering array of rules. It is quite impossible – and probably unnecessary – to summarise these rules in the short space available here⁶. Suffice to say that their combined effect is that the pension rights of otherwise identical individuals may differ enormously.

For instance, the effective retirement age is estimated to be 55 for public sector workers, 60 for private sector employees, 62 for the self-employed and 65 for farmers and the “liberal professions”⁷. It should be emphasised that the decision to retire is a case of choice under constraints. More specifically, public sector workers tend to retire early because they face both a lower statutory retirement age as well as less-than-actuarial reductions in case of anticipated retirement. In contrast, the high-earning, lightly-taxed⁸ “liberal professions” are reluctant to leave paid employment and quite willing to postpone retirement voluntarily.

As a rule, the statutory retirement age is higher for private sector workers, lower for women and lower still for mothers of under-age children. Moreover, retirement ages may vary by generation: public sector workers appointed before 1983 face a lower retirement age than later cohorts, while all workers entering the labour market since 1993 are subject to a uniform retirement age of 65 (except again for mothers of under-age children). Further opportunities for earlier retirement are open to those officially classified as working in “hard and arduous” occupations. Currently, about 40% of IKA contributors fall into that category, conferring the right to a 5-year reduction in retirement age.

Table 2 demonstrates what was hinted at earlier, namely that both contribution rates and replacement rates (that is, the ratio of benefits received to reference earnings) vary considerably between funds. However, it is striking that the relation between the two is anything but linear. For instance, it is certainly true that workers in public enterprises pay higher contributions and receive higher pensions than members of IKA, while own-account workers have both lower contributions and lower benefits. Nevertheless, the opposite is true in the case of civil servants and the “liberal professions” who get more (benefits) for less (contributions).

⁵ The original legislation establishing IKA in the late 1920s provided that the new organisation was to gradually absorb all existing funds. This provision was relaxed when the bill became law in the early 1930s (which, as seen later, is exactly what happened in 2002). In a test case, in the 1960s workers in the then new Public Electricity Company were allowed to set up their own fund. Episodes of opting out of the general insurance pool when demographic conditions look good, only to go back in when this is no longer the case, are far from uncommon in the history of social insurance in Greece.

⁶ For a recent review in English see OECD (2002): 57-61. For a more extensive treatment see also Mylonas & de la Maisonneuve (1999).

⁷ See EPC (2002).

⁸ For a perceptive analysis and critique of the favourable treatment of the self-employed as regards taxation and social contributions see OECD (2001): 107.

Table 2: Effective contribution and replacement rates

	contribution rate	replacement rate	rate of return
private sector employees (IKA)	19	62	1.1
seamen (NAT)	28	65	...
civil servants	12	109	4.9
public enterprises	26	98	2.7
own-account workers (OAAE)	8	54	1.7
lawyers, doctors & engineers	13	90	...
farmers (OΓA)	1	20	2.3
post-1992 entrants into work force			0.3
total	14	53	...

Notes: Effective contribution and replacement rates are derived from actual data on pension expenditure and contributions using national accounts data for the derivation of sectoral earnings. Contributions of the government as employer to civil servants' pensions are excluded. Rate of return calculations compare identical workers across different funds, assuming a discount rate of 2% and based on the pension formulae of each fund. Public enterprises are represented by the Public Electricity Company ΔEH.

Source: Mylonas & de la Maisonneuve (1999): 35-36.

This tentative conclusion is borne out by modelling returns to contributions. The clear implication is that among workers identical in terms of age, gender, income and every other characteristic except membership of pension fund, those unfortunate enough to be mere members of IKA get a worse deal from the "system" than their fellow citizens who had the foresight to enter the civil service or to join a publicly-owned enterprise. The reader may be forgiven for concluding that while the multiplicity of rules constitutes by itself a violation of equity, the unequal treatment of equal cases makes nonsense of the notion of Greece as a *Rechtsstaat*, let alone a *Wohlfahrtsstaat*⁹.

As the preceding analysis suggests, variation in pension rights is anything but random. On the contrary, systematic "cleavages" can be discerned between different groups of pensioners, actual or future. The dividing lines have been drawn clearly in favour of those in "noble" funds over those in "popular" ones, of public sector employees over private sector workers, of the middle-aged over the young, of men over women¹⁰, of unionised over precarious workers and so on. The significance of this finding and its implications for the political economy of pension reform is discussed later.

⁹ Anna Diamantopoulou, currently European Commissioner for Labour & Social Affairs, speaking at a one-day conference in Athens (20 May 2003), put it in these words: "In my constituency of Kozani [NW Greece], in the huge power-generating plants of ΔEH [the Public Electricity Company], three men work side by side. The first is regularly employed by ΔEH: he will retire at 55 on €1,800 a month. The second is on the payroll of the sub-contractor: he will retire at 65 on €900 a month. The third is an illegal immigrant: whenever he retires, he may not receive any pension at all."

¹⁰ The "gender division of welfare" in Greece works against women, except for female employees in the public sector. For an analysis see Matsaganis & Petroglou (2001).

Performance

Although a detailed assessment of pension programmes by far exceeds the scope of this paper, it is still necessary to shift attention from expenditure and instruments to policy outcomes. Moreover, performance can only be assessed against commonly agreed criteria, while it is well known that the objectives of public policy are multiple and, often, conflicting. Nevertheless, with these caveats in mind, a run through the list of the most widely acceptable of these objectives may allow useful insights¹¹.

Efficiency

Macro efficiency requires that the share of GDP absorbed by social expenditure must be sustainable. Spending on pensions is among the highest in Europe and rising. As shown in Table 3, it is projected to spiral out of control over the mid- to long-term.

Table 3

Projected expenditure on public pensions

year	Greece		European Union
	original figures	revised figures	
2000	12.6	12.6	10.4
2010	12.6	12.2	10.4
2020	15.4	13.8	11.5
2030	19.6	17.3	13.0
2040	23.8	21.4	13.6
2050	24.8	22.6	13.3

Source: OECD (2002) Table 12 p. 59. Revised figures are from the Greek report on pension strategy (Appendix III Table 8 p. 53).

Micro efficiency requires a balanced division of social expenditure between policies. Pensions have grown to the point of crowding out other social programmes. Over 90% of social transfers received by households in Greece are pensions, compared to the EU average of 68%¹².

Labour (dis)incentives should be minimised. The design of pension programmes favours early retirement, while the structure of the minimum pension encourages contribution evasion and “strategic manipulation”. The latter leads to the seemingly paradoxical result that many pensions are at once “too low” (compared to earnings) and “too high” (compared to contributions paid)¹³.

¹¹ The categorisation followed here broadly mirrors that proposed by Barr (1993): 6-12. See also Goodin et al. (1999): 21-36.

¹² EC Household Panel data show that in Greece pensions correspond to 19.4% of total household disposable income, while other social transfers to only 2.0%. The relevant figures for the EU as a whole are 17.9% and 8.4% respectively. See Marlier & Cohen-Solal (2000): 3 and EC (2000): 107.

¹³ Current rules imply that a large number of employees, within a broad range of earnings, will only receive the minimum pension whether they contribute for 13.5 years (the minimum required) or, in certain cases, for as many as 33 years. Presumably as a consequence of that, more than half of those retiring from IKA in 1998 had a record of less than 23 years of contributions.

Security

Poverty relief requires that no household or individual should fall below a specified minimum standard of living. Greece is alone in the EU in not having introduced or even tested a guaranteed minimum income programme, at national or even local level. The social pension is failing to prevent extreme poverty among the elderly with insufficient resources¹⁴.

Insurance requires that no one should face an unexpected and unacceptably large drop in living standards. In terms of replacement rates, it was seen earlier that many pension programmes perform well (too well, in fact), though others less so. On the other hand, social insurance pensions are low or not available at all for those with irregular employment record. A considerable proportion of women, as well as the long-term jobless and the precariously or illegally employed fall into this category.

Equality

Vertical equality (arguably) requires that resources must be redistributed towards low-income groups. Despite the fact that pensions in Greece absorb a higher share of GDP than in most EU countries, old age poverty is higher than in all countries except Portugal¹⁵. In general, the impact of social transfers in terms of poverty reduction is much lower in Greece than is the European norm, while the same holds with respect to reduction in inequality¹⁶.

Horizontal equality requires that differences in support should reflect relevant, not irrelevant differences. It can be argued that “relevance” refers to differences in need for assistance (anti-poverty objective), or in contributions paid (income replacement objective). It then follows that differences in membership of social insurance fund, occupational group, gender, age group and so on (insofar as they are not reflected in level of need or contributions paid) must be considered irrelevant. If this is accepted, then it can be concluded that social security in Greece fails the criterion quite badly, by virtue of the fact that entitlement to benefit is heavily conditioned by “irrelevant” factors, quite irrespective of attributes in terms of “relevant” factors. In a context of categorical fragmentation, the variation in level of benefit is often *positively* related to income and *negatively* related to prior contributions.

Inclusion

Dignity requires that cash benefits and social services should be delivered in such a way as to minimise stigma. The issue has never become the subject of either official inquiry or academic research in Greece. Note that the aim of minimising stigma is important on its own, but also as a means to improve take-up, on which below.

¹⁴ It has been estimated that 14.2% of elderly couples were below an “extreme poverty” line of twice the level of the social pension (€3550 a year in 2000). See Matsaganis et al. (2001): 47.

¹⁵ More specifically, in 1997 the relative poverty rate of 60% of median equivalised income for those over 65 was 35% in Greece vs. 37% in Portugal. The equivalent figure for the 15 countries as a whole was 19%. See EC (2001): 169-170.

¹⁶ EC Household Panel data show that while before social transfers the poverty rate in Greece would have been lower than in the EU as a whole (38% vs. 41%), it is higher after social transfers (22% vs. 18%). See EC (2001): 169-176. On the distributional aspect of benefits, also see Heady et al. (2001) and Marlier & Cohen-Solal (2000).

Solidarity requires that, to the extent that this is possible, benefits should depend on criteria other than economic status. Social insurance is argued to promote solidarity, while on the contrary narrowly targeted benefits polarise society between contributors and recipients. This is generally correct, but it should be noted that in the context of Greece the fragmentation of social insurance implies that “group solidarity” is usually given precedence over “social solidarity”.

Integration requires that benefits should be designed so as to allow recipients to participate fully in the life of the society in which they live. Despite recent progress, social services for those in need fall short of the standard implied by this criterion¹⁷.

Feasibility

Administrative ease requires that benefits can be delivered at minimum cost to both claimants and benefit agencies. Social security is administered by various agencies, often not originally established for the purpose (e.g. social pensions provided by the “Agricultural Insurance Organisation” ΟΓΑ). Benefits are delivered without much effort to ensure that potential claimants are informed about their entitlement¹⁸ and usually with great delay. Administrative failures might be blamed on under-staffing, were it not for the fact that the various agencies employ over 1% of the workforce.

Target efficiency requires that benefits should be designed so as to ensure a high level of take up and a low level of “leakage”. Admittedly, the practice of granting invalidity pensions to rather healthy claimants has been quite common in the past. Moreover, concern about “leakages” (because of unreliable tax data and low administrative capacities) explained official opposition to the introduction of a minimum guaranteed income scheme. However, this is not mirrored by the “symmetrical” concern that benefits reach all those they intend to help. Benefit agencies do not normally take the view that ensuring a decent level of take up is their responsibility, as a result of which the problem is often acute¹⁹.

Reform²⁰

The above assessment, by necessity tentative and highly elliptical, suggests that retirement pensions in Greece have gradually lost touch with the requirements of a functioning economy and a modern society. This has not escaped the attention of politicians – nor could it have been, given the recurrent invitations of international bodies such as the IMF, the OECD and the EU to the Greek government on the need to ensure the viability of the pension system²¹. As a result, reform has been on the political agenda

¹⁷ For a recent review of anti-poverty policies in southern Europe see Matsaganis et al. (2003).

¹⁸ Until the Office of the Ombudsman was created (in October 1998), there was no effective procedure for addressing grievances. Since then, it has become the main depository of complaints about benefit agencies’ alleged wrongdoings. Such complaints made up 30% of all cases taken up in 2001. For a detailed analysis see Ombudsman (2002): 103-127.

¹⁹ The problem may be particularly acute in the case of the social pension. Matsaganis et al. (2001) found that a considerable number of elderly persons reported an income below the level of the social pension. While the possibility of recall error must be taken into account, the numbers are too high for the finding to be explained away by data errors alone. For a review of issues involved in non-take up see Atkinson (1998).

²⁰ This section draws considerably on Matsaganis (2002). For a complementary view see Featherstone (2003).

²¹ See for example OECD (2002), EPC (2001), IMF (1992).

for most of the time since the early 1990s²².

The first significant piece of pension legislation in recent years was that passed by the conservative New Democracy party in 1990-92. Emboldened by a victorious electoral campaign, during which they had committed themselves to contain the soaring costs of pensions (which accounted for about half of the total budget deficit), the new government announced a comprehensive package of reform, quickly withdrawn when a strike wave almost plunged the country into chaos. Subsequent draft legislation was considerably watered down. While the privileges held dear by the “protected categories” were left largely untouched, IKA (insuring mostly low-income workers) was made the main target. The strategy paid off. The General Confederation of Greek Workers ΓΣΕΕ, dominated by the unions of banking employees and workers in nationalised industries, opposed the bill with markedly less determination.

Law 1902/1990 was followed by 2084/1992 two years later. Having learned the lesson of 1990, the conservatives sought to avoid direct confrontation with the trade unions, sparing their members most of the pain of adjustment and placing the burden squarely on future generations of workers. The new law introduced lower replacement rates (60% vs. 80%), higher contributions, as well as a retirement age of 65 for both men and women – but the new rules affected only those entering the labour market after 1 January 1993. Those already active faced a smaller rise in contributions and a gradual elimination of retirement age differentials between IKA and the “special funds” of civil servants, employees of state-owned industries and banks and the “liberal professions”.

The socialists returned to power in 1993, having obstinately opposed pension reform when in opposition and pledged to reverse it when in government. Instead of that, a new reform of non-specified nature was announced for the future, to take place after a consensus among social partners had been reached through “social dialogue”. The pace of reform seemed to accelerate after a new “modernising” leadership rose to power when Simitis²³ became Prime Minister in 1996. An experts committee was soon set up, chaired by Professor Spraos, with the task of studying (and recommending ways to tackle) the structural problems of the economy. The report on pensions²⁴, published in October 1997, contained a moderately pessimistic diagnosis of the problem and few explicit policy recommendations. Nevertheless, it still provoked a public outcry that led the government to distance itself from the report and indicate its intention to go back to the drawing board.

The reactions to the report established something of a pattern that was to become familiar. It almost looked as if the country’s entire political elite (politicians from all parties, the trade unions, the press, independent commentators and other “opinion makers”) refused to hear the bad news and preferred to kill the messenger instead. It became clear that the attitudes and convictions held by most of public opinion, which the

²² For a fuller discussion of developments in social policy in the last two decades see Petmesidou (1996) and Guillén & Matsaganis (2000).

²³ Significantly, at the parliamentary debate of 1992 Simitis had criticised the conservatives’ plans not for “dismantling the pension system” (as the party line went), but for not being innovative enough. He set out a three-tier system comprising a tax-funded basic pension, a contributions-funded occupational pension, plus a voluntary tier funded out of individual savings. See Parliament Proceedings (1992).

²⁴ See Committee for the examination of macroeconomic policy (1997). For a detailed and thoughtful analysis of events surrounding the publication of the “Spraos Report” see Featherstone et al. (2001).

socialists had a decisive role in forming when in opposition, had come to haunt them now they were back in government.

Meanwhile, the government had declared EMU membership an overriding aim, while at the same time it pledged its commitment to “a cohesive society”. The concept of selectivity was hit upon as the way to square the circle. The new orthodoxy yielded some early results. The income-tested pension supplement EKAΣ, introduced in 1996, had enabled the government to escape an earlier pledge to restore the link of minimum pensions to the minimum wage. The eligibility criteria for the new benefit included a test of incomes based on tax declarations – a feature hailed as a significant innovation. The emphasis on targeting manifested itself further in income restrictions on benefits paid to “many children families”. The new strategy soon ran out of steam, presumably for lack of targets in a social security context dominated by contributory benefits²⁵.

It might have been expected that the drive to meet the Maastricht criteria in the late 1990s (after all, widely accepted or, at least, not openly opposed in the country at large) would strengthen the case for reform. Indeed, as the Italian experience²⁶ had manifested, fiscal consolidation could be an excellent opportunity for wider-ranging reform, geared to make the pension system at once less inequitable and more viable.

EMU was a good hand, but it was played badly. In a policy agenda that, among other items, included the privatisation of utilities and state banks (directly antagonising some of the socialists’ most powerful constituencies), pension reform still proved to be the hottest of all potatoes. When it became evident that entry to EMU could be achieved even without it (while, in any case, its positive fiscal effects would be felt after many years), pension reform was quietly postponed.

The truce did not last long. Soon after the 2000 general election that gave the socialists a new mandate, pensions made a reappearance at the top of the political agenda. The British Government Actuaries Department was called in to study the future prospects of the system. If the government had hoped that bringing in outside experts would help build consensus, it was soon disappointed. Trade unions protested that data analysis was conducted in secrecy, without their participation. In a climate of mutual mistrust, the trade unions’ research foundation INE conducted its own separate study. Nevertheless, the two studies yielded broadly similar results. As Table 6 shows, the pensions’ deficit (or “financial requirement”, as trade unions preferred to call it) was projected to remain modest until 2010 and to soar thereafter.

The government’s proposals²⁷, finally made public in April 2001, were measured. The retirement age was to be raised to 65 years for all. The insurance period needed for a seniority pension (awarded irrespective of age at retirement) was to be extended from 35 to 40 years. The replacement rate was to be reduced to 60% of reference earnings, defined as the best 10 of the last 15 years. The lower retirement age for mothers of under-age children (an arrangement notoriously expensive and wholly misconceived as family policy) was to be replaced by a contributions credit of two years per child. The minimum pension (projected to fall to very low levels for future retirees as a result of the conservatives’ legislation) was to be raised and become means tested. In terms of

²⁵ The experience of targeting benefits in Greece is critically reviewed in Matsaganis (2003).

²⁶ For an account of how EMU strengthened the hand of reformists by facilitating “blame avoidance” on the part of Italian governments see Dyson & Featherstone (1996) and Radaelli (1998).

²⁷ Ministry of Labour & Social Insurance (2001a).

financial savings, the government estimated that its proposals would cut the cumulative deficit of pensions over the next 50 years by 17.5% (from €350 to €290 billion). Overall, the proposals remained firmly within the boundaries of a public, pay-as-you-go, defined-benefit system that, if implemented, would become a bit more viable and considerably less inequitable. If anything, the government could be criticised for not being radical enough²⁸.

Table 6

Projections of the pension deficit

year	British Government Actuaries Department	Trade Unions Labour Institute	Greek report on pension strategy
2005	2.9	4.5	4.9
2010	3.0	3.7	3.1
2020	5.4	4.0	4.5
2030	9.1	6.0	8.4
2040	12.9	12.5	13.0
2050	13.9	16.3	14.1

Note: Projected deficit is defined as difference between expenditure and revenue, excluding state finance, as percentage of GDP. British Government Actuaries Department estimates excluded pensions to civil servants. The estimates of the Labour Institute (affiliated to the General Confederation of Greek Workers ΓΣΕΕ and the Civil Servants Union ΑΔΕΔΥ) excluded pensions to both civil servants and farmers. GDP projections from the British Government Actuaries Department report were used to convert Labour Institute estimates of pension deficit as percentage of GDP (Labour Institute estimates were originally given in absolute figures only).

Source: British Government Actuaries Department estimates refer to the central model, Table 24. See Ministry of Labour & Social Insurance (2001b): 44. Labour Institute estimates correspond to scenario 1 (employment rate 72%, replacement rate for post-1993 workers 80%, investment rate of return 3%). See INE (2001) (pages not numbered). The estimates of the Greek report on pension strategy (see Appendix III Table 9 p. 53) revise the earlier ones supplied by the British Government Actuaries Department.

Instead, of course, the government plan was received as if it meant “the end of welfare as we know it”. It became conventional wisdom that the measures were unnecessarily harsh. Cabinet ministers, who had been extensively briefed on the proposals’ content before their official release without raising objections, expressed surprise and dismay. A general strike was called by the trade unions’ confederation ΓΣΕΕ, socialist-led but with a disproportionate number of leaders (and, to a lesser extent, members) coming from the unions of state-owned banks and utilities. The hardline Communist Party and the Left Coalition both denounced the government in uncompromising terms and lent their support to the unions. Less predictably, given its record when in office, the conservative opposition joined the chorus of disapproval, accusing the plan as lacking in social

²⁸ That was the position of two small political organisations, the centre-right “Liberals” and the left-of-centre ΑΕΚΑ, who proposed variations on a three-tier pension structure with a “notionally funded” main tier, as in the Swedish and Italian systems. With notional funding, pensions remain pay-as-you-go but benefits are individually related to prior contributions. Under such a system, retirement age is no longer fixed but becomes (within a reasonable range) a matter of choice. This makes the trade-off between level of pension and length of retirement transparent. It also has the advantage that it makes redundant the usually bitter debate on the appropriate official retirement age. For a wider discussion on combining contributory and non-contributory pensions see Schokkaert & van Parijs (2003), Esping-Andersen et al. (2002) and Gillion et al. (2000).

sensitivity²⁹. Under the circumstances, it was only a matter of time before the government withdrew its proposals and called, yet again, for “social dialogue”.

Under pressure from the European Commission and other international organisations (while also risking to lose face in the domestic arena on the one issue it had repeatedly promised to tackle), the government resolved to do something about pensions. With a new minister in charge, the emphasis was put on presentation. Confrontation avoidance and consensus seeking were the order of the day. In March 2002, the new minister set out his vision in a paper³⁰, whose main purpose seemed to be to assure that pensions were safe in the government’s hands. In fact, it contained few specific proposals, other than to signal that the next round of legislation would concern wage earners alone.

In June 2002, a new pension bill was presented to Parliament. Its main provisions were the following. The replacement rate was set at 70%, as in IKA, up from 60% for those who entered the labour market after 1 January 1993 and down from 80% for older cohorts of civil servants and workers in nationalised industries and banks³¹. Reference earnings were extended to the last 5 years in the “special funds” and to the best 5 of the last 10 years for IKA workers. The minimum pension for those who started work since 1993 was fixed to 70% of the minimum wage. A lower rate of minimum pension was introduced for those with less than 13.5 but over 11.7 years of contributions. Otherwise, IKA was refashioned as the “single fund of wage earners” (gradually to absorb the “special funds”) and was guaranteed state funding to the tune of 1% of GDP a year. On the whole, the egalitarian drive of 2001 was significantly softened.

The bill included no provisions for a change in retirement age. In fact, as a result of seniority pensions being made available to public sector workers, it was expected that 2.5 million workers will retire earlier, another 1.0 million will be unaffected, while no-one will retire later³². There were no estimates of the new plan’s effect on projected cumulative deficits, which both the government and the trade unions had found to be unsustainable only one year earlier – and which the “unnecessarily harsh” measures proposed by the previous minister would reduce by a mere 17.5%.

Once more a general strike was called by the trade unions’ confederation ΓΣΕΕ (after the socialist chairman lost his majority in the council), jointly with the civil servants’ union ΑΔΕΔΥ (socialist-dominated and unanimously opposed to the bill). However, this time it looked as if unions went through the motions of contesting the reform without really hoping to defeat it. The conservative opposition rejected the bill again, this time as irresponsible. Moreover, in an attempt to avoid having to explain its position, it opted to walk out of Parliament before the debate began. In doing so it was joined by communist deputies, while the Left Coalition (whose chairman described the bill as “a neo-liberal policy that is evidence of social analgesia” on the part of government) chose to remain present. Eventually, on 19 June 2002 Parliament approved the bill, by 144 votes to 131. The final version was watered down further (for example, the entry of “special funds”

²⁹ The reaction of the conservative opposition to “retrenchment” reforms proposed by the socialist government can be explained by high “positional conflict”, despite the fact that “policy distance” between the two parties on the issue is small. For a full elaboration of this analytical framework see Schludi (2001).

³⁰ Ministry of Labour & Social Insurance (2002).

³¹ Nevertheless, the pensions of civil servants (especially those appointed after 1983) are expected to improve despite the reduced replacement rate, since the accrual rate will rise from $1/50$ to $1/35$ per year, while a hitherto exempted allowance of €176 per month will be incorporated to pensionable earnings.

³² For example see the daily newspaper TA NEA 5 June 2002, pp. 33-40.

into the new IKA was made “voluntary”). It seemed a fittingly disappointing conclusion to a season of pension reform that had been inaugurated amidst high hopes six years earlier.

Conclusion

The 2002 legislation will certainly, if temporarily, take pensions off the political agenda. Nevertheless, judged against the magnitude of the problem as originally diagnosed, it can only be described as ineffective. The serious failings of the current system in terms of both financial viability and social justice still remain largely unresolved. Therefore, it can be safely predicted that the issue will not lie down and die. On the contrary, it seems bound to erupt again in the near future.

As implied by the preceding analysis, the orderly retreat from unsustainable commitments, the equitable distribution of the costs of adjustment, and the equalisation of pension rights across categories has become common place (something of a “reform acquis”) elsewhere in Europe. In particular, in Italy and Spain significant progress towards reducing excessive future commitments and abolishing internal inequalities between categories was achieved with the consent of social partners³³. The experience of these other south European countries demonstrates that far-reaching pension reform can be politically feasible.

In contrast, the repeated efforts of a centre-left government in Greece to reform pensions ended in *débâcle*. The 2002 legislation, as shown above, establishes lower age of retirement and higher pension benefits for millions of contributors. That the government eventually became willing – even eager – to enact such legislation, even though originally committed to drastic reform, can only be described as policy failure.

The road from the proud declarations of 1996 to the capitulation of 2002 was marked by small – and some larger – battles, all without exception lost to the cause of pension reform. Two episodes stand out in particular. First came the 1997 report of the descriptive rather than prescriptive Spraos Committee, the virulent reactions to which softened considerably the government’s resolve to tackle pensions. Then was the 2001 proposals of the Ministry of Labour & Social Insurance, effectively attacked for being a conscious attempt to “demolish the social conquests of working people” even though, as seen earlier, decidedly timid by comparison to what had been achieved – with trade union consent – elsewhere in Europe.

Both these episodes reveal that resistance to reform in Greece remains unusually strong. The explanation cannot be found in the nature of reforms pursued, which as shown in the text were rather modest. On the contrary, it has to be sought in the attitudes and beliefs that characterise much of the political discourse. More specifically, the confrontational character of the political system, the maximalist culture prevalent over large part of the political spectrum, the historical strength of populism on both left and right and, conversely, the historical weakness of the moderate centre-left and the liberal centre-right (reformist forces *par excellence*) act as severe constraints on reform.

³³ See Ferrera et al. (2000), Ferrera & Gualmini (2000) and Guillèn (1999). For a review of attempts to reform welfare in France and in Italy see Natali (2003) and Levy (1999).

In this sense, the requirements of welfare reform clash with conventional wisdom – that is, with deeply-rooted convictions which, though plainly out of touch with reality, were cultivated for decades by a broad section of the political élite, the press and other opinion makers. Such convictions seem to be shared by almost the entire (both conservative and left) parliamentary opposition, by the trade unions, while they sometimes find an echo with senior members of the Simitis government as well³⁴.

Under these conditions, overcoming resistance to reform is simply impossible without a clear political strategy, without a concerted effort across a wide range of policy areas, without an open debate that helps build trust about the ultimate objectives of the reformist project. These elements were plainly lacking in Greece. What is more, their absence betrayed an ambiguity at the heart of the drive to reform pensions. Surely, the main point of reform from a centre-left perspective ought to have been that it was as much about modernising social protection and equalising social rights across categories as it was about reducing deficits and containing expenditure. Instead, the reform discourse was totally confined to the commitments deriving from the Maastricht Treaty (and, later, the Stability Pact). The fact that reform was conceived narrowly as an externally imposed obligation – rather than as an opportunity to redress internal imbalance – undermined its prospects of success from the start.

Naturally, demonstrating the advantages of an alternative design is no guarantee for its eventual adoption. It can be argued that the Greek experience emphasises the importance of politics as “the art of persuasion”. Reform proposals that constitute “positive sum” solutions, in the sense that the gains of winners are larger than the losses of losers, can still be neutralised by the latter’s effective mobilisation. Those who stand to lose most from reform are over-represented in trade unions and political parties of all colours. In contrast, those who stand to gain most (the poor, the unemployed, precarious workers, women and the young – including the proverbial future generations) have a much weaker voice.

Therefore, reform can only be successful if supported by a broad “advocacy coalition”³⁵ uniting those discriminated against by the current system with those prepared to argue for change even though personally better off under the *status quo*. Such a development crucially hinges on the ability of reform-minded policy makers to combine a grasp of technical aspects with political arguments that win hearts and minds. Needless to add, the evidence so far is hardly encouraging.

³⁴ For an analysis of political “common places” formed over the crucial period of post-authoritarian transition in Greece see Voulgaris (2001).

³⁵ See Sabatier (1998). See also Ferrera (1998) p. 108: “Given the barriers of a social and political nature, the only way to follow is that of critical discussion, of intellectual provocation, of reasoned persuasion. No reform passes without the support of social coalitions interested in it, and without political forces capable of imposing it. Nevertheless, the raw material of every reform is always an ideal blueprint for change; and with time, a serious commitment on the front of ideas can help remove even the most resistant of barriers.”

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