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Pensions in Greece:

The Economics of the politics of "Reform by Instalments"

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1. Introduction and Overview

J.M. Keynes wrote *"Practical men who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist"* (General Theory, chap 24)[2]. This was intended as indirect praise for the non-defunct, (presumably) clear-sighted economists, who were independent enough to set the agenda for policy.

In the case of pension reform, until very recently, there would have been two generalisations: On the side of economists near unanimity on the necessity and the core characteristics of prescriptions. On the side of policy (the practical men and the politicians) a determined immobility. In many countries pension reform was always and continually just on the verge of being implemented. In the conflict between the clear sighted economists and the politicians, it seemed as though the politicians were both setting the (non-) pace and deciding the agenda. Keynes' dictum could be turned on its head: *Economists* were the slaves of defunct and irrational *politicians*.

The political economy of pensions might be the economists' revenge on the politicians: Politicians failed to act in the way they should have, hence making the unanimity in the economists' prescription repetitive. So, economists built into the model the way politicians react. They try to give rational reasons for a (seemingly) irrational political response; in providing this understanding, they hope that they might find the missing levers to break the impasse.

This paper attempts to offer this kind of explanation, to account for what happened (and what is happening) in Greece. Greece (for reasons which I hope will be become clear) is an extreme example as to the extent of the influence of political factors in Europe[3]. Yet, examples of this kind of influence may be found in virtually all the European countries (including many that have recently reformed). Warnings about the non-viability[4] of key pension provisions have been current for at least two decades. The kinds of considerations that characterised the behaviour of key actors in Greece can be seen to apply in (similar ways) in many other countries. The idea of "Reform by Instalments" is by no means unknown, while finally, the gulf in understanding between the experts and the man in the street, is in many cases the key obstacle to reform.

This paper first provides an overview of 40 years' pension history in order to distil four "stylised facts" that can characterise the situation in Greece. It then proceeds to examine three general processes inherent in the economics of pensions rather than the specificities of Greece, which underlie these stylised facts. Finally, it gazes ahead and examines aspects of the application of the "Open Method of Coordination" to pensions that is planned by the EU in 2002.

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[2] He goes on: *"Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back".*

[3] The history and political economy of pensions in Greece may have parallels with Eastern Europe and Latin America.

[4] E.g. OECD, 1988, OECD, 1980 in an international context. The coming deterioration of the demographic situation was known well before that.

2. Four stylised facts for the Reform by Instalments[5]

In April 2001 the Greek Government, having earlier declared that "it is time to cut the Gordian knot of pension reform"[6], publicised a set of proposals. The proposals succeeded in mobilising the largest demonstrations that Greece had seen for a long time, and were withdrawn after less that a month[7].

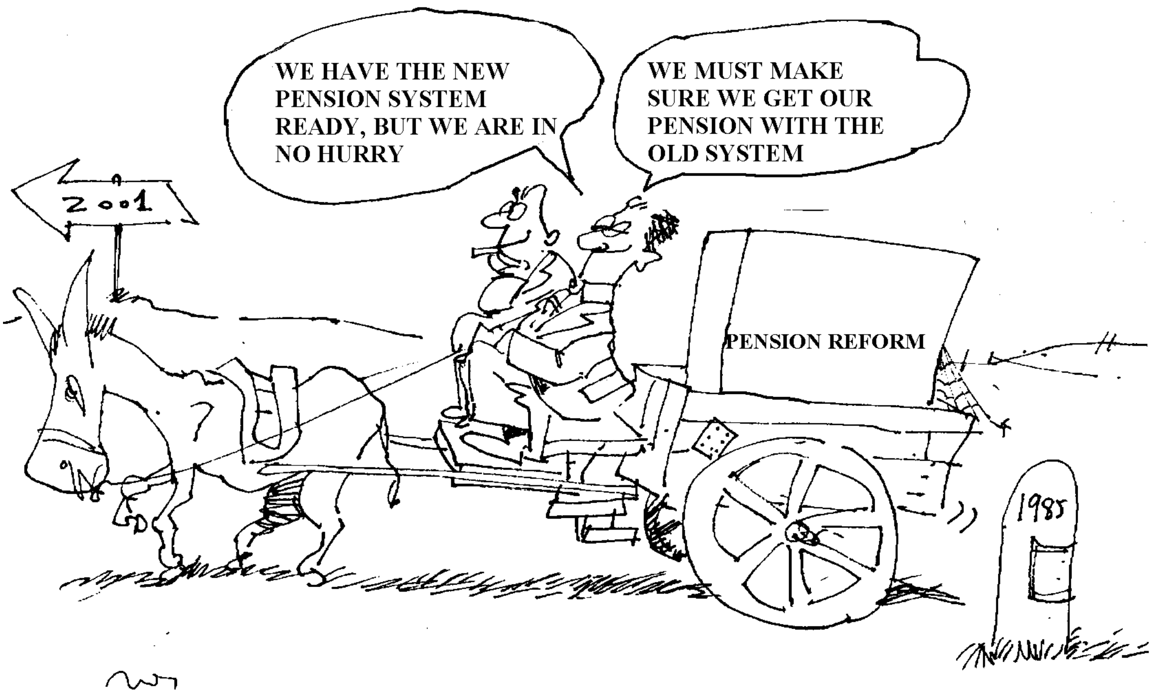

Figure 1: Reform by Instalments in Greece, by Petroulakis (in Tinios 2001, p 18)

A sober analysis of the 2001 proposals could reveal them to be in many respects *identical* to those outlined in a Government report of 1958[8] (quoted in Tinios, 2001). For example, the 1958 report recommended that the number of pension providers (which then stood at 153) should be drastically reduced; the 2001 proposal contained the *same* recommendation, the only difference being that the number of providers had *risen* to over 240. Financial viability was *then* (1958) described as "*the most serious and <u>urgent</u> problem facing the system*". Today, Greece stands out as the country with the largest expected pension expenditure to the year 2050. (EPC, 2001). Appendix 1 provides a chronology of the 'Reform by Instalments' since the mid-70s.

[5] For a comprehensive analysis of the Greek pension system in English, see Börsch-Supan and Tinios, 2001.
[6] In the election manifesto, PASOK, 2000.
[7] The success of the mobilisations was widely thought to amount to a renaissance of the Trade Union movement; some think that their current strong position may facilitate the adoption of a solution in the second round of pension reform in 2002.
[8] An interesting fact is that one of the authors of the report is the parent of one of the Government Ministers who failed to implement its recommendations, four decades later…

The first Stylised fact has to do with the nature of reform:
SF1: **Reform is postponed and comes by instalments.**

The comparison with the 1958 report, shows two key facts: Firstly, the *analysis* of the problems was *not* at fault. Secondly, in much of the intervening period the institutional and legislative change that took place was *actually in the wrong direction*.

The key feature of the Greek system (and in much of what has been called the 'Mediterranean welfare state'[9]) is fragmentation. The system, (though invariably financed by PAYG, on social insurance lines), is fragmented along sectoral lines, according to tier of protection, by cohort. The fragmentation involves inequality in financing burdens, in entitlements and carries over into organisational details[10]. This fragmentation imposes a kind of 'Kaleidoscope effect' on public discussion – in that no generalisation can be proffered without being immediately challenged by several counterexamples.

This kind of fragmentation is responsible for two phenomena which are key to understanding the political economy of the system: The ease of cross-subsidisation of one sector of the economy by another, or of one group in the population by another[11]. And, partly as a result, the coexistence of "islands of privilege in a sea of insufficient provision". Hence, the seemingly paradoxical coexistence of very high expenditure on pensions as a percent of GDP and a concentration of poverty among the old (Börsch-Supan and Tinios, 2001).

Thus the next "stylised fact" concerns the structure of the system:
SF2: **The system is highly fragmented. Fragmentation seems to be increasing over time.**

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

Indeed, one of the characteristics of public discussion of pension problems in Greece is that the sectoral problems as stated, when taken together do not add up to the overall problem facing society[12]. Typically, each sector of

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[9] The term comes from Ferrera, 1996.
[10] The fragmentation extends within organisations. In an analysis of new pensions granted by the main private sector provider, it was found that what is thought as the "normal" retirement age applied to only 20% of the cases. It was not even the most frequent legal basis…
[11] Mylonas and de la Maisoneuve, 1999 attempt to quantify the inequality of treatment by calculating implicit real rates of return to contributions for several types of contributors. These range (for identical career paths), from 5.2% to –0.2%…
[12] Similarly, in pension system *data,* the insured population exceeds the actual population by more than 30%… This is caused by double-counting and the lack of a functioning unique identifier. The situation of the data is central to the political economy, as it enables any

employment will define its pension problem by comparing the generosity of its provisions with those of other sectors. The invariable conclusion is that their situation is not generous *enough*. This in TU-parlance is known as the demand for "equalisation upwards".

Greece as a country has the second fastest ageing process in the EU (after Italy – EPC 2001) in a system entirely pay-as-you-go, which has contrived to have widespread cash shortfalls well before ageing started (Provopoulos and Tinios, 1993, OECD 1997). This, by any counts, should have led to a massive pension problem. Yet public opinion, though aware that experts and politicians talk among themselves, is blissfully oblivious that these matters could translate to adjustments at the individual level. **Pension problems are a (macro) problem for society, which does not concern anyone in particular**[13]. The following table speaks volumes:

Table 1 Eurobarometer Opinion surveys, 1992 and 1999
Percentage saying that in the Future People will have to retire later.

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

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

To the question on whether population ageing might necessitate retiring later, all other Europeans, including those in the South, appear to be aware of a potential problem in 1992, an awareness which has grown in 1999. In sharp contrast, Greeks, alone among Europeans, appear to be unaware of any

position to be supported, no matter what the distance between it and 'reality'. See Spraos Report, 1997.

[13] This, of course, is the obverse, of the non-adding up of individual problems. Support from this hypotheses was inferred by O'Donnell and Tinios, 2001 through multivariate analysis of survey data.

compulsion. What was already a very low percentage (*13%* positive reply) was more than halved in 1999[14].

Thus, the next stylised fact:

> SF3: **There is a wide gulf of understanding between 'experts' or 'technocrats' on the one hand and of public opinion on the other.**

This gulf of understanding goes hand in hand with a very narrow scope for pension discussion. Politicians, whose function would have been to look at the wider picture, shy away, being convinced that saying unpleasant things can only hurt those saying them – what is known as the logic of the '*political cost*'[15]. The public discourse on pensions, takes place largely in the absence of politicians and deals only with the issues that cannot be avoided because they are dictated by events. It thus resembles a discussion among accountants as to "where to find the money", i.e. is conducted in a defensive manner as if pension viability were the only problem. Pensions' wider role in society, or the links between pension arrangements and broader issues such as population ageing remain outside the discussion.

> SF4: **The discussion is characterised by a very narrow view of pensions, cut off from the wider economic, social and political choices facing society.**

The four stylised facts together provide an explanation for the dysfunctional nature of the process of pension reform in Greece. The key point of this paper, is that these stylised facts are not a product of, say, a particularly unfavourable political situation, or of historical specificities peculiar to the country in question. Instead, they can be easily understood as the outcomes of processes which result from the structure and economics of pensions in general and not of Greek pensions in particular.

In order to examine this idea, three areas will be dealt with:
1. The missing generation and the absence of a budget constraint.
2. Fragmentation and the economics of the second best.
3. Stocks, flows and the need for a fresh start.

3. The "missing generation" and its advocate

Pay-as-you-go pensions are an example of inter-generational solidarity. In the simplest form, they appear to be a mechanism for redistribution between *three* generations: Those retired, those currently working and those who will work in the future. Given that no new product is involved, the transaction

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[14] Boeri et al, 2001 arrive at rather more optimistic conclusion by analysing a carefully-specified questionnaire applied to Germany, Italy and France. See also Taylor-Gooby, 1995.

[15] See Featherstone et al, 2001, for an analysis of reactions to a publication of a technocratic report by a committee (the Spraos report, 1997) urging action. He also contrasts the situation in Greece with that in Italy, where pension reform was successfully integrated in the overall adjustment towards EMU. The equivalent chance in Greece went unexploited.

between all three generations (in an established system) should be zero-sum[16]: what one generation gains, the other generation loses.

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

This analysis has three implications:

> *First*, there is a secular tendency for expenditure to grow. Part of the current pension problem is due to the fact that current workers were the "missing generation" when the parameters of the current system were decided three decades ago.
>
> *Second*, pension reform in political terms is *negative-sum*. It is always easier to pass the problem on. Moreover, pension reform in a PAYG world necessarily involves the reneging of a promise; reformers must admit that the (unconditional) promise given in the past had actually a limited application.
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> *Third*, PAYG pensions have much in common with pyramid schemes, of the kind that collapsed in Albania in 1997, known in economic theory as "Ponzi games". Albanians had discovered that it pays to join a pyramid scheme, as long as you made sure you got out fast enough, and you were not the one left 'holding the can'. Politicians (especially Ministers of Finance) know they are holding an unexploded bomb, but also know that nothing will happen, as long as it does not explode in their hands.

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

a. The visibility of the budget constraint. The problem of an ill-defined budget constraint is *not* confined to public PAYG pensions. The Maxwell case in the '90s and the ENRON collapse both underline the fact that pension obligations are easy to disguise. Accounting for company pension obligations is the object of International Accounting Standards-19. IAS-19 treat pension obligations as an outstanding loan granted by the staff to the company, a loan which has to be accounted for in the balance sheet and serviced out of

[16] This holds, of course, in the steady state. When a system starts out the first generation normally benefits, a gain balanced by the loss of the *last*.

operating revenue. In doing so, they enforce visibility, and provide incentives to manage obligations in a more rational way[17].

Accounting for future PAYG pension obligations is thus a key to reform, by reminding public opinion that a budget constraint ultimately exists. Techniques such as generational accounting, calculating the "Implicit debt" or simply projecting expenditure forward[18] are common ways to attempt that. In a low-trust political environment, such as Greece, the question of who to conduct a long-term projection study was solved by engaging an international firm of actuaries after an international tender. As the example of IAS-19 proves, a common methodology and benchmarking against other countries are indispensable additions.

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

This is the rationale for what may be termed the *"Fiscal Apocalypse view"*[19] whose key message is "the money has run out". Though it is usually the first weapon at hand, the capacity of such an approach to convince, rivals the literature of the "End is Nigh" (from which it borrowed a lot of vocabulary). Its credibility problem is only partly due to 'the crying wolf variety'. The communication problem of *"Fiscal Apocalypse"* is compounded by the dissonance of other acts and statements of its prophets which are sharply at variance with extreme fiscal rectitude[20].

A reform needs advocates, and presenting pension reform simply as a process of minimising and reapportioning losses can find few volunteers. To enlist supporters, a reform must have something new to offer. In this way the *opportunity cost* of initiatives foregone can be added to the cost of inaction. Reform in the direction of prefunding will excite expectations among the financial community and by investors. The ability to finance meaningful

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[17] The Public Power Corporation is an example of the effect of IAS-19 on a previously PAYG company system (similar to book-reserve system). (Börsch-Supan and Tinios, 2001). The publication of pension accounts subject to IAS-19, was instrumental in changing workers' perceptions of the problem facing them. Their attitudes were sufficiently altered to enable a deal to be struck.

[18] E.g. OECD 1988, Chand and Yeager, 1996, Oxley 2001 provides an retrospective of OECD projections from the '80s on. The results of EPC 2001 relied on getting *national* authorities to coordinate in order to maximise comparability, in a kind of cross-national revealed preference. Disney, 2001 examines the measurement issue in some detail.

[19] Or the "Doom, Gloom and Despondency" view

[20] In Greece in 2001, the position of the government was *simultaneously* that "we have a huge problem in our hands" and that "there is no reason to panic, as all measures will be very mild".

additions to social protection to better provide for groups currently bypassed will excite interest in parts of the population who often have no interest in what happens to pensions[21].

To turn pension reform into a win-win situation two things help decisively:

1. The **design of the reform** which concentrates on 'adding value' to pensions. This can be done by exploiting the link between pension finance and growth. If indeed a shift towards funding can add to saving and hence lead to a higher capital stock, then there can be net *overall* gains from the process. Added value can be provided by serving existing social functions in a better way, or finding new roles in the context of a rapidly changing labour market[22].
2. Abandoning the idea that pensions are a technical issue suited to discussion among technocrats. To enable politicians to build support for change, the discussion should be able to see pensions in the bigger picture of how people live, work, and what they expect from society. In doing so, they must be able to link the matters to be decided in pension reform to values, and general views on which the "person in the street" has an opinion.

4. Fragmentation, the second best and the future

In economics we learn that, even when an economic agent insists on behaving irrationally, the market as *a whole* will still behave rationally. The budget constraint will ensure that irrational behaviour will, in a sufficient number of cases, be infeasible. Similarly, the budget constraint ensures that irrationality cannot continue indefinitely, as sooner or later it will run up against the budget constraint and will have to be revised as infeasible.

The inability to put into practice a reform package first outlined more than one generation ago, signals the failure of this natural selection-based "rationalizing" mechanism. The reason must be sought in the existence of soft and fungible budget constraints in the Greek pension system

The social security system is financed on PAYG lines, but on a sectoral basis, by means of occupationally based pension funds. Thus, the PAYG ability to shift the burden among generations is compounded by horizontal shifting between population groups at a point in time.

Two observations result: *Firstly*, following the earlier discussion, in such a pension system, the last remaining operative budget constraint, the "last line of defence", is the *macroeconomic* budget constraint of the Government as a whole. It was under pressure from generalised extreme cash problems of the early '90s which led to the first meaningful phase of pension reform in Greece, that of 1990-2. In future and in the context of EMU, behaviour within the Stability and Growth Pact will be crucial (Buti and Costello, 2001).

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[21] This line of argumentation was instrumental in providing a "Left" argument for pension reform in Italy.

[22] Better provision for the needs and requirements of women in the labour market is a case in point.

Secondly, the persistence of a sectorally-fragmented pension system, in the face of overwhelming economic arguments against it, must be explained somehow. Indeed, the other side of the coin of fragmentation is the possibility of multiple speeds, of a variable and varying geometry that could be translated into flexibility in coping with problems as those came up. This flexibility, given that it did not presuppose finding solutions of universal application, was on occasion translated into ingenuous solutions for specific problems.

The varying geometry of the system facilitated decisively coping with issues such as the rapid reconstruction, industrialization and urban migration of the '50s and '60s[23]. It also allowed the pension system to play a key role in the clientelistic politics that characterised the post-war period, by enabling the 'buying of influence' in particular sectors (or locations). It is unlikely that these problems, both social and economic, could have been solved with a less flexible, or more transparent system.

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

Börsch-Supan and Tinios, 2001, rationalise the phenomenon of multiple speeds by characterising it as a valid second-best response to problems of the past. The corollary in the "framework of reform" they offer is that:

a) After 50 years the first-best may be feasible. Progress in the 'financial engineering' of financing annuities or more generally transferring funds into the future would certainly qualify in this respect.
b) Given that the problems of the past are frequently not relevant any more, focus should be on the problems of the future. Key among those would be the problems faced by the family in continuing to serve its informal social protection role. Unless the formal system took a more active role in old age income support, the danger of the reappearance of poverty in old age could reappear.
c) Given the perceived need to adhere to *general* principles and values, the case for reform can be strengthened by appealing to 'horizontal equity'.

[23] Börsch-Supan and Tinios, 2001, cite the example of the accumulated surpluses of the early years of operation of the pension, which could provide a source of finance for industry at a time when the financial system was mistrusted and would have been unable to cope. The pension funds were indirectly repaid by rapid contribution growth from the new industries in the '50s and '60s. It should not escape notice that this practice is widely condemned as the "robbery of pension reserves".

This line of argumentation has the advantage of being forward-looking, while not appearing to deny or to belittle the importance of institutions (such as the current pension system), which have been part of daily life for more than two generations. While giving the pension system credit for the past half-century, the point is made that the system needs to be prepared for the challenges of the *next* 50 years.

5. Stocks, flows and the need for a fresh start

From the point of view of the **Ministry of Finance** the pension problem consists chiefly of the excess of pension payments over dedicated system revenue[24]. This gives rise to annual payments to cover pension costs. The cost of these payments and their likely course over time is identified as the key public finance problem connected with the system. If the problem consists of a *flow* of payments, then it naturally has a time dimension. It makes eminent sense to talk of "solving the problem for x years". Indeed, given the kind of uncertainties Finance Ministers have to deal with on a daily basis, it would appear to them as hubris to "solve it" for more than 10-20 years. Indeed, the key claim made for the 1992 pension reform, was that it provided "a breathing space until 2010", which was thought at the time as remarkably long-sighted[25].

The implication of the flow view of pension reform, is that policy makers can choose how much of the problem they can 'bear' to solve; after the passage of that period of time, someone else can take care of looking after the problem. The flow view of reform logically implies a preference for 'Reform by Instalments' which we saw to be the one of the key facts characterising the situation in Greece.

The **individual**, on the other hand, would naturally see participation in social security as a long-term savings contract. While he/she works he/she will pay contributions, which would entitle him/her to a stream of payments calculated in a particular way. For the *individual* (and abstracting from uncertainty and knowledge of legal entitlements), the pension contract is essentially a *stock* concept – a sum of payments and entitlements, which can be expressed independently of time[26]. Participation in the pension contract is like buying a commodity (albeit on an instalment plan).

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[24] The precise meaning of dedicated system revenue, at a time when there exist a plethora of public payments to the pension system is not defined and is frequently an issue in the public discussion. As an example, civil servants pensions are paid out of the Ministry of Finance budget; employee contributions are collected but are added to general revenue and not subtracted from pension payments; no employer contributions are levied. In this case, the apparently simple question of "how much do civil service pensions cost public finances" may receive at least four different answers, all with claims to be true in one sense or other, based on the same data, from the same ministry.

[25] Less long-sighted was the fact that the assumptions (particularly on pension indexation) on which this claim was based were never made public.

[26] The same goes for gradualness in introducing measures (e.g. raising the retirement age by ½ a year every calendar year). Though they might be gradual for a *collection* of individuals, they are always sudden for a particular individual, who will be interested in the *integral* of the changes as it affects him/her – a *stock* concept.

This has three implications for pension reform:

- Most people understand the system as if it were funded. They invariably talk as if personal pension accounts existed, in terms of "my money"; the idea that their money does not physically exist is very hard to digest. Thus in popular discussion, the issues can very quickly acquire theological overtones.
- For the vast majority of the population, the right to a pension would constitute (possibly along with their owner-occupied house) the largest part of their wealth. It is significant that the valuation of that wealth is entirely dependent on decisions of the State, which could choose to devalue it by passing pension legislation. The implied trust that the State would keep its side of the bargain could be seen as part of the social contract on which the Welfare state was based. The shocked disbelief when the State appears to be reneging on its side of the bargain (e.g. after the announcement of the subsequently withdrawn 2001 reform proposals) could be put down to this factor[27].
- Examine the situation of a contributor aged 40 today, when told that a particular reform package "will solve the problem for the next 20 years" (after which, presumably, another round of reform will govern the following 20, and so on. (reform by instalments). The State is telling him that he will contribute with absolute certainty for the rest of his working life, (paying more and expecting less than his predecessors). When he will be just about to claim his entitlement, that entitlement will be renegotiated, in a way that cannot be divulged now, but (given the demographic prospects) will *certainly* be even worse that the current reform[28]. In other words he will *certainly* pay more in order to *probably* get less, though noone knows how *much* less. If an instalment plan salesman made such an offer, he will be shown the door (with a great degree of certainty).

The difference in viewpoint between the reform as a flow and reform as a stock is most evident in the treatment of new entrants to the labour market. If reform is seen as a *flow* process, their relevance is solely as contributors; given that they will exercise their rights outside the planning period, what their rights are would be irrelevant. In a more cynical version, not unknown in the past, they can be promised anything, given that the promises can be withdrawn later.

If the pension contract is integrated into a *stock*, new entrants are at the *heart* of the process. It is in *their* case that proposals will have *most* effect (as they will have the greatest effect on the stock); more importantly if incentives and affecting behaviour are seen as central parts of the reform, relatively young workers will be most crucial[29].

[27] The courts interpret the legal status of PAYG pensions in ways different to (private) funded pensions and allow changes (in some cases with a retrospective character) to safeguard viability. (Spraos report, 1997) IAS-19 differs with this view drastically.

[28] Why else would anyone stop at 20 years and not go on, if the remainder could be pleasant?

[29] The extremely prevalent problem of contribution evasion can be attributed to the lack of any link between contributions and entitlements for the vast majority of the population, and most definitely for new entrants.

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

6. Conclusion – The Open method of coordination

Unlike detective novels, the present paper is not in a position to say "what happens next", or even "who did it". The Greek Government withdrew its *specific* proposals in May 2001, but did *not* withdraw the matter from the political agenda. A new round of public debate was initiated by a new Minister in early March 2002. There *may be* reasons for optimism:

- The statements made during the early part of 2001 meant that the usual method of allowing the matter to be solved by the *next* Government (which is not due until 2004) probably involved *greater* 'political cost' than being able to claim that it had made good with its promise to 'solve the pension problem'.
- Some in the Trade Unions appreciate that the situation may be unlikely to be so favourable again, while the credibility their 'victory' in 2001 won on their behalf could provide some extra flexibility.
- The objective situation implies that there exists a window of opportunity during this decade. This is provided by the influx of immigrants, a continued effect of the 1992 legislation, and a relative lull in new pension application due to demographic factors.
- EMU entry and the dramatic fall in the cost of servicing debt creates a 'windfall' which in many other countries has been utilised to build a fund to guard against ageing. Such a fund can show the 'social conscience' of the Ministry of Finance, whilst keeping the extra cash away from financing current expenditure.

A further point that might subtly alter the situation is the application of the Open Method of Coordination (OMC) to pensions. Following decisions of the Gothenburg and Laeken European Councils, member states are expected to explain by September 2002 by means of structured "strategy reports" how they plan to address eleven commonly agreed objectives of pension systems[30]. The objectives fall into three broad groupings starting with "Pension adequacy", "Financial viability" and "Modernisation of the systems".

It is certain that the OMC will not, *by itself*, solve any major problems relating to pension reform. Nevertheless, if handled properly, OMC can play a useful role by adding a new voice, or interposing a new factor in the political economy of pensions. If, as was argued in this paper, the problems of Greece are not rooted in the special characteristics of Greek politics, then the

[30] The OMC proposal is the result of combining the work that led to EPC 2001 (coordinated projections) with extending the work of the Social Protection Committee on matters such as social exclusion.

addition of that voice, being at one remove from the day-to-day concerns and conflicts of domestic politics, will, one hopes, be sober and enlightening. This new voice could help:

- To add consistency between actions and stated objectives.
- To ensure that best practice and ideas tried elsewhere, in the EU and outside it, are not forgotten.
- To safeguard the interests of the "absent generation" by promoting quantification and sober weighing of alternatives.

However, the key contribution of OMC must be seen in the context of the "broad agenda" of response to the challenge that ageing populations poses. Pension reform is only the *first*, and some could argue relatively straightforward, step in a series of adjustments to all spheres of economic and social life.

Finally, to finish on a note of optimism:

> Mainstream political analysts blame, the delays and postponement of needed pension reform to public opinion and public perceptions; hence justifying the 'logic of political cost'. However, when the views of the public are probed in a more searching and theoretically-informed manner, by studies such as Boeri et al, 2001 opinions are shown in many respects to be far more mature and less short-sighted than it usually thought to be. The image of a backward-looking, self-interested electorate forcing well-meaning politicians to delay, may simply be due to politicians looking in the mirror…

APPENDIX – CHRONOLOGY OF THE REFORM BY INSTALMENTS

Five Phases of the Social Security Problem: 1978-2001		
Year	**Situation of Social Security**	**Political Initiative**
A: -1985 Maturing of the problem: Inability to serve a social welfare role		
1978	Reduction in real pensions as a result of inflation from 1973	Pensions linked to wages Extension of the geographic coverage of IKA
1980/1	Concern about pension adequacy and poverty in old age	Increase of minimum pension 50% →Short-term Borrowing from Banks
1983	Concern about supplementary cover, need for finance to pay increased minima→ Deficits	Compulsory supplementary pension cover for all employees in TEAM
B: 1985-1989 Realisation of the need for structural measures – Fruitless attempts		
1985	Stabilisation programme, Deficits in IKA, NAT	Exemption of pensions from income curbs. Stabilisation to be attained by structural measures.
1986	Ballooning of interest payment due from IKA to banks	IKA subsidy from State Budget to pay for interest obligations
1987	Continuation of deficits	Reform aborted Committee under Prof Kremalis leads nowhere.
1987/8		Additional pension in OGA (farmers)
C: 1990- 1993 «A pause for breath" – Public Finance retrenchment		
1989/90	Extreme cash flow problems. Generalised public finance problem	Angelopoulos Report (All Party)
September 1990	*A general response to public finance problem*	Law 1902 voted as a "first phase" of solution
1991	Reexamination of strategy - change of course	Law 1976 "corrects" L 1902 Fakiolas Committee IMF Report
Sept 1992	Continuation of pension deficits Maastrict treaty – general public finance problem	Law 2084 'Room to breathe until 2010" Contributions increase New entrants system
D: 1994- 2000 In search of a two-phase strategy		
1994-1996	Debt Relief of pension funds	Conserving system Absorbing of changes
1996	Concern about low- income pensioners, after large real losses	Means tested supplement introduced Announcement of intention to solve in two phases: Dialogue in two phases
1997	Attempt to meet EMU criteria Concern about long term pension prospects	New Farmers' pension system Two-phase dialogue on governance "Spraos Committee"
1998	Discussions about labour market flexibility, Unemployment, Migration	OECD Report on pension "Mini pension bill" (Law 2676)
2000	EMU entry "Sustainability of public finances" –	Announcement of overall solution Outsourcing of projections to international actuaries.
F. 2001- ??? . Reform at last??		
April 2001	Actuarial Study released	Gov't simultaneously publishes its proposals (distinct from Study)
May 2001	Massive demonstrations	Proposals withdrawn. persistence that solution must be found
October 2001	PASOK Party congress largely as reaction to pension debacle	New leadership in Ministry of Labour
March 2002	Publication of letter of general principles	New phase of dialogue starts in a consensual climate.
May 2002	Consensus proposals – emphasis on pension adequacy / new institutions	Law 3029/2002
Sept 2002	EU Open Method of Coordination	Pension Strategy Report

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