Pensions in Greece:
The Economics of the politics of “Reform by Instalments”

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Politics, Economics and political economy

Two observations:
- Economists near-unanimous for very long time
- Common Platform $\Rightarrow$ CONSOLIDATION OF PAYG
- Policy immobility—"Reform by Instalments"

Economists appear unable to set the pace. Policy agenda set by politicians.
- Key point: not due to particular situation, or of historical specificities, but outcomes of processes due to economics of pensions in general.

Pension reform as a process over time.
Latest instalment 2002.
A few key facts:

- Old age dependency doubles by 2050 (EPC)
  - EL now 28% 2050 53%
  - D now 25% 2050 51%
  - II now 26% 2050 61%

- Pension expenditures show greatest increases in EU
  - EL now 12% of GDP 2050 +12%
  - D now 12% of GDP 2050 +5%

- But... Public opinion unconvinced
  - Percent saying people in the future will have to retire later:
    - in 1992 EL 13.6% I: 33% EU (12) 35%
    - in 1999 EL 5,9% I: 40% EU (15) 40%
The pensioner population over 65 exceeds the measured population by 205 thousands. That number appears in yellow.
Yet, poverty risk is still concentrated among the old...

*and in the rural sector..
Electoral Maturation - 1

Median Voter's Age

Age of median voter (years)
Electoral Maturation -2

Increase in the electoral weight of pensioners in Greece

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<th>2002</th>
<th>2010</th>
<th>2020</th>
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<td>% of pensioners in the electorate</td>
<td>36.7%</td>
<td>39.5%</td>
<td>43.3%</td>
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<td>% greater electoral weight relative to 2000</td>
<td>+2.0%</td>
<td>+10%</td>
<td>+20.5%</td>
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2033 Year of absolute majority
Reform by Installments

WE HAVE THE NEW PENSION SYSTEM READY, BUT WE ARE IN NO HURRY

WE MUST MAKE SURE WE GET OUR PENSION WITH THE OLD SYSTEM
Political Economy: Four Stylised Facts(1)

1. Reform is postponed and comes by instalments.
   - Reforms refer to consolidating PAYG not funding.

2. The system is highly fragmented. Fragmentation seems to be increasing over time.
   - ‘Kaleidoscope effect’: no generalisation proffered without being immediately challenged by several counterexamples
Four Stylised Facts (2)

3. **Wide gulf between ‘technocrats’ and public opinion.**
   - Pension problems are a problem for society, but do not seem to concern anyone *in particular*.

4. **Narrow view of pensions, cut off from wider economic, social and political choices.**
   - The public discourse on pensions, takes place in the absence of politicians and deals only with the issues that cannot be avoided.
A. The “missing generation” and its advocate

- *three* generations, yet only *two* present.
  - What is a zero-sum game for *three*, is *positive-sum* for *two*.
  - The missing generation pays

- Three implications
  a. Expenditure grows over time
  b. Pension reform is negative-sum. Easier to pass on.
  c. PAYG similar to pyramid schemes – ‘Ponzi games’. 
An advocate for the missing generation?

- Visibility of the budget constraint
  - Importance of accounting for liabilities
- Turn pension debate to win-win
  - Communicate the cost of inaction
    - “Fiscal Apocalypse” and its problems
  - Try to locate *opportunities foregone* – arguments for wanting the reform actively.
    - Reform design – *Capital market* or *new social role*
    - Place pensions in bigger picture.
B. Fragmentation, the second best and the future

- persistence of ‘irrational’ arrangements?
  - Varying geometry functional in the 50s-ECONOMICS of the SECOND BEST
  - because social functions of pensions served by the family informally

- 3 forward-looking Arguments:
  - Now (50 years on) 1st best is feasible.
  - Focus on problems of the future (e.g. role of women)
  - Reform arguments through ‘horizontal equity’ and justice.
C. Stocks, flows and the need for a fresh start

- Ministry of Finance: “pension problem = excess of payments over revenue”
  - FLOW view of pension reform
    - Can decide how long to solve the problem for
- Individual: “pension problem = purchase of integral of payments and receipts”
  - STOCK view of pension reform
    - Gradualness for individual only matters re forewarning.
- Instalments seen as reneging contract -- TRUST?
A stalled reform? The role of trust

- Fragmentation locks each group in non-reform
  - Hold onto sectoral privileges or even increase them
- If positive-sum: redistribution of surplus can turn into assurance game
  - If assured that everyone abides by the rules, plus agree with the rules, it pays to cooperate
  - Therefore need trust
- Two equilibria
  - Low trust – Ossification, no change
  - High trust - Reform.
The no-reform scenario

- Fragmentation and asymmetry encourage ad hoc solutions—“Anything goes” / Clientelism
  - Short-termism precludes agenda stretching over time.
  - Policy emphasis on viability (and persistence of manifest inadequacy) undermines long term support.
  - Vicious circle re contribution evasion

- Reform by instalments involves repeated violation of social contract - erosion of trust

- Appeal to external actors (EU) to legitimise actions.
When is a reform *not* by instalments? (or make-believe?)

- Key is whether pensions are removed from agenda of either the State or of individuals.
- This happens when convincing answers can be provided to *two* questions:
  1. *(Individuals)* Do I need to make supplementary provision?
  2. *(The State)* Do the rules of the game need to change?
- I.e. Solve for x years is *not* a true reform. It is there are rules of how parameters change.
Pension Reform in Greece 2000-2003: About-face or change of tack?

- **2000**: “will solve the Gordian Knot of pension reform”
  - Actuarial study conducted 2000-2001
- “Giannitsis Proposals” – **March 2001**
  - “Fiscal apocalypse” - Emphasis on *viability*
- Proposals *withdrawn* – **May 2001**
- Party congress agrees on new guidelines- **October 2001** (New Leadership in Min of Labour)
  - New round of public debate - *Change of tack*
- Consensual solution – **Law 3029/2002**
  - Emphasis on adequacy/ modernisation
  - Law provides a “**road map**” to 2030
Pensions – Laeken Objectives

- ADEQUACY «Social»
- MODERNISATION «Governance - Reform »
- FLEXIBILITY
- VIABILITY «financial»
Strategy Report 2002: Rebuild trust

- Starting point that preexisting situation is
  - Ineffective, fragmented, unequal
  - Window of opportunity to 2010

To reverse the spiral, need:

- Emphasis on social effectiveness – Adequacy
  - “Better pensions”
- Answer to Credible and adequate finance – Viability
  - Shore up finances of main fund – non-pension initiatives
- Relevance to real social problems – Modernisation
  - New institutions – e.g. occupational pensions

- l.e change of tack from viability to adequacy
  - Adequate finance from ex-post reward to ex ante investment in trust.
Subterfuge or gamble?

- ‘Reform’ criticised for temerity and modesty
  - Partying on proceeds of EMU entry.
- Could be seen as **gamble** setting up a reform process:
  - Set up general rules of the game & counter centrifugal forces.
    - Replace “specific” with generalised trust
    - Role of IKA as centre of gravity
    - Provide guarantees in issues where no serious disagreements
    - New institutions allow progress in specific fields
      - Actuatial Authority, occupational pensions,
      - Implicit strategy of transforming auxiliary into occupational pensions.
The Jury is still out…

- Reform process depends on the very trust it is trying to create.
- **Will succeed if momentum maintained as part of broad-based initiative** –
- **Role of Convergence Charter** – pension reform as part of Lisbon strategy
- Further role for the Open Method of Coordination?