

## The Greek Pension Tragedy: A case of failure in Governance

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The Greek pension system is one of the least successful in the world. Without providing income security at old age, it, nevertheless, hastened bankruptcy in 2010; six years later, pensions are about to derail the third successive bailout.

The usual explanation splits the period in two: Failure up to 2010 was due to reform inactivity. Failure after 2010 is due to external factors, despite policy activism.

This paper takes a unified view, encompassing both the earlier 'talk without action', and the later 'action without talk'. Failure in both is due to the 'technology of governance', a political malfunction, rather than to technical issues. Failure can be seen to have taken place in three dimensions:

- In framing the discussions: Attention was fixed on the original problem of the 1960s, i.e. how to introduce a general social insurance system. It missed that the world had changed in the last sixty years. Thus, the objective of reform is grossly inadequate. As the new system aimed at by the reform was not reconsidered or revised, it remains too large, too rigid, too statist. Attempting to implement such a system would only make things worse.
- In the content of discussions: Even after the bailout, discussion provided a smokescreen to hide the real problems; it thus allowed a vicious circle of loss of trust to operate unchecked.
- In the process of discussions: The political system discourages both reform proposals and reform advocates.

In consequence, Greek pensions are locked in a race to the bottom. Only systemic change can rebuild trust. However, the political economy system of Greece is working to discourage it: it promotes an absence of reforms and of reformers.

## 1. The least successful pension system threatens to derail a third adjustment

The Greek pension system never achieved sustainability: It increases poverty and inequality, and gives little security at old age. (Börsch-Supan and Tinios 2001). Even so, it managed to bankrupt the country (Giannitsis 2016, Lyberaki and Tinios 2012). Pensions were the centrepiece of the two bailout programmes from 2010 to 2014; reforms were passed urgently, while pensioners saw their pensions cut on at least ten

basic requirements of income security feed a loss of trust which, in turn, poisons future prospects. Despite repeated efforts since 2010, the cure appears not to be working. A number of questions arise: Some refer to the long term: Why has the performance of the Greek pension system been so bad for so long? Why is it so hard to bring it under control? What is the role of pensions in the dynamics of the crisis since 2010?

The obvious class of explanations focuses on procrastination: Reforms were thwarted due to political costs; an inactivity partly responsible for the 2010 bankruptcy (see

### An inability to combat fragmentation 1958-2018

Reform proposals submitted in early 2016 are structured around implementing common rules across the pension systems. Consolidation is to operate in three dimensions: Across generations, across occupational categories (i.e. between wage employees and the rest) and in administrative structures. These proposals only repeat the key idea of a 1957 policy paper, designed to promote the equitable introduction of social insurance:

*"There is urgent need of a system ... free of the unacceptable position that its objective is to secure privileges of the few against the many, which will use the available means to meet needs".* (quoted in Tinios 2010).

That blueprint was to be implemented in 1958. However, the impending elections (in which the Left did unexpectedly well) postponed it. The same reform was also postponed in the following decades:

- In 1968 due to the dictatorship.
- In 1978 due to inflation.
- In 1988 the reform was leaked to the press and then abandoned.
- In 1998 the 'Spraos report' provoked hostile reactions.
- In 2008 a cosmetic law could not avert bankruptcy a year later.
- In 2018 is the prospective date of application of 2016 proposals.

Thus, if all goes well, the 1958 reform may be complete in 2018.

In the intervening decades fragmentation became worse: new providers were founded; new categories of privileges introduced; there was greater dispersion in minimum retirement ages; and more opportunities for subsidies. The pension system as a whole operated to increase inequality.

occasions. Despite returning as the focus of urgent action in 2015, pensions threaten, once again, to derail the third bailout in early 2016.

Pensions in Greece seem locked in a head-long race to the bottom. The failure to meet

box). They were undertaken, at long last, in 2010. Problems from that date on must either be due to the crisis, or to the fact that the reforms themselves need to be completed<sup>1</sup>. In any case, it is a technical problem to which a technical solution can be addressed.

1. Simeonidis 2015 provides a useful overview of changes since 2010. See also OECD 2016.

This paper is less complacent:

Persistent and widely-based problems such as those characterising pensions in Greece are evidence of a deeper issue. This goes beyond technicalities and is related to how Greek political economy formulates and repeatedly evades the pension problem. Reform attempts, both before and after the bailout, consistently missed an overriding point: they attempted to introduce a 'new' pension system which was, and still is, unsuited to the needs of Greece: too large, too generous, too statist, too inflexible. A costly, state-run pay-as-you-go (PAYG) pension system did not suit Greek conditions when it was first attempted in the 1950s. It is even less appropriate sixty years later. The attempt to implement such a system erodes trust and exacerbates financing problems. The fundamental insight which applies both before and after the crisis is that only a completely new system, operating with a different logic, stands a chance to rebuild trust and thus to stop the race to the bottom.

Unlike pensions systems elsewhere, which have undergone major changes since 1990, Greece, preoccupied in fruitlessly attempting to stick to its original blueprint, did not realise that the world had changed. Greek governance missed the insight of Giuseppe di Lampedusa's 'The Leopard': in a changing world, 'everything must change, so that everything can stay the same'. So, the cause of the pensions problem, and possibly much else besides, must be sought in a wider failure of governance: an inability or a refusal to see the problem, plan a solution, and then implement it.

This failure is due to shortcomings in 'the technology of governance' in Greek pensions<sup>2</sup>. This is broken down in three areas: First, in framing the discussion – which persists in missing the point of why reform is needed. Second, in the content of the discussions, which even after the bailout serve to hide shortcomings and to postpone decisions. These postponements faced with objective problems in pension finance condemn pensions to a downwards spiral. The pension system and the country could be extricated from that only by a fresh start. The final section looks at the process of discussions: it ponders the political preconditions needed to turn a new page.

## 2. Dimensions of pension failure: A technical or a political issue?

Pension discussions often involve technicalities. This can insulate pensions from other areas of political economy, on the grounds that technical issues are best dealt with in technical terms. However, if failure is broad based and persists over decades, a more fundamental cause must be sought. This is the case in Greek pensions, both before and after the bailout. Pensions can be identified as the cause of bottlenecks in a number of dimensions:

In the macro-economy pensions absorb a very large share of GDP. This, before the crisis, was of the order of 14 percent, which grew to 17.5 percent in 2013 (OECD 2016), even after repeated pension cuts. Pensions absorbed a high proportion of GDP even before ageing was a factor; given that the speed of ageing in Greece is expected to be second only to Germany, prospects are exceptionally grim. High pension expenditure with relatively favourable demograph-

2. This is close to the notion of 'reform capacity' of Featherstone and Papadimitriou 2008.

ics was due to an unequal distribution of pension rights. Pensions had been used to reward particular groups of the population through lower retirement ages (as low as 42 for some groups or 50 for mothers) or generous replacement rates (140 per cent for some civil servants). This inequality in entitlements was mirrored by inequality in contributions: some groups, mainly in the public sector, were subject to low contribution rates, others were entitled to subsidies by employers or to tied taxes paid by consumers. Easy access to minimum pensions promoted early retirement and was an open invitation to contribution evasion. By 2009, a third of total pension expenditure could not be covered by system revenue and had to be paid by direct government grants.

Pension grants were behind much of government borrowing, especially after Euro entry. Pensions can be held responsible for the bankruptcy in 2009. (Giannitsis 2016). After the bailout, and despite retrenchment, expenditure continued rising: There was a rush to early retirement, pensions fell less than earnings, and revenue collapsed. Reliance on the budget became more pervasive; pensions were behind fiscal overshooting in adjustment.

Tuning to social policy, despite expenditure large enough to bankrupt the country, the pension system operated to increase social inequality: the better off enjoyed higher replacement rates and lower retirement ages, while parts of the population, most notably women, did not receive any pension. Despite Greece spending close to the EU social protection average, more than half had to pay pensions. This meant that there was little money left for other social programmes; the Greek social safety net thus, of necessity, had to be provided by the family (Lyberaki and Tinios 2014). Prime Minister Alexis Tsipras implicitly accepted this paradoxical state of affairs when claiming in 2015 that

'we cannot cut pensions, as pensioners support their unemployed grandchildren'. This neglects that (a) grandchildren's work has to finance pensions and not vice versa and (b) it is better to provide unemployment protection directly to grandchildren. Thus, pensions were the root cause of macroeconomic and fiscal problems in Greece. The pension system also reinforced inequality and prevented the introduction of a social safety net and other social policies at a time when they would have been most needed. Pension reform would have promoted both economic efficiency and social justice; it would have served both macroeconomic and social policy, while it would also have tackled the looming issue of population ageing. Looking at the bigger picture, pension reform, both before and during the crisis, would have been or should have been, a win-win move. Instead, policy for forty or more years was bogged down and never came close to realising the potential for reform. The reasons for this failure are political and not technical. They are rooted in issues of governance, in the way that the Greek political system perceived and reacted to a problem that refused to go away.

### **3. Framing the discussion: what should pension reform be about?**

OECD countries over the last half-century have been engaged in three generations or phases of pension discussion, each examining the issue in a context where different concerns were paramount. Schema A tries to summarise:

The initial phase of pension discussion, in the middle of the last century, dealt with the establishment and spread of social protection. The urgent need of social policy post-war, combined with the rapid growth of the population, created conditions pro-

### A. Framing the issue How to miss the point



Greece is trapped in the first generation. It cannot advance

pitious for pay-as-you-go financing. The relative underdevelopment of the financial markets meant that the supply side also favoured large, state-run systems. From the 1980s onwards, pension systems shifted into their mature or intermediate phase: this focused on the challenge of ageing. In terms of institutional change, there was experimentation with new forms of pension delivery, such as non-state pension provision or defined contributions benefits. From 2000 on, a new problem enters pension discussions: The engine, this time, is competitiveness. Globalisation and developments in the nature of work challenge modes of production which had been dominant since the Industrial Revolution, and undermine the foundation of social protection financing. What is needed is system flexibility, the avoidance of open-ended long term commitments, as well as the need to respond to unfamiliar social risks.

The Greek pension system was – from the outset – overwhelmed by the original 1950s ‘question set’, that is how to combat fragmentation both in institutions and

in insurance arrangements (Tinios 2012b) to ensure common rules. This channelled discussion towards distribution between occupational groups and within generations. The existence of a wide dispersion in ages of retirement operated to cloud the larger issues of generational justice. Fixated on fragmentation, Greek society did not realise that the world had moved on. The out-of-date framing of the question affected the type of reform that was finally passed after the crisis erupted in 2010. This can be seen in two of that reform’s key characteristics: Firstly, it addressed sustainability only for the very long term and not for the medium term to 2025. It did this by instituting a new pension system that would have an impact only after the mid-2020s. This introduced a kind of dualism: While the situation affecting people under 40 changed drastically, those retiring up to 2020 faced pension parameters which were unchanged in law. In practice, however, there was no finance to pay for pensions which thus necessitated a series of, supposedly temporary, cuts in pensions for all pensioners.

Even in 2016, new pensions are issued using pre-2009 entitlements which are then subjected to ten or more consecutive cuts before the amount to be paid out is arrived at. The status of these cuts – temporary or permanent – is still unclear, leaving the nature of the system that pensioners face highly insecure.

Secondly, even the ‘new’ system introduced in 2010 was still a 1960s-style large, state-run, PAYG system. Total replacement rates for a full career are well over 90 per cent while the whole of pension provision remained exclusively the preserve of the State. Reforms in the OECD can be understood in trying to encourage synergies between public and private provision of pensions, to provide a wider-based response to the common ageing challenge. However, in the case of Greece, far from the public and private systems complementing each other, non-state providers can grow only by directly challenging the credibility of the public pension promise.

Recapitulating, the Greek pension system – both before and after the crisis – was trapped in a problem corresponding to previous decades. As long as attention was directed to that, many of the issues that came up during the crisis could not begin to be understood. The next section sees whether the way pension issues were perceived during the crisis could reorient the discussion and possibly correct the problems.

#### **4. The content of discussion: wrong solutions to the wrong problem**

Pensions were one area where there was considerable policy activism during the cri-

sis. If the problem before the crisis was procrastination and inactivity, 2010 appears as a kind of watershed when things were finally dealt with. The flurry of legislation has been thought by some as a regime shift, a sharp break. Indeed, what before the crisis was talk without action was replaced by action without talk; public debate was replaced by a simple appeal to necessity as that was defined by the Troika<sup>3</sup>. Was this shift towards activism sufficient to correct the problems spotted in the previous section?

Greek society after the 2010 reform was to deal with the crisis through a dual pension system (Tinios 2016): On the one hand, a reformed, less generous system for younger participants. On the other, pensioners and those to retire in the current decade essentially faced the pre-crisis system. As the real economy went into freefall, this state of affairs encouraged early retirement. Pension expenditure rose just as contribution revenue fell. Inability to finance the shortfall by borrowing meant that finances were found from cuts in pensions-in-payment. These were cut on more than ten occasions between 2010 and 2014, accompanied by other pension-related changes.

Pension discussions after 2010 had to square the overwhelming contradiction of the pronouncements that sustainability had been secured with repeated pension cuts. In the period from 2010 onwards, pension discussions were characterized by four features which in combination had the effect of clouding the real issues and locking policy into a destructive course. Schema B attempts to summarise how the pension issue was approached since 2010 and the way that created path dependence. As be-

3. “There is no Alternative” – TINA policies. The Supreme Court in 2015 deemed that pension cuts were unconstitutional, as after 2013 (but not before) they had been insufficiently justified and explained.

## B. The content of discussion, post 2010

### How to kick the can down the (same) road



The system is no longer trusted to yield income security at old age. Need for a fresh start.

fore, though in a slightly different way, the can was kicked down the (same) road.

- A.** The overwhelming feature was blame avoidance: The Greek authorities absolved themselves of responsibility for cuts by pinning initiatives on the Troika and ascribing all negative developments on the crisis. The pension system and its guardians were, by implication, blameless. The impact of long-standing structural issues, even of ageing, was airbrushed out.
- B.** Uncomfortable questions were dodged by misinformation: The publication of data and statistical series was discontinued. Withholding of data made the eventual assumption of responsibility politically more damaging; when data was made public, incumbents would need to explain deteriorations from the time of the previous publication. Mud-slinging between parties replaced sober discussion of societal challenges.
- C.** Even so, it was easier still not to discuss pensions at all: avoidance of discussion. Between bouts of reform, pensions dis-

appeared from discussions altogether. Subsequent reform episodes would start from the beginning, as if previous instalments had not existed. Thus governments persisted with their original strategy, even after external conditions had changed.

- D.** The previous three mechanisms encouraged the fourth: misrepresentation – whose function was to bend discussion to fit what was in the mind of the authorities rather than on real issues. Public pension perceptions wallowed in a web of misperceptions, misstatements and misunderstandings (Tinios 2016). Examples are: The frequent claim that “pensions had been cut by 40 percent”. In truth, cuts of that magnitude affected less than 4 percent of pensions, while most pensions were cut by less than half of earnings (misperception). “Pensioner poverty has increased dramatically”. In truth, this had fallen by more than a third (misstatement). “Pensions of the ‘new system’ were low”, when replacement rates for full careers were still the highest in the EU. Citing the write-down of assets in 2012 (as

part of the PSI) confuses Pay-As-You-Go with prefunded systems, and mixes up stocks and flows (misunderstandings)<sup>4</sup>. Misperceptions had the cumulative effect of focusing attention on the wrong targets and fomented ignorance of the real issues. The end result was to exacerbate path dependence – just another word for in-built conservatism and aversion to systemic change.

The attempts to control the content of discussions postponed facing the real issues, in a similar way to the fear of political cost. They locked pension policy in offering the wrong solutions to the wrong problems. Passing the can down the road was hardly new. There was, however, a key difference which was not grasped: Developments in the economic and social environment had accelerated and were, by 2015, dramatically different. Assurances of pension system viability were followed within weeks by a new set of cuts. Repetition of this process progressively undermined the credibility of the pension promise. Contributing to social insurance became no more than an onerous tax on labour, divorced from any expectation of gain later on. Thus, the difficulties in revenue collection were not merely due to the crisis, but betrayed a deep suspicion on the part of the public: The pension system was no longer trusted to play its key role – to guarantee income security at old age. Hiding behind the smokescreen provided by the new-style blame avoidance, a vicious circle remained in continuous operation. The de-legitimation of public pensions proceeded unchecked. Halting this race to the bottom needed to win back trust from the insured population. As time went on, this could only be done by turning a new page: real systemic reform. Such a reform, however, was

prevented from happening. The final section asks why.

## 5. The process of reform: How to avoid a fresh start

A complete change of system is always a leap into the unknown. This is certainly so for providers, but even more so for the insured population. They need to tear up the familiar contract to replace it with something unknown and, indeed, unknowable. Winning the trust of the population for this leap into the unknown is the real task of reform. To turn a new page, it is not enough simply to point out to the problems of the existing system, or to produce a shining new technocratic blueprint. Technocratic insights must be communicated so that people understand both why the existing situation is problematic and how proposals are superior. In the case of pensions, discussion has to go through an equivalent process: Studies or actuarial reviews point out problems; public debate translates them so that every person understands what the problems mean for their own particular circumstances. Tinkering within the parameters of the familiar, existing system needs to be shown as insufficient, before the big step of a totally new system is finally implemented.

Some pension reforms in other countries were presented as radical departures, breaking with established practices – e.g. Sweden, Italy, Poland, Latin America. Others, such as Germany, chose to present similar changes with a stress on continuity. Tompson 2009 gives examples, successful and unsuccessful, of both approaches. The take-home lessons of international practice are (a) reforms need to be communicated

4. Tinios 2016 provides a more complete list, including the drop of GDP, the effect of the PSI, etc. See also Panageas and Tinios 2016.

and (b) reform is never possible without politicians who take on the risk of breaking with the past.

The problem in Greece is that the political process that should lead to reform is blocked – both before and after the bailout:

- Technocratic exercises on pensions are heavily discouraged. No independent research body on ageing exists, while research on pensions receives little encouragement. Reform proposals are seldom discussed, while indiscriminate labelling of reformist views as ‘neoliberal’ ensures they don’t get a hearing.

- Unorthodox opinions are subject to heavy bullying by the media: The messenger is blamed for the message, often subjected to personal attacks and invective. This applies both to technocrats and to politicians who both risk to find themselves in the political wilderness<sup>5</sup>.

Thus, despite a crying need for a re-founding of the system, systemic change has not taken root. There was an absence of both reforms – in the sense of fully explained package – but also of reformers – in the sense of politicians prepared to risk their reputations advocating reform.

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5. A notorious such case was that of the 1997 ‘Spraos Report’. See Featherstone et al 2001.

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