

Greek pension reform and the change ‘from within’

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Abstract

The Greek welfare state has been described as a ‘laggard’ in terms of social protection within the European Union, and has historically developed into a fragmented and inherently unequal system of welfare provision. These characteristics are also reflected in pension provision in Greece, which is the policy domain this paper is concerned with, and have resulted in more and less protected sectors of society and the labour force. In this paper I argue that the effect of the European Union on pension reform in Greece has been minimal, although by some accounts the effect of the European Union has been felt more in other domains of Greek social policy. In this paper I firstly look at the characteristics that distinguish the Greek welfare state, and the pension system in particular. I then describe the common challenges that most European welfare states have been presented with at the peak of the debate on pension reform and the expansion of the discourse of ‘multi-pillar provision’. I argue that the inherent paradoxes of the Greek pension system and socio-political context more generally have perpetuated the ‘institutional sclerosis’ of the system, which in turn has constrained the drive for reform. In order to illustrate this sclerosis, the third section briefly describes three attempts at pension reform from 1990 until today. By the third attempt [in 2002], the European guidelines on pension provision had already been outlined via the Open Method of Coordination, largely informed by the ‘multi-pillar model’ discourse that has dominated the debate since the early 1990s. These European guidelines, as well as the Greek National Strategy on how to achieve them, are discussed in the fourth section. In conclusion, I argue that the best hope for a radical reform of the Greek pension system lies *within* the Greek welfare state, society and polity.

Paper prepared for the 2nd LSE PhD Symposium on ‘Modern Greece: Current Social Research on Greece’, 10th June 2005. This paper is work in progress, and I am very thankful to Jane Lewis, Panos Tsakloglou, Theodore Papadopoulos, and the participants at the 2005 ESPAnet Young Researchers’ Workshop at the University of Bath, for their comments on earlier versions.

Introduction

'The problem of pensions in Greece is not a technical problem. For the system to become, as before, a basis for solutions and not a source of problems, we must restore the trust of Greek citizens in the system and its prospects. What is required is that the pension system should acquire a new authority and credibility'

Introduction of the Greek Report on Pension Strategy (2002) to the European Commission¹

The 'problem of pensions' in Greece can be described in at least two ways. The first way is by pointing to the issue of medium- and long-term economic sustainability due to the high projected expenditure on pensions. This problem is essentially a problem of lack of funds, and is the result of a history of continued mismanagement of the insurance funds². The remedy to this problem lies in the sharing of the cost between current and future generations of pensioners by adjusting conditionality and contributory regulations. The second problematic dimension of Greek pensions is the extent of its inherent inequalities: not only do pensions use up most of the social budget in Greece, in addition they are overwhelmingly biased in favour of older men with long and continuous working lives in specific 'protected' occupations such as civil servants. This problem is harder to remedy: it requires the unification of regulations for workers of all sectors, and this move will almost certainly mean the loss of privileges for some social groups. In addition, and as with all pension systems that operate predominantly on a Pay-As-You-Go basis³, the Greek pension system faces a huge financial cost in order to move to a system with more funded elements. But what makes the Greek case unique is the past political inertia that has made the system path-dependent and unable to overcome this 'gridlock' (Featherstone, 2003). If we distinguish between 'parametric' and 'paradigmatic' reform⁴ Greece has made a series of parametric reforms during the 1990s, with the pension proposal in 2002 –later aborted- coming the closest to a paradigmatic kind of reform. In this context, what is the role of the European Union? By some accounts, a small 'cognitive change' in the form of policy tools has filtered through in policy areas such as vocational training, employment and to a lesser extent, social assistance. Such reforms represent a positive development for the relevant sectors, but do they provide any lessons

¹ [Greek] Ministry of Economy and Finance, Ministry of Labour and Social Security, 2002

² Although this problem accounts for most of the accumulated deficit in insurance funds and often surfaces in policy debates within the Greek context, the relevant empirical evidence is scarce. What began during the 1960s and continued through the 1970s and 1980s was the management of the funds' assets by actors other than the funds themselves –mainly the government via the Bank of Greece-. Insurance funds were legally obliged to deposit their assets to the Bank, at extremely low interest rates, and when they ran into financial trouble, they were then obliged to borrow from the same Bank at extremely high rates. This was a scandal the degree of which is rarely mentioned in debates on Greek pension reform.

³ In Pay-As-You-Go systems the current generation of workers pays for the pensions of the current generation of pensioners. Because of the nature of this 'contract' it follows that younger generations of workers 'lose out' as the population ages, because fewer workers are obliged to pay for the pensions of more pensioners –this relationship of 'dependence' is expressed by the so-called 'dependency ratio' which represents workers/pensioners.

⁴ For the purposes of this paper, I use Holzmann, MacKellar and Rutkowski's (2003: 8) definition of 'parametric' and 'paradigmatic' pension reform. A parametric reform is an attempt to rationalise the pension system by seeking more revenues and reducing expenditures while expanding voluntary private pension provisions. It represents a more piecemeal approach to pension reform. A paradigmatic reform is a deep change in the fundamentals of pension provision typically caused by the introduction of a mandatory funded pension pillar, along with a seriously reformed PAYG pillar and the expansion of opportunities for voluntary retirement saving.

for the issue of pension reform? The question this paper is concerned with is whether the European guidelines on pension reform represent an opportunity for radical pension reform in Greece, given the peculiar rigidity of the Greek welfare state.

The Greek welfare state

The welfare regime literature has located the Greek welfare state in the ‘Southern European/Latin/Mediterranean’ rim (Leibfried, 1993: 139; Ferrera, 1996), although some writers place Greece in the ‘corporatist-conservative’ welfare regime (Esping-Andersen, 1990), only with a much smaller spending capacity (Katrougalos, 1996; Davaki, 2003)⁵. The governance of the Greek welfare state reflects a legacy of heavy politicisation and centralisation, coupled with a weak administrative infrastructure and a set of poorly developed social services (Venieris, 2003: 133; Featherstone, Kazamias and Papadimitriou, 2001: 462). The fragmentation of the labour market into protected and unprotected sectors is reflected in the fragmentation of social protection, and in turn creates vast inequalities between different occupational groups (Venieris, 1997: 268; Petmesidou, 2001; O’ Donnell and Tinios, 2003: 264-8; Sotiropoulos, 2004: 269). Civil servants, workers in finance and insurance industries, and workers in nationalised industries belong to the ‘insiders’ of the welfare system, and enjoy a privileged position within the social insurance system. The long-term unemployed, those who have never worked, and those in need of a minimum income assistance fall through the social safety net. As a result of the fragmentation of the system, the relatively high level of social spending in Greece has paradoxically not translated into effective social transfers (Guillen and Matsaganis, 2000: 122), and the inequalities based on occupational status and political affiliation are further exacerbated.

Because of this system fragmentation, according to Petmesidou (1996a: 110) the Greek welfare state has allowed the reproduction of ‘...a welfare philosophy based on individual, particularistic needs rather than on universal well-being...’, which is also reflected in the largely contributory mode of financing, rather than tax financing. There, in turn, lies part of the blame for the under-development of social services more generally and a focus on particularistic cash benefits (Guillen and Matsaganis, 2000: 122). This philosophy has since been allowed to exist largely due to the traditional family values that feature in Greek society. In the absence of strong universal values of traditions of social participation and an organised system of welfare provision, this ‘rudimentary’ welfare state (Leibfried, 1993: 139), or “state” (Venieris, 2003: 134) has relied on family and kin for informal protection. The Greek family has

⁵ Theodore Papadopoulos argues, and I agree, that the Greek welfare state is significantly ‘under-theorised’ with the result of a misfit of Greece within the otherwise influential typology developed by Esping-Andersen in 1990. Indeed, the ‘Latin/Mediterranean’ regime was subsequently attached to this typology by other writers. The characterisation of the Greek welfare state, which cannot be part of this short paper, requires a much more detailed analysis of Greek political economy through modern history.

traditionally been a 'social shock absorber', especially in areas like childcare, unemployment assistance, care for the elderly, housing and social assistance (Matsaganis et al, 2003: 642). The immediate cost of this high degree of 'familialism' (Petmesidou, 1996b: 329) is the continuous strength of the 'male breadwinner model' in this country, and one of the lowest female labour force participation rates in the European Union, well below the target set in Lisbon. In 2001, 48.8% of all Greek women were in paid work, compared to the European average of 60.1% (OECD Employment Outlook, 2002). The gap with the European average was consistent across all age groups: about 34% of 15-24 year-old women were working in Greece in 2001, compared with 43% across Europe, 61% of 25-54 year-old Greek women compared to almost 72% across Europe, and about 24% of 55-64 year-old Greek women, compared to almost 32% across Europe (OECD Employment Outlook, 2002).

The origins of this unique 'welfare culture' are to be found in the historical development of the Greek welfare state. The birth of the Greek welfare state took place at an unconventional point in time for European welfare state development, in 1974, when the rule of a seven-year dictatorship was terminated. At the time when most other European welfare states were undergoing a period of expansion, both in terms of the amount and the scope of welfare provision, Greece was still under-developed in welfare terms. From the period of under-development, therefore, Greece went straight into a period of crisis in the 1980s (Rombolis and Hletsos, 1999: 402). Despite the fast increase in social expenditure during the 1980s and especially the second half of this decade⁶, the balance of the social budget did not come about (Stathopoulos, 1996: 144-7; Petmesidou, 2000: 303), and the Greek welfare system did not develop in an organisationally cohesive manner with a long-term orientation. At the same time, it was access to political power –in return for electoral support-, rather than need that dictated the distribution of social provision (Petmesidou, 1991: 32-5), and this laid the foundations for the future governance of the Greek welfare state.

With respect to pension provision in particular, the fragmentation of the Greek system is one side of the story, complemented by a behavioural problem in the form of abuse of the system. On one hand, fragmentation is clearly reflected in the pension system, and it creates inequalities between different social groups (Featherstone, 2003: 3). Along with these divisions between more/less privileged groups come disincentives/incentives to maintain/change the status quo and prevent/promote radical reform. The numerous attempts for radical reform in the past –some of which will be mentioned later in this paper- prove this point. On the other hand, the pension system as it is,

⁶ The average share of the GDP for public expenditure on social protection was 12.7% under the dictatorship regime in the early 1970s, rising to 13.5% [under the Conservative government] in the late 1970s and early 1980s, to 19.8% [under the Left-of-Centre government] in the late 1980s, and dropping slightly to 18.8% [under the Conservative government] in the early 1990s, and remaining around 19.8% in the late 1990s and into the 21st century [under the Left-of-Centre government] (Sotiropoulos, 2004: 268, Table 1).

offers opportunities for the abuse of the system. Two examples convey this point. The first example is the wide range of contributory conditions across different funds, but also the opportunities to abuse them due to lax regulations. Contribution evasion is a huge problem in Greece, especially in insurance funds where contribution rules are less stringent. For instance, a worker may be insured in a lower-income tier than the one they are supposed to be in, or a worker may not be insured at all (contribution evasion), or it may even be that an employer is receiving contributions from an employee but not paying them into an insurance fund (contribution theft). The problem of a lack of correspondence between revenue and expenditure is therefore exacerbated on a large scale. The second example is the abuse of invalidity pensions (Petmesidou, 2000: 307) –which account for approximately one-quarter of all pensions- due to lax eligibility rules (National Statistical Service of Greece, 2000). This is due to the categorisation of a large proportion of occupations in Greece as ‘unhealthy’.

Pressure for reform: the usual and the unusual suspects

It is fair to say that the ‘usual suspects’ contributing to the pension problem on a global scale - changing demographic and employment structures- have exposed the strength of the more ‘unusual suspects’ in the Greek context. This means that factors that are drivers for reform in other countries have exacerbated the demand for reform in the Greek case, but that the real problem to be solved in Greece is one of a clearly domestic nature. Global trends of an ageing population and changing employment structures result in fewer workers paying for the pensions of more retirees, while changing family structures have long-term effects for family support, income adequacy and long-term care in old-age (Sakellariopoulos, 1999: 43-51). The pension reform discourse that has dominated policy agendas around the world since the pro-active involvement of the World Bank and the IMF since the early 1990s, has repeatedly pointed to the multi-pillar model of pension provision as the panacea for every context (World Bank, 1994; Holzmann et al, 2003), including the Greek context (IMF, 2002: 14-16). Both these global demographic and structural changes, and the multi-pillar rhetoric have had an impact on the Greek context of welfare provision. It is true that the fertility rate in Greece is very low -it was 1.7 in 1985 and 1.3 in 2000, compared with the OECD average of 1.9 and 1.7 respectively (OECD, 2002). It should be noted that, despite the low fertility rate, the role of the Greek family as a support network is still very important. In this respect, family changes in Greece assume a very different nature and pace compared to Greece’s Northern European partners. It is also true that female labour market participation has been increasing since the 1980s, but is still at a much lower level than other European –even other Southern European- countries. However, although these trends have indicated the seriousness of the pensions situation, and share common elements with the challenges faced by other countries, it is internal factors that have been exposed in the drive for Greek pension reform.

Three such factors should be noted. The first factor refers to the structure of the social budget as a whole, where pensions have consistently taken more than half of the share⁷ (Provopoulos and Tinios, 1993: 326). Because of the fragmentation of the system, or the distinction in the system between ‘insiders’ and ‘outsiders’ as Venieris argues (2003: 134), the large part of the budget dedicated to pensions actually reinforces inequalities between different social groups. The second structural problem of the Greek system calling for reform is the structure of the Greek labour market. Despite the decrease in percentage of workers in agriculture, the increasing participation of women in paid work and increasing immigration, the Greek labour market has maintained a rigid structure. Part-time work, which has been dubbed a ‘miracle’ in other European models is still very low [5% of total employment], while unemployment was at 9% in 2003. At the same time, overall employment is low (just over 55% in 2003), while self-employment is very high (32% of total employment, compared with the EU average of 15%). Finally, the phenomenon of an informal economy is a considerable element of the Greek labour market (Sotiropoulos, 2004: 275). These characteristics place Greece in a difficult position vis-à-vis the quantitative goals set by the European Union in terms of employment and labour markets more generally. The third internal and probably most serious obstacle for reform is actually the fact that radical reform has not taken place for more than two decades. In other words, the very high resistance of Greece to pension reform has created accumulated costs –financial and political-, which on one hand are impossible to sustain but on the other hand no working generation (current or future) and no government is willing to pay⁸. The fact that the Greek system is of a predominantly Pay-As-You-Go nature makes it even more problematic to change, as it essentially threatens the ‘contract’ between current and future [shrinking] generations of workers (see Myles and Pierson, 2000).

The Greek political system, which exhibits a high degree of path-dependence, is responsible for a large part of this resistance of Greece to change in the pension system and welfare provision more generally. The Greek system is a rigid two-party political system (Conservatives and Left-of-Centre), in which both parties recognise the need for pension reform, but electoral calculations create few opportunities for a consensus. In this system, specific social groups representing distinct social class interests have maintained political ties with the government in power, in order to maintain their privileged position in ‘protected’ insurance funds (Sotiropoulos, 2004: 280). Over the course of time, this has created long-term commitments, which as Sotiropoulos (2004: 270) argues, have ‘locked-in’ policy-makers in the issue of pension policy. In this context, the only reform possible is ‘reform by instalments’ (Tinios, 2003). Another factor that acts as an obstacle is the negativity associated with

⁷ National Statistical Service of Greece (2000) ‘Expenditures of the social insurance organisations, by special categories of expenditures: 1990-1998’ (www.statistics.gr)

⁸ Tinios describes this problem as the ‘missing generation’ problem. The current generation of workers and the current generation of retirees have not resolved the issue of pension reform, leaving it to the future generation of workers to deal with (2003: 7).

pension reform, and the incapacity of the state to convey the advantages of reform, and the cost of inaction. Tinios (2003: 6) describes this as ‘...the wide gulf of understanding between ‘experts’ or ‘technocrats’ on the one hand and of public opinion on the other’. As a result of these characteristics, the Greek experience of pension reform has been described as ‘parametric’ by European and indeed global standards. Depending on one’s viewpoint, three examples of successful parametric reform, or unsuccessful paradigmatic reform from the 1990s until today illustrate this point.

Three examples of successful parametric reform (or unsuccessful paradigmatic reform)

The Conservative government (‘New Democracy’) elected in 1990 aimed at passing pension reform in two stages: the first was to correct a collection of minor fiscal imbalances in the system, such as making adjustments to reduce the public deficit, and the second was to proceed with more major structural changes, such as the merging of insurance funds, which would direct the system towards greater transparency, uniformity and equality. Three laws were passed between 1990 and 1993⁹, targeting the mounting deficit of specific funds and the public deficit, but the effective rationalisation of the system was postponed amidst strong union pressures. Financial liberalisation and a more general problem in the public finances were key characteristics of this period. The increase of pensionable age for civil servants, the rise in contributions, the cut of benefits for new entrants in the system, and the tightening of the eligibility criteria for invalidity benefits were important changes, but not adequate to reduce the degree of fragmentation and inequality in the system (Petmesidou, 2000: 309). After these minor adjustments, the largest union of workers (GSEE) emphasised the need for a unified pension system, indexing pensions to wages, and tripartite funding of social security (employer-employee-state). The multi-pillar model had already surfaced: (i) a universal scheme granting a guaranteed minimum pension and funded by general taxation, (ii) a compulsory supplementary pension scheme, funded on the basis of contributions, and (iii) a voluntary supplementary pension system based on private insurance (Provopoulos and Tinios, 1993: 339). This change, however, was too high a political risk for the government to take.

Policy history was repeated a few years later, when a similar attempt in two phases took place under the new Left-of-Centre government (PASOK or ‘Panhellenic Socialist Movement’), which came into office in 1993. Pressure for convergence with the Maastricht criteria brought the public finances in the spotlight, especially with regard to the pension system¹⁰. The government appointed an expert committee (‘Spraos Committee’) to make recommendations for reform, however when the report of

⁹ Laws 1902/90, 1976/91 and 2084/92

¹⁰ Petmesidou (2000: 324) argues that it was actually this one-dimensional focus on fiscal discipline stipulated by the Maastricht criteria that produced the pressure for pension reform, rather than a wide consensus from social partners, driven by a strong culture of civil society in Greece. This reform was a good example of the limits of external empowerment.

the committee was published in October 1997, and amidst public outrage and union pressure, the government distanced itself from its findings. This initiated a process of ‘social dialogue’, which resulted in laws on contribution evasion and the merging of certain insurance funds¹¹. The ‘mini-pension reform’, as it was characterised, had been passed, but the second wave of more radical reform was once again postponed (Petmesidou, 2000: 312).

The third and most recent incident of pension reform in 2002 is arguably the closest Greece has come to a paradigmatic reform of its pension system. This is evident from the gap between the initial proposals for reform and the final bill introduced in 2002. The initial proposal put forward in 2001 by the then Minister of Labour and Social Insurance Tasos Yiannitsis promised a ‘radically different’ three-pillar system¹². It provided for a low pension for all, a second pillar funded exclusively by employees and employers, and a third mandatory pillar. The retirement age was to be raised to 65 for all, gradually increasing from 2007, the replacement rate was to be reduced to 60% of reference earnings –calculated from the best 10 of the last 15 years of service-, and the minimum pension was to be raised but become means-tested. Most importantly, the number of years required for a seniority pension was to be increased from 35 to 40. Finally, the simplification of the system would start with the creation of eight main funds. This proposal guaranteed the survival of the system for an additional 25 years. On the part of the Left-of-Centre government pension reform was an issue it had promised to tackle, but with an overarching goal of not causing confrontation with the parties involved. Amidst reaction from the unions, the political opposition and the public, the proposal was withdrawn and Tasos Yiannitsis was replaced by Dimitris Reppas. With the new law (Law 3029/02) the retirement age remained at 65 for both men and women who entered the system after 1993, the replacement rate was set at 70% of reference earnings, the minimum pension was fixed at 70% of the minimum wage, while the merging of funds with the largest insurance fund (IKA) was to take place on a ‘voluntary’ basis.

The law’s provisions bared little resemblance to Yiannitsis’ proposals a year before. They were also significantly ‘watered-down’ changes compared to the recommendations of the British Government Actuaries Department (BGAD)¹³, who had been commissioned by the government through the Centre of Programming and Economic Research (KEPE) to make recommendations for the reform of the system. This legislation would be remembered as the most significant missed opportunity for change, as well as for the lack of wider consensus in producing it. Nevertheless it succeeded in taking the pensions off the political agenda temporarily, and especially as Greece’s entrance into the EMU had not proven dependent on the resolution of the Greek pensions problem

¹¹ Laws 2676/99, 2703/99 and 2688/99 aimed at merging some of the funds, while Laws 2559/97, 2519/97 and 2639/98 targeted the huge problem of contribution evasion.

¹² Ministry of Labour and Social Insurance (2001a)

¹³ Ministry of Labour and Social Insurance (2001b)

(Matsaganis, 2002: 118). It would also be remembered, in contrast to the previous legislative introductions, as the Greek ‘contribution’ or ‘response’ to the European Open Method of Coordination in pension reform that had begun to surface.

The European guidelines on pension provision

The Open Method of Coordination in the field of pension provision is the result of decisions taken during the European Councils in Lisbon, Feira, Göteborg, Laeken and Stockholm, with regard to the quality and sustainability of pension provision (SPC, 2000; EPC, 2001; CEU, 2001). The Pensions OMC has centred around three broad aims (CEC, 2001). The first one is ‘financial viability’, covering the sustainability of pensions, sound public finances, specified employment levels, the extension of working lives, inter-generational balance in terms of pension provision and the sound development of private pension provision. The second goal is ‘pension adequacy’, referring to the prevention of poverty in old age, inter-generational solidarity and the maintenance of living standards in old-age. Finally, pension ‘modernisation’ aims at the adjustment of European pension systems to changing employment patterns, promoting gender equality and system transparency, as well as promoting consensus in the debate on pension reform.

In the field of pension reform the jury is still out on the strength of the OMC, but the evidence to date appears to portray this method as little more than a promise. Natali and de la Porte’s (2004a, 2004b) analysis of the effect of the Pensions OMC in the French and Dutch pension systems, for instance, highlights the importance of national contexts on a normative, cognitive as well as procedural level. They conclude that ‘...the pensions OMC could...only support Member States in their reform efforts if the [National Strategy] reports...change from report on past activities to forward-looking policy documents’ (2004b: 17). This point was certainly evident in the Greek report on the national strategy for the attainment of the goals set by the Pensions OMC¹⁴. The legislation introduced in 2002 –a transformation of a much bolder initial proposal- was presented as a multiple contribution to all three OMC aims of financial viability, pension adequacy and pensions modernization. Yet by most accounts, this legislation was an addition to the list of small, incremental reforms -or aborted radical reform in the name of electoral survival. The burden of effective pension reform has been shifting from one government to the next. For instance, the report referred explicitly to a ‘window of opportunity’ until 2015, by which time a ‘coherent strategy’ on pensions would be put in place. This alone was a declaration of postponement by the government in power. The European Council and the Economic Policy Committee had long known the extent of the Greek pension problem (EC/ECP, 2002), yet the process of monetary integration (EMU) that had started in the 1990s proved a missed

¹⁴ [Greek] Ministry of Economy and Finance, Ministry of Labour and Social Security (2002)

opportunity for the Greek reform –in contrast to the Italian case for example (see Reynand and Hege, 1996). The European Council’s response a year later was measured: it recognised the 2002 reform as ‘laying the groundwork for further reform efforts’, but also warned that ‘there is substantial scope for improvement...by gradually developing second-pillar schemes, ...stabilizing expenditure growth, ... curbing contribution evasion, ...and raising employment rates as required by the Lisbon and Stockholm quantitative targets’ (CEU, 2003: 128).

Although the most recent pension reform did not have the scope and nature required for the Greek case, a number of European policy tools have, according to some accounts, infiltrated the formulation and monitoring of social policy in Greece. These include neo-corporatist structures of consultation among social partners, expert committees, the establishment of new institutions [and their importance at least on a cognitive level], and the adoption of National Action Plans (Sotiropoulos, 2004: 273-5). All of these tools have emerged in Greek social policy, however the European theory on pension provision has not really fed into practice on the Greek level. In other social policy areas the piecemeal approach to reform, largely due to the European pressures, has produced better results. Within the labour market, for instance, specific measures were adopted through the 2003 National Action Plan for Employment in order to encourage more part-time work, to promote gender equality in the labour market and to expand child-support infrastructure. As far as social assistance is concerned, two new social-assistance benefits were introduced by the Left-of-Centre government in 2000-1, but have been less successful due to low take-up rates (Matsaganis et al, 2003: 644). The first was a social security rebate for minimum-wage earners, and the second was an unemployment benefit for older, long-term unemployed on low incomes. In both these areas, the Greek response to European warnings has been more genuine compared to pension reform. The ‘external empowerment’ (Featherstone et al, 2001) of the European Union has been ‘felt’ more in areas such as employment and social assistance, compared to the area of pension reform, which has rather felt the ‘limits’ of this empowerment. This is not surprising given the peculiarities of the Greek context. The parametric nature of pension reforms since the birth of the Greek welfare state reflects the fragmentary structure of the pension system itself and of the Greek welfare state more generally. In addition, old-age and invalidity pensions, as already mentioned, represent the largest part of social expenditure in Greece, and that has not changed significantly in the last twenty-five years (Sotiropoulos, 2004: 270, Table 3). This means that it is in the interests of the social groups who benefit the most from the *status quo* –such as the public sector employees-, to prevent a paradigmatic change of the pension system. For the less influential groups – such as private sector employees or part-time workers-, who benefit less from the *status quo*, pension reform is more crucial but harder to attain. The heavy politicisation of industrial relations in Greece has thus far ensured that the ‘insiders’ have a greater influence in the debate and the policy process than the ‘outsiders’.

Conclusions

It is of course a combination of external and internal pressures that call for the reform of the Greek pension system, but the balance between the two is unequal. The rules that govern the Greek welfare state have not changed significantly since Greece's accession in the European Community in 1981, and this is reflected in the inherent fragmentation and inequality that still burdens its pension system. As far as reform goes, this has been consistently constrained throughout the 1990s. Reflecting on the institutional rigidity of the Greek welfare state, one could argue that, in line with the Greek tradition of two-stage reforms, 'paradigmatic' reform in Greece would mean something rather different to what 'paradigmatic' reform means in the rest of Europe. It would mean a domestic mobilisation for the rationalisation of the existing, mainly PAYG system in order to tackle the internal paradoxes of pension provision. As the Greek Report admits in its very first sentence, the trust of the citizens in the pension system must be restored, so that the system acquires new authority and credibility. The evidence so far on Greek public attitudes to pension reform suggests a dissatisfaction with and lack of confidence in the Greek pension system. The Greek public recognises the need for reform, yet remains optimistic for the future and does not view the problem as having an effect on a personal, individual level. O' Donnell and Tinios (2003: 276) argue that this inconsistency may result from the design of the system itself, in which case public attitudes '...not only represent a constraint for reform, they are endogenous to the system itself and a vicious circle is created in which a flawed system generates public opinion that supports the system and blocks reform'. What is to be done?

Greek pension reform appears to be at a dead end. On one hand stands the sclerotic Greek system, which has increased its path-dependence over time and has not allowed reform to take place. On the other hand stands the European Union, which through the OMC provides space for learning among partners, but not necessarily for policy change. Indeed the EU and the OMC carry high hopes for Greece in the form of greater consistency between theory and practice of policy among European partners (Sissouras and Amitsis, 1994: 258; Tsoukalis, 2000; Tinios, 2003: 13). Petmesidou (2000: 324) argues that a radical reform in Greece will be the result of a new social contract between the civil society and the state on one hand, and the political processes and the economy on the other. Featherstone goes further to point to the lack of a systematic 'technocratic input' into the reform process, in the form of independent and expertise policy advice (2003: 11). These factors are related to the Greek domestic context, and the external pressures and challenges common with other developed countries can only serve as stimuli for pension reform mobilised 'from within'. Barr (2004: 119) argues that the funding mechanism of pension system is a matter of secondary importance, and what matters in pension reform is 'effective government' and its ability to bring about necessary and politically risky

reforms. This is especially true given the weakness of the OMC in the field of pensions, according to Natali and de la Porte. In the Greek case, and as the Greek Strategy shows, the OMC could even prove a dangerous tool of claiming reform when reform has not really taken place. Part of this problem lies with the nature of the pensions OMC, which does not consist of concrete quantitative goals accompanied by real sanctions. The remainder of the problem lies in the Greek context, and that is where the renewed commitment to pension reform must come from. The identification of a strategy to achieve this is a task to be based on a historical study of the Greek political economy, which must look into the long-term future of pension provision while being informed by its unique past and origin.

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