

The Politics of Pension Reform in Greece: modernization defeated by gridlock^{*}

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In many European societies, the reform of the pension system has recently proven highly problematic and controversial (Hemerijck and Ferrera, forthcoming). The European Union (EU) has entered this policy area both indirectly – via instruments concerned to ensure fiscal stability – and directly – in the context of attempts at coordinating ‘structural reform’ with a view to reforming the European economy. Thus, in principle, a stimulus of ‘Europeanization’ exists for pension reform. EU obligations can be cited as warranting a shift of domestic policy interests (fiscal discipline; peer credibility on structural reform) and policy ideas (shared learning and policy transfer). For member states endeavouring to enter the single currency ‘euro-zone’ and to abide by its strictures, but suffering long-term problems of high public deficits, the budget stimulus to pension reform is clear. Moreover, these same member states in particular have a clear interest in being seen to be convergent with the EU’s ‘core’ states, displaying affinities of policy perspective and compliance with the Union’s priority goals, such as those of structural reform.

This paper argues, however, that the EU stimuli are in fact limited in their nature and that entrenched institutional obstacles in domestic systems can readily thwart their potency. The paper focuses on a case study – Greece – to show how the will and capability for pension reform can be overcome by a domestic gridlock of power and interests. Admittedly, the Greek case in these terms is an exceptional one.

In doing so, the paper seeks to contribute to debates concerning:

- The challenges for the EU in coordinating a process of structural reform – seen as important both in terms of its international competitiveness and the increased heterogeneity resulting from enlargement.
- The conceptualisation of the public policy process in Greece, relevant to the project of ‘modernization’ advanced by Premier Costas Simitis.

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The focus of the paper is domestic: why has the record of reform been so modest, given both EU and national stimuli to act? The argument is that the reform initiative has been repeatedly thwarted by the severe institutional constraints operating in Greece. The external stimulus from the EU has changed and is currently too weak. The empowerment offered by the EU is limited in nature: it lacks precision; sufficient temporal discipline; and the costs of non-compliance are too low. By contrast, the domestic impediments to reform are very strong: the commitment to reform is ambiguous, agency capability is weak, conflicting interests create seemingly insurmountable veto-points, the relevance of technocratic legitimisation is limited, and the social partners exhibit low levels of trust in each other.

The paper is structured in four main parts. Section 1 identifies the nature of the policy problem and the stimuli to reform. Section 2 examines the interests and strategies of the key domestic actors involved in the reform process and places them within the framework of a zero-sum game within a distinct institutional setting. It notes the constraints on domestic adaptation in the pensions sector. Section 3 places the sequence of reform initiatives to date in the context of this framework. Section 4 seeks to connect the specifics of the policy process to wider features of Greek society in order to deepen the account. The conclusion clarifies why, despite both EU and domestic stimuli, the attempts at pension reform in Greece have enjoyed only modest success.

The policy problem

In many respects the pension ‘problem’ in Greece is similar to that found elsewhere and the relevance of the EU also stands comparison. What is exceptional in the Greek case is the particular institutional configuration for policy delivery and the constraints associated with reform. The latter will be discussed later.

The domestic stimulus to reform

Ultimately, the domestic stimulus to pension reform is to be seen in the context of the ‘modernization’ project promoted by Costas Simitis, prime minister since 1996. As leader of a faction within PASOK – the governing socialist party – Simitis sought fiscal discipline, social democratic public goods, and liberal political reforms. Pension reform could be seen as being affected by each such goal: gross public debts and deficits (partly as a result of the high costs of pension provision) threatened Greece’s role in the EU; current pension provision showed major bureaucratic inefficiencies; and inequalities in pension benefits and coverage contradicted left of centre values. In short, ‘modernization’ required substantial pension reform.

In fact, the identification of the policy problem has remained remarkably consistent over successive Greek governments (Featherstone and Tinios, forthcoming). Demographic changes – an ageing population – and shifts in social practices – with more women seeking employment – are common to Greece and other Western societies. The general policy model follows that of the Mediterranean welfare state (Ferrera, 1996) and should be seen in the context of other flanking policies (Matsaganis et al, 2003). The system is fragmented, and lacks a unitary philosophy or common effective operational rules. Katrougalos and Lazaridis (2003)

distinguish the systems of Greece and Italy from those of Spain and Portugal: the former are more fragmented in structure and more costly as a percentage of GDP. They contest, however, the notion that in general the systems of all four states are more generous than those found elsewhere in the EU.

The more specific features of the Greek system are threefold (Featherstone and Tinios, forthcoming):

- *The costs of provision have escalated, whilst an increasing revenue burden has been passed to future generations, in a system with a weak budget constraint.*

The pension system in Greece is overwhelmingly dominated by public provision. The system operates on the basis of ‘Pay-as-you-go’ (PAYG) provision. Such systems rely on inter-generational solidarity (one generation paying for another), but also risk an ill-defined and weak budget constraint as costs are deferred to future years. The incentive to political leaders to ‘pass the buck’ to future generations of workers has proved too tempting. These features are system-related, rather than nationally specific. The current level of expenditure on pensions in Greece, however, is equivalent to 12.1% of her GDP, above the EU average of 10.5% (O’Donnell and Tinios, 2003). Some 3% of GDP is spent annually on supplementing the statutory revenue of the pension system (*Greek Report on Pensions Strategy*, 2002). This represents a fiscal burden that is increasingly seen as unsustainable. The cost of reform inaction remains difficult to communicate. Fiscal apocalypse is rarely imminent, projections seem technically opaque, and existing privileges are repeatedly seen as threatened. The ultimate budget constraint is that of the Government itself.

Moreover, severe management problems remain. Remarkably, key actuarial work to gauge future revenue had to put out to international tender in 2000 and was won by the UK Government Actuaries¹.

- *The extreme institutional fragmentation of policy delivery.*

Pension provision in Greece varies by occupation or profession. The institutional organization for delivery shows extreme fragmentation. The most common method of organization is pension funds, the largest of which are IKA (*Idrima Kinonikon Asfaliseon*, Social Insurance Foundation, for the private sector), insuring about 70% of Greek workers, and OGA (*Organismos Georgikon Asfaliseon*, Agricultural Insurance Organization). Civil servants’ (primary) pensions are paid directly from the government budget, without the intermediary of a fund (O’Donnell and Tinios, 2003). A recent estimate put the total number of the funds at 236 (O’Donnell and Tinios, 2003), though there has been much *de facto* concentration and the most recent legislation (the ‘Reppas reform’) aims to reduce the number drastically. The institutional structure creates gross inefficiencies and has facilitated buck passing *between* social groups, as well as between generations.

- *The inequities of benefits and coverage.*

In parallel to this institutional fragmentation, the system shows much disparity of level of benefit and coverage of population. Traditionally, privileges were granted to particular sectors, not least the liberal professions and public employees. Latterly, the privileged have fiercely defended their existing benefits, seemingly immune to wider social interests: a clash of micro-interests against macro-needs.

In important ways, the system *structures* perceptions (O'Donnell and Tinios, 2003), with one group contrasting its position with that of another. There is a major lack of public understanding of how this highly fragmented system works and (technically opaque) reform attempts provoke fears over the loss of privileges. With the relationship between contributions and benefits a weak one, the impetus is to seek further general public subsidy for existing privileges. Failure to do so is seen as a government renegeing on promises, weakening civic trust.

These three features are crucial to an understanding of the structure of power and interests affecting policy provision and reform attempts in the pensions sector. The systemic implications will be discussed below in Section 2.

The EU stimulus to reform

The domestic stimuli to reform, however, exist in parallel to those emanating from the EU level. The first such pressure related to the fiscal constraints affecting government budgets in the run-up to entry into the *euro*, single currency system. The Maastricht Treaty provisions on Economic and Monetary Union (EMU) set clear fiscal rules for *euro* entry. Member states should have a budget deficit equivalent to no more than 3% of their GDP and debt levels no greater than 60% of GDP. Whilst the decisions on *euro* entry made at the Brussels European Council in May 1998 displayed much flexibility of interpretation on the public debt rule, the 3% limit was adhered to more strictly and was replicated in the Stability and Growth Pact adopted at the Amsterdam summit in June 1997. These rules posed major problems for Greece. Government borrowing had reached 19% of GDP in 1990, with pensions payments alone accounting for 15% of GDP (Featherstone *et al*, 2001). Deficits remained high - 13.4% in 1993, 10.2% in 1995 – until they reached 2.5% in 1998 when the *euro* decision was due (Eurostat, 2003). Debt levels proved more intractable: 110.1% of GDP in 1993, 105.8 in 1998 and not falling below 105% until 2002 (Eurostat, 2003). Successive Greek governments – under Mitsotakis, Papandreu and Simitis – affirmed their commitment to reforming public finances in order to gain entry to the *euro* system. Indeed, during the EU-level negotiations on Greece's entry into the *euro*, pressure was placed on the Simitis Government – notably by the Germans - to make more substantive progress on pension reform as a specific means of promoting Greece's convergence². Such a direct focus must have strengthened the understanding of the relevance of reform to Greece's European credibility. To Simitis, in particular, modernization is synonymous with Greece being a full member of the EU and failure to join the single currency would have risked huge costs of marginalization.

Following closely on the heels of EMU as a test of EU membership came the latter's move into the area of structural economic reform and a shift to 'soft' law as a decision-making style. The EU agenda on structural economic reform has developed apace in recent years. The EU became very concerned by the late 1980s about the need for Europe to become more competitive in the international economy. These concerns were taken up by the Delors' White Paper on 'Competitiveness, Growth and

Employment' in 1993. A change of approach resulted in the establishment of the 'Open Method of Coordination' (OMC) operating on the basis of benchmarking, 'multilateral surveillance' and sharing of best practice. The EU 'push' on structural reform was taken further at the European Councils held in Luxembourg (1997), Cardiff (1998), and Koln (1999). At Helsinki in December 1999, the European Council established a process to review progress on structural reform across all member states. In 2000, the so-called 'Lisbon process' was launched, following a European Council agreement. OMC-style coordination now covers various economic policies (Broad Economic Policy Guidelines, BEPG); labour markets (European Employment Strategy); and, welfare reform (Open Method on Social Inclusion and on Pensions) (Schelkle, 2003). EU action on Employment and Social Policy (ESP) covers social protection, social integration and pensions. The 'Social Protection Committee', composed of representatives of national governments, focuses on national pension strategies, reviewing their adequacy and their adaptation to a changing society. The Committee develops benchmarks and receives progress reports on pension reform from each member state. The Council of Ministers, aided by the Committee, and the Commission then prepare joint reports on pension reform.

The effect of the EMU entry criteria and the OMC policy focus has been to create a common external stimulus to pension reform in cases like Greece where the fiscal burden has escalated and there were already concerns about the social equity of the system. Even without the EU constraint, pension reform would have been part of the domestic agenda of modernization. But EU actions offered an additional resource to those domestic actors seeking reform.

Policy Process

How can the policy process of pension reform in Greece be conceptualised? The complexity of the process, displaying an array of features relevant to both the sector and its wider social context, suggests the relevance of a variety of different approaches. But, the prime features appear to be:

- Given the resistance to increasing the demands on state revenues in this area – via increased expenditure, taxation or contributions - the policy outcomes of reform are likely to be zero-sum; that is, the material benefits would be unevenly distributed between pension recipients. The pie cannot be bigger, so the slicing becomes more problematic.
- As a result, the incentives to cooperate in the reform process differ between 'winners' and 'losers' and the political strength of the former is crucial to the success or failure of the reform initiative.
- The key actors determining the outcome are the government and the unions, with the employers playing a lesser role, and the interests and strategies of these actors are crucial.

With these features in mind, the core elements of the policy process can be placed within the framework of a zero-sum game. Yet, it is a game in which actor strategies are set within a distinct institutional setting (Shepsle, 1989; Hall and Taylor, 1996; Scharpf, 1997). A rational choice aspect is relevant in identifying a select number of actors, exercising a significant degree of operational autonomy in the application of general priorities and in the choice of strategy. The actors display a rationality in the

consistency of their beliefs and preferences; in the correspondence of their beliefs and behaviour; and in their choice of strategy. Yet, a crucial element in this perspective is the constraining effects of the institutional setting in which the actors operate. Consistent with rational choice institutionalism, 'institutions' here should be interpreted in a very broad sense, incorporating the structure of beliefs, norms, rules, etc.

The institutional setting is marked by the weakness of state actors as agents of reform. The weakness of the Greek state defines the overall context of policy-making in Greece. Traditionally, it has been seen as 'a colossus with feet of clay', to use the description used by Nicos Mouzelis (1990) and taken up by Dimitris Sotiropoulos (1993). To many, this has been a colossus with an inelegant form, however: huge, ill-coordinated and dysfunctional. It has feet of clay because of its own institutional weakness; whilst it is imbalanced because of the weakness of civil society and its easy penetration by party interests. As Calliope Spanou (1996) put it, the Greek state has been 'hypertrophied, omnipresent, but ultimately weak'. The capability of government to introduce major structural reform – liberalizing the state's economic regulation, ownership and social support – has been shown by recent experience to be severely limited. The reputation of the Greek state in the modern period has been low. Today, the state's administrative complex is seen as suffering from internal problems of poor coordination; excessive legalism and hierarchical control; turf-fighting; the paucity of high quality technical personnel; the inefficient use, and often the lack of, resources; clientelism and non-meritocratic norms; party infiltration; and, the lack of permanency for senior positions. These features appear endemic to the administration, sustained across different governments. High expectations of administrative reform have been repeatedly dashed – as in 1981 and 1991 – as the task proves beyond the will and capability of elected politicians. The effect is also that parties with radical reform objectives come into power faced with a weak agency to engineer policy change.

The weakness of state actors as agents of reform is further evident from their relations with other social actors. Public choice theory is relevant here in its depiction of a weak state hindered by rent-seeking behaviour (Krueger, 1974). Thus, sectional interests compete for favours, resources and subsidies. Rational choice models distinguish between zero-sum competition and games where 'win-win' solutions are available. In the case of Greek pensions, those groups that have accumulated significant privileges have found reform threatening: a redistribution of resources to address social inequities would lead them worse off. No matter that in the long-term the system might collapse: many current workers have short-term interests. The incentive to cooperate with the reform process is minimal.

There is also a systemic problem in the representation of interests. The major unions are dominated by leaders of those groups with the highest relative rights and privileges. On the union side, GSEE is controlled by the unions of the public utilities (e.g. DEH, the power corporation; OTE, the now partially-privatised telecommunications corporation; and the unions of the banking sector, OTOE). Alongside them is ADEDY (Higher Level of Public Servants' Unions). Amongst both, many of the workers have relatively secure employment and generous pension arrangements. Similarly, business representation is skewed towards those firms with an interest in the maintenance of the status quo: large, unionised enterprises serving

mainly the domestic market, rather than the smaller and medium sized firms with an interest in greater flexibility and lower labour costs. For the larger corporations, the peace of the status quo is preferred to the risks of seeking gains from reform, especially if these might entail additional costs. Corporatism in Greece has a tradition of being both disjointed and distorted, with the interests of firms and workers in other sectors being squeezed out (Mavrogordatos, 1988; Lavdas, 1997). The consequence is that very strong forces exist to defend the accumulated privileges and inequalities, with the beneficiaries seeing reform issues in a zero-sum manner.

The problems of agency are compounded by the inherent difficulties of the reform agenda. The rational self-interests of the major actors weigh against serious reform. It is not clear who really wants change. The political cost of reform failure for the government is high and immediate, in terms of credibility, trust and reputation. The direct gains from pension reform for government – notably a reduced fiscal burden – are largely obtainable in the long-term. An expansion and a greater equality of provision imposes short-term financial costs, while appealing to a politically weak social constituency. The future generation of workers constitutes a third player in the game, but one absent from the table. Tinios (2002) sees the future generation as the losers, whilst today's workers and retired can engage in a positive-sum game at its expense. For any individual group of workers it is worth holding out and protecting their accumulated privileges, whatever anyone else might do. There is also a communication problem: system fragmentation often requires mutually contradictory messages to be transmitted to different social groups (Featherstone and Tinios, forthcoming). This is exacerbated by the inevitable complexity for the different social groups of the actuarial projections: trying to identify the 'winners' and 'losers'.

The above suggests a strong combination of interests defending status quo privileges and rights. Thus, the reform process can be seen as a zero-sum game between the current winners and losers. Reform involving an expansion to include the currently marginalized and/or to reduce the overall fiscal burden involves gains and losses to the players. Two impediments can be identified here. Firstly, the gains from the *status quo* are concentrated in effective *pressure groups* (the major Greek unions identified above), while the losses are diffuse amongst the weak. Reform is thus blocked by a difference of organizational strength and resources. Alesina and Drazen refer to a "war of attrition between different socio-economic groups with conflicting distributional objectives" (1991:1171). But a second impediment has also been identified above: the *uncertainty* and lack of understanding as to the outcomes of the successive reforms that have been proposed. Fernandez and Rodrik (1991) showed how, with (even) uncertainty amongst the players over the distribution of gains and losses from reform, policies that are in the general public interest can remain elusive. Instead, there is a bias towards the status quo and away from policies that are, in objective terms, 'efficiency-enhancing'. This outcome holds even if actors possess other qualities: being risk-neutral, forward-looking, and rational.

Such interpretations pose alternative strategies for reform-minded governments. With entrenched and concentrated interests the task is to overcome them by scoring a political victory. With uncertainty over outcomes, the task is to educate and build-up trust. This might be applied to contrast the pension reform initiatives of Manos/Sioufas (1992) and Yiannitsis (2001) with those of Reppas (2002).

Policy Performance

What pension reforms have been achieved in Greece? It is significant that the need for pension reform was recognised by the second half of the 1980s, in the context of the policy shift towards economic 'stabilisation'. This shift, and its general discourse, was closely associated with Costas Simitis, then Minister of National Economy and now Prime Minister. A domestic momentum had been started. However, it faltered as pension-funding deficits were covered on grounds of political expediency and tentative reform initiatives were aborted.

Thus, it is even more relevant to note that the first serious moves for reform came in 1990-92 when Greek public finances were in deep crisis and the EMU tests were being established. Fiscal laxity imperilled Greece's European membership. The New Democracy Government of Constantinos Mitsotakis, elected in April 1990, sought swift legislation to tackle the most urgent problems of pension financing³. It is indicative of the fiscal imperative that the reform was handled by the new Minister of National Economy, Georgios Souflias. Law 1902/90 was passed rapidly, introducing spending cuts and gradual increases in contributions. Even these short term measures had been affected by intense union opposition and some funds were excluded from the reforms. The Souflias Law, as it became known, lacked a long term perspective and it did not tackle the structural deficiencies of the system. A more radical shake-up was promised before the end of the Government's term of office.

The reform task was taken up by Stefanos Manos, a later successor of Souflias as Minister of National Economy. When Manos was appointed, in February 1992, the record of the Mitsotakis Government was undermined by disappointing economic indicators – well short of its own 1991 Stabilization Programme – and leaving Greece vulnerable to international criticism. Manos, a neo-liberal, established a broadly-based committee under Professor Rossetos Fakiolas to prepare radical pension proposals. The work of the committee was soon discredited, however. Its report seemed too hastily prepared, yet too cautious in content. The union representatives walked out of the committee, accusing the Government of using it as a smokescreen for a different economic agenda. In fact, Manos had indeed commissioned another report on pension reform from the IMF. The Minister leaked the report to the press, himself, in an apparent attempt to warn the unions of the dire projections. The summer of 1992 saw widespread union protests and strikes. The Government, possessing a slim parliamentary majority, was also threatened by attacks on its pension plans from some of its own supporters, including the then Governor of the Bank of Greece, Efthimios Christodolou.

The law initiated by Manos (2084/92) represented a substantial dilution of the original radical zeal. More radical changes were not feasible given the domestic opposition. Some major steps were taken: an increase in the retirement age for both men and women; an increase in National Insurance contributions; and a reduction in the ceiling of the pension/exit salary ratio from 80 to 60%. Nevertheless, the major structural deficiencies were left untouched: the fragmentation of the system and the gross inequalities of provision. The privileges of the strongest sectoral interests – the power corporation (DEH), the state banks and the professions - remained unscathed.

Yet, the Manos law had put back the crisis: providing ‘room to breathe’ fiscally until 2010. In actuarial terms, this was a relatively short window.

After the electoral defeat of the Mitsotakis Government in 1993, the return of Andreas Papandreou as prime minister witnessed the effective removal of pension reform from the government agenda. A sense of stagnation was ended with his retirement on health grounds and his replacement by the arch-modernizer Costas Simitis. After his own political position had been strengthened following the elections of October 1996, Simitis established the ‘Committee for the Study of Long Term Economic Policy’ to assist with Greece’s EMU convergence. The Committee was headed by Yiannis Spraos, Emeritus Professor of the University of London, and was known by his name. The Committee produced seven reports in total, but that on social security and pension reform received the greatest attention.

The Spraos Report on pensions was leaked to the press in September 1997 and published officially the following month. The Report attempted to identify the problems requiring action and to outline options. Yet, the press leaks – not without some justification – presented the Report as advocating major cuts in existing pension rights and benefits. The Report rejected a continuation of the practice of reform ‘by instalments’, and though it did not promote any single policy model it did elaborate thirty areas requiring action. The Report provoked fierce opposition from unions defending accumulated privileges and from the Left. New Democracy refused to take a position, though the employers’ federation SEB and the former Minister Souflias did support the Report. Even Simitis’ own spokesmen quickly distanced the government from the Report. The Report had been savaged by vested interests and there was no political voice strong enough that was prepared to defend it. Notably, despite the fact that the Report reiterated much of what had been said in previous reports - from the IMF, OECD and domestic committees – there was no technocratic ‘policy community’ in Greece willing and able to endorse it. This point will be taken up later.

Pension reform was clearly a potato too hot to handle, politically. Yet, Simitis implicitly recognized that it was a problem that required action if ‘modernization’ was to be advanced. In the April 2000 election, PASOK was the only party to explicitly commit itself to pension reform. Simitis had identified pensions as a target so often, his credibility was at stake. The ‘poisoned chalice’ of seeking reform was passed to another economist and ally of Simitis, Tassos Yiannitsis, when he was appointed as Minister of Labour. His proposals, published in April 2001, soon came to be seen as far too challenging to the strongest groups of workers and the Government withdrew them. The package had sought to enhance the fiscal viability of the system and to make it considerably more equitable (Matsaganis, 2002a). The retirement age was to be raised; the required insurance period for a seniority pension increased; the replacement rate reduced to 60% of reference earnings; the minimum pension raised but means-tested; and the lower retirement age for mothers of younger children replaced. The Government estimated that the cumulative pensions deficit would be reduced over 50 years by 17.5% (to €290billion). The reaction was devastating: government ministers, previously briefed and acquiescent, disowned the proposals advanced by their colleague, whilst the largest trade union confederation, GSEE – with a disproportionate representation of those with the greatest public sector pension privileges – called a general strike (Matsaganis, 2002a). In the face of the storm, the

Simitis Government rescinded the proposals and called for a renewed social dialogue about such matters. An extraordinary party congress held by PASOK, focussed essentially on the issue of pension reform, kept the commitment to reform.

But with fingers having been burnt, the new impetus was for consensus and more sensitive presentation. Social dialogue has had a highly chequered history in Greece and has rarely been the basis for substantive policy formulation (Featherstone and Papadimitriou, 2003). Yiannitsis' successor, Dimitris Reppas, presented a new set of proposals in March 2002. His approach was to show a willingness to spend even more money on pensions, prior to reform, in order to build up trust amongst the key interests (Featherstone and Tinios, forthcoming). This was a significant shift of strategy: attacked as timid, but defended as sensitive to the realities of the policy process. Either way, it sacrificed many of the more radical objectives advanced previously by Manos, Spraos and Yiannitsis.

Reppas' package was complex (Matsaganis, 2002b). Its provisions distinguished between groups of employees according to when they first entered the labour market: firstly, those first employed since the start of 1993 and, secondly, those employed between 1983 and 1992. Both elements concerned those under IKA, the main pension fund, and those with the funds for banks, the civil service, and state enterprises. Those employed in the most recent period would have higher minimum pensions after 35 years of service (up from 60 to 70% of the minimum wage, whilst for the older group the minimum pension would be gradually reduced from 80 to 70% after 37 years of service (*Kathimerini*, 22.3.02). The period for reference earnings was to be extended. No extension was to be made to the retirement age: in fact, some would be able to retire earlier. An important actuarial dimension was the injection of €1.3 billion by the Government into IKA to sustain its finances. Indeed, other funds were expected (first, compulsorily then voluntarily after opposition) to join IKA. National Economy Minister, Nikos Christodoulakis, now projected that the pensions deficit would range between 3.5 and 7% of GDP over thirty years. This was substantially more optimistic than the forecast of 11.1% foreseen by UK Government Actuaries Department in a report for Yiannitsis just one year earlier. To his critics, Christodoulakis was engaging in 'creative accounting', with deficits deferred and hidden. The proposals were to begin in 2008 after a five year transition period and, according to Reppas, would secure a viable system until 2030.

The response to Reppas' proposals was somewhat disparate and muted. Critics seemed unsure as to the basis for their attack: too generous, too little funding offered, or too timid (*Kathimerini*, 22.3.02). New Democracy's Georgios Souflias saw the Government as not being serious about reform. On the other hand, GSEE and ADEDY (the civil servants' union) called a general strike. But, in general their attack seemed half-hearted. After the more radical proposals of Yiannitsis one year earlier, based on dire government forecasts, those of Reppas seemed heavily sweetened. An amended version of Reppas' proposals was passed by Parliament on 20 June 2002.

The new 'softly, softly' approach had tinkered with the system and obscured the price, but some kind of endpoint had been reached in the reform process. After more than a decade of reform attempts, the key features of the policy problem remain: not overcome, but modestly abated. The fiscal burden is projected to increase, major social inequities remain, and the institutional structure continues to be fragmented.

A wider perspective

The record of pension reform in Greece clearly attests to the importance of non-cooperation amongst the key actors as a result of perceptions of zero-sum benefits. For their part, successive governments have displayed uncertain will and divided purpose. The commitment to reform has been undermined by discordant voices between ministers, making different political calculations. The benefits to any particular government of a successful reform are modest – to be passed on to their successors in the long-term – whilst the risk of an immediate political backlash is severe. The strongest union voices are those seeking to defend the current privileges, with their interests defined strictly in the short-term. By contrast, the social representation of those likely to benefit from reform is distorted and weak. Added to this, the content and implications of reform are very difficult to ‘sell’ to the mass public.

The dilemmas faced by reformers must be placed in a wider context, however, in order to better account for the social structuring of the process. The most immediate feature concerns how technical expertise enters the policy process. In this case, the technocratic input into the reform process was both narrow and shallow, offering weak legitimisation of the reform agenda set by ministers.

The input of expertise came from personal advisers, with little emanating from within the state bureaucracy itself. No effective community of policy expertise on pension reform was established in Greece: no group, network or institution independent of party or government had identified itself or developed a political voice. Nothing of significance appeared in wider society to be directed independently at public education.

This is symptomatic of the rarity of effective, independent policy think-tanks in Greece. Few such bodies have been created and sustained as effective institutional actors. The term is used loosely across cultures (Stone *et al*, 2003). ‘Independence’ might refer to autonomy over setting the research agenda and/or to sources of funding and/or to distance from one political party or interest. ‘Policy’ denotes a primary function of contributing technical knowledge to public debate on available options. By such measures, there are few such think-tanks in Greece. An exception is *ELIAMEP* (Elliniko Idryma Europaikis and Eksoterikis Politikis / The Hellenic Foundation for European and Foreign Policy), sustained by an informed academic community. There are several bodies in Greece functioning as research institutes. Notable examples are *EKKE* (Ethniko Kendro Ereunon / National Centre for Social Research) and *KEPE* (Kendro Programmatismou kai Oikonomikon Ereunon/ Centre of Planning and Economic Research). These have a different academic focus and remit, however: they do not have a primary role of producing public policy analysis. A number of political centres, foundations or committees identify themselves as ‘think-tanks’, but they lack independence and longevity, whilst their policy research function is often limited. They serve more as fora for debate amongst like-minded politicians and intellectuals, appendages to particular party factions. Their output is more likely to be reflective commentaries and essays, than professional policy analysis. Examples here are *OPEK* (Omilos Provlmatismou yia ton Eksigxronismo

tis Koinonias mas / Forum for the Modernisation of Greek Society), promoting Simitis' social democratic 'modernization' agenda, and *KPEE* (Kendro Politikis Epevnas Epikoinonias / Centre for Political Research and Communication) advancing a neo-liberal agenda and, notably, in the late 1980s supporting Constantine Mitsotakis.

In these respects, the latter can be compared with many similar bodies found elsewhere in southern Europe. However, Italy, for example, has in recent years seen a growth of think-tanks specialising in professional tasks such as policy evaluation and impact assessment (Lucarelli and Radaelli, 2003). Whilst the Tesoro made extensive use of external social science research on pensions, the Foreign Ministry has remained more closed to academic policy input. Something like the reverse appears to be the case in Greece.

The absence of policy research institutes in Greece in the domestic field is the result, no doubt, of a combination of factors. Limitations of resources and funding are evident. Potential donors may prefer to seek benefits from the state or political parties, if not giving to charity. Cultural factors are relevant here: the relative absence of a tradition of 'independence' across different sectors of civil society. Politicians and parties have been loath to accept the autonomy that professional public policy think tanks require. In parallel to this, the career-paths of the brightest technocrats with policy interests often veer directly towards the state or a party. Academically, the study of public policy in Greece is, in relative terms, still in its infancy with limited specialist personnel. Policy evaluation and impact analysis are rare and more likely to be prompted by international bodies. Moreover, such research normally rests on detailed empirical investigation, often by teams of researchers, which again is not often found in this area in Greece.

The consequence of these conditions for the case of pension reform is that initiatives were dependent on the political standing of the minister. This is a reaffirmation of the relevance of personality politics to the reform process: a feature noted by Pagoulatos in relation to Greek privatisation (Pagoulatos, 2001). Individual ministers were left to stand like General Custer against fierce foes, charged with finding a political way out. Few others in the state machine had a stake in the reform initiative or became engaged in public education on the matter. Ministers were faced with developing a strategy for multi-dimensional chess, circumventing entrenched veto-points. The 'stop-go' nature of the reform momentum and the inconsistency in ambition suggests an uncertainty of political will between successive ministers and governmental heads.

Broadening the analytical perspective further, the reform process might also be related to the nature of 'social capital' in Greece (Putnam, 1993; Vazquez, 2000). The relevance of social capital is to be seen in the negative: that is, to explain the low level of trust in government reform initiatives (Featherstone and Tinios, forthcoming). The rational choice and social capital perspectives are seemingly different sets of explanation: one concerned with instantaneous rationality, the other with long-term evolution of settings. For the former, the rationality of union actors, defending accumulated privileges, is set by short-term gains on zero-sum assumptions. Yet, 'trust' affects the calculation of interests and social capital should not be seen as static: it can be affected by government action. Pension reform has suffered from

some of the weaknesses and suspicions inherent in the wider Greek ‘social dialogue’ (Featherstone and Papadimitriou, 2003). Moreover, reform initiatives have entailed some reforms dated in the long-term, seeking to avoid a system collapse of disadvantage to all. Such initiatives have been undermined by an absence of trust in the motivations and purposes of government. The process itself has engendered distrust. The recourse to reform by instalments has served to heighten suspicions and increase timidity. Further, low levels of trust limit the will to negotiate packages across policy items.

The dilemmas of the wider structural reform process display some shared characteristics. Lyberaki and Tsakalotos (2002) examined the problems faced by PASOK’s post-1981 project of ‘socializing’ public enterprises. The failures, they note, were due to the fact that vertical linkages limited the knowledge, resources and social capital on which to build. The emphasis on the ‘top-down’ control and the weakness of the social base seemed to go to the heart of the early PASOK project. Ultimately, “mutual suspicion between the groups, and between such groups and the government – whose inclination, let alone ability, to enter into long-term credible commitments was, somewhat justifiably, always in doubt – made the focus on short-term gains the dominant strategy, fatally weakening the policy...even before it got off the ground” (2002:104). PASOK, they argue has had more success in macro- than micro-economic policy, because the former is less dependent on the social environment. Yet, they comment that the Mitsotakis Government’s privatisation programme also came unstuck because of “the difficulty of reform when trust, cooperation and initiative are at such a premium” (2002:107). Reform projects of different ideological approaches require relevant, though distinct, social conditions and in the Greek case the absence of trust and cooperation has thwarted consensus and implementation.

Conclusion

This paper has argued that the pressures for pension reform have not been sufficient to overcome the weakness in capability to deliver it and it has identified the major constraints on reform. The domestic process is one of near gridlock: overcoming this either requires a short-term bloody political battle (the government taking on the unions) or a longer-term shift of attitudes and a building up of trust (social concertation, acceptance of technocratic case). The issues starkly pose the clash between social democratic modernization and the inertia of vested interests and distorted representation. The outcome questions the ability of the EU to manage a process of structural reform across diverse and deeply-rooted institutional settings.

The stimulus to pension reform in Greece has been evident from both the European and the domestic levels. EMU posed a tight fiscal constraint, squeezing the resources for continued state subsidies. Indeed, Greece’s partners saw her convergence as being partially dependent on pension reform. The instrumentality of reform was thus evident. The OMC coverage of pensions both affects Greece’s interest in reform (credibility, reputation), while serving to impact on domestic ideas (policy learning, mimickry, benchmarking). At the same time, the indigenous stimulus to reform had a strong, independent force of its own, involving both interests (the huge fiscal burden, the distorting impact of fragmentation) and ideas (the normative concerns over social justice).

Yet, the reform achievement has been modest and slow. Initiatives stretched over more than twelve years, whilst the costs of the system have not been significantly curtailed and there remain major inequities in provision. The external stimulus to reform shifted: EMU required quick budget ‘fixes’ at a general macroeconomic level with a temporary urgency. As Matsaganis (2002:115) has recently commented, ‘EMU was a good hand played badly’. The opportunity was lost with the failure of the Spraos initiative. More generally, the OMC process lacks strength to require domestic reform. The normative EU stimulus has been one of reinforcement of ideas, rather than of producing shifts.

The paper has argued that the domestic policy process has suffered from major obstacles. These obstacles can be seen through the lens of a zero-sum game, with actor strategies shaped by the institutional setting. The interaction between the key actors has been marred by:

- a) Differential organizational strength and the existence of veto-players on behalf of status quo privileges and rights.
- b) Distorted and disjointed representation of relevant social interests amongst workers and employers.
- c) The weak technical legitimation of government initiatives as a result of the relative absence of a wider policy community and of relevant think-tanks.
- d) The internal inefficiencies of government, isolating reform advocates and undermining the capability to produce reform.
- e) The uncertain political will to reform (on the part of government) in a personality-dependent process.
- f) The lack of trust and the weakness of social capital underpinning the reform process.
- g) The uncertainty over likely reform outcomes amongst key actors and the wider public.

To these factors might be added the evident problems in government strategy: the inability of government to discredit union opposition; and the inability of government to build alliances with the likely ‘winners’ from reform. Together, these factors comprise the *structural conditions* of the policy process and the dilemmas of *agency*. They are formidable obstacles to the *will* and *capability* to produce and implement pension reform.

As such, the paper characterizes key features of public policy-making in Greece: the limitations of state authority; the peculiarities of the corporatist system; the weakness of technocracy; the cultural constraints affecting the attainment of public goods; and the problems in securing trust and commitment. The factors identified above question the nature of authority, legitimacy and participation in the system. They pose major dilemmas for structural economic reforms motivated by different ideological perspectives - social democratic or neoliberal – and they are unlikely to be overcome within a short-term project.

Greece is far from being the only laggard in Europe on pension reform. Similarly, it is not the only state in which pension reform produces fierce political reactions. Domestic institutional settings vary and the significance of such variation

threatens the ability of the EU to lead a process of structural reform with the tools it currently possesses. This national study displays the strength of constraint embedded in one test case: a case, however, exhibiting some extreme features.

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Notes:

¹ Moves to develop domestic services in this area have been made by the Simitis Government.

² Comment made by senior member of Greek Government in personal interview, January 2003.

³ The following paragraphs draw upon Featherstone *et al* (2001).