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Radical Pension Reforms after the Crisis: A Comparative Analysis of Argentina and Greece

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Scholarly attention on pension reform following the recent global financial crisis has focused primarily on cases entailing the renationalization of private pension pillars. We argue that radical pension reforms should also include instances of radical retrenchment of public pension pillars. We offer an explanation of such reforms in the aftermath of the crisis by analyzing the reforms adopted in Argentina and Greece since 2008. We demonstrate that highly indebted countries with no access to international financial markets and unsustainable pension systems can introduce radical reforms in response to short-term funding needs rather than long-term adequacy concerns. We argue that the narrow timeframe of the recent reforms raises questions about the sound footing of the new systems which may ultimately not prevent the introduction of further measures. This comparison provides insights to understand recent episodes of radical pension reforms in other countries

Introduction

The recent global financial crisis as a result of its impact on government finances has put pressure on welfare institutions, which typically absorb a significant proportion of government spending. As a result, since 2008 governments around the world adopted a range of social policy reforms (Farnsworth and Irving 2011; Greve 2011; Starke et al. 2013, Vis et al. 2011) whose consequences have not yet been fully assessed. In the pension field, the post 2008 period has witnessed the adoption of radical reforms, such as the renationalization of private pillars of individual accounts introduced in the 1990s. Renationalization has attracted prominent attention with scholars explaining the type and timing of enacted reforms as the product of institutional and economic factors (Arza 2012; Datz and Dancsi 2013; Fultz 2012; Simonovits 2011). Nonetheless, radical pension reforms may also include instances of radical retrenchment of the public pension pillar, resulting in a significant reduction of pension benefits for both current and future pensioners.

Analyses that compare the factors underlying the adoption of such diverse range of radical pension reforms are still missing in the comparative pension reform literature. Taking into account the different types of radical reforms, is it possible to detect a common reform mechanism that explains this broad range of radical shifts in pension policy? More specifically, what are the factors that explain the adoption of radical pension reforms that may significantly reduce or increase the role of the state in pension provision? Ultimately, do these radical reforms prevent the adoption of further measures? The article aims to explore the above questions and fill in the gap in the comparative welfare state and pension reform literature by focusing on the latest radical reforms enacted in Argentina and Greece after 2008: nationalization of the private pillar in the former and radical retrenchment of the public pillar in the latter.

In understanding the factors that explain the latest radical reforms, we argue that -in the context of the recent global financial crisis- highly indebted countries with no access to international financial markets and unsustainable pension systems introduce radical reform as a response to pressing economic concerns, related to the need to access funding and ameliorate their fiscal position. In such context, the structure of the pension system shapes the reform content: renationalization or radical retrenchment. Nonetheless, the subordination of the reform to short-term economic goals undermines the sound-footing of the reformed pension system essentially limiting it to a 'quick fix' which acts to the detriment of adequacy and sustainability issues. Ultimately, in a context where pension reform is increasingly being used as a tool serving short-term macroeconomic goals, we expect to witness radical reforms which may nonetheless not prevent further reforms.

The increasing adoption of radical reforms in other countries like Bolivia and Hungary in 2010 and Poland in 2013 allows us to argue that the two countries under

study should not be regarded as exceptional or extreme cases. On the basis of this observation, our analysis provides insights in understanding the mechanism of other recently adopted reforms thereby contributing to the literature on pension reform and to comparative welfare state research.

Pension reform amidst the global financial crisis

The literature on the politics of pension reform has grown significantly over the past twenty years. Early studies, focusing on continental pension systems characterized them as 'frozen landscapes', highlighting their reform inertia (Esping-Andersen 1996; Myles and Pierson 2001). As public pension systems enjoyed high levels of public support, radical reforms were considered risky both in political (electoral) and economic terms (Bonoli and Palier 2007). In relation to the latter, the transition to a multi-pillar system[i] has been regarded out of reach due to the 'double payment' problem. This problem arises from the fact that in public pay-as-you-go (PAYG) pension systems where workers pay contributions that are used to finance current pensions, the transition to a funded system would require workers to continue to pay contributions to the public pillar in order to pay the pensions of current pensioners and, in addition, make contributions to the new private pillar of individual accounts to finance their own future retirement (Myles and Pierson 2001). Alternatively, this cost would have to be financed by the government either from general revenue or by issuing new debt.

In the EU, the Maastricht Treaty convergence criteria and the Stability and Growth Pact essentially prohibit the adoption of reforms with a negative impact on government deficit and debt limits that member states must observe. Thus, the introduction of a private mandatory pillar financed through an increase of public debt

has not been considered as a viable option for many European countries (James and Brooks 2001). However, more recent studies have showed that radical retrenchment has been possible in continental European pension systems through an incremental process entailing long phasing-in periods and the introduction of a funded second pillar in stages in exchange for the support of key veto actors in the policy process (Bonoli 2000; Bonoli and Palier 2007; Ebbinghaus 2011; Immergut et al. 2008; Natali and Rhodes 2007).

Latin American countries have chosen a more radical path by introducing structural reform entailing a one-step partial or full privatization of their public pension system, with Chile leading the way in 1981 with the replacement of its public pension system with one of mandatory individual accounts. Since the Chilean reform, pension privatization has been promoted globally as a comprehensive answer to the fiscal problems of public pension systems with more than thirty countries around the world adopting a partial or full privatization of their public PAYG systems (Orenstein 2013).

Examining the reform process in Latin American countries, Brooks (2009) highlights the influence of financial markets essentially through the creation of a 'double bind.' Globalized financial markets foster strong incentives for privatization so as to achieve the long-term macroeconomic goals of sound fiscal policy (by limiting the state's rising long-term unfunded pension liabilities as a result of population ageing) and potentially attract foreign investment. Yet, pension privatization simultaneously increases the risk of punishment in the short-term for cash-strapped governments. This is because governments in a dire financial position (with limited borrowing capacity and high debt levels) that decide to privatize their pension systems may risk capital flight as investors worry about their capacity to

honor their current debt and the one that would emerge as a consequence of financing the transition to a private system (Brooks 2009, 30). The main implication of Brooks' argument is that by attending to short-term concerns of global capital, reformers ultimate trade-off some or all of their long-term privatization objectives. A similar conclusion to that of Brooks has been advanced by Kay (1999) and Madrid (2003), among others.

We support that some of the insights related to the distinction between short and long-term economic concerns gained by scholars of the first wave of structural pension reforms in Latin America can be applied to understand the radical reforms enacted in the aftermath of the 2008 global financial crisis. We argue that worried about their rapidly increasing debt costs in the context of declining availability of funding in international markets or directly barred from accessing them, governments have advanced radical pension reforms as a way to rapidly improve their finances. The subordination of the reform process to short-term economic concerns has not allowed enough time for the consideration of adequacy and sustainability issues though, thus raising questions as to the sound-footing of enacted reforms and the justification of the reform on the transition to a fairer and more sustainable system. In essence, we contend that by subordinating pension reform to short-term economic concerns, further reforms should be anticipated to address the sustainability and adequacy issues that have not been properly tackled. In addition, current reforms might also open the way for the introduction of further reforms if new economic concerns arise.

While the pension reform literature has analysed the role of social partners in the reform process (Carrera et al. 2011; Madrid 2003; Natali and Rhodes 2007) during the recent crisis the role and influence of external constraints (international financial

markets) has increased in parallel with a decline of that of social partners to shape reform (Natali and Stamati 2014). In addition, the need to resort to 'quick fix' has limited the time available for consultation with social partners as was the case during the reforms enacted in the 1990s. Therefore, in contrast to the previous reform wave, while social partners have continued to be present their role has been marginal. In terms of their political systems, the presidential system of Argentina and the parliamentary system in Greece ensure strong governments. While the crisis has contributed to a rise of political instability in Greece, both the socialist government that passed the 2010 reform and the technocratic one that introduced further measures in 2012 have not challenged the policy package accompanying the rescue agreement. In fact, it was the socialist government who requested the rescue agreement from the troika of the EC, the ECB and the IMF, while the technocratic government was formed with the specific task of introducing the additional austerity measures. Similarly, in Argentina the Kirchner administration has enjoyed a majority or a near majority in each Chamber of Congress. This explains why the reform bill was barely changed by Congress. Therefore, both institutional and partisan veto players have not been able to affect reform outcome in more than a marginal way.

In the following sections we examine the ways in which each country's fiscal position along with the lack of access to financial markets and the sustainability of the pension system have driven reform. In particular we will examine how the reform proposed has been essentially judged for its ability to alleviate fiscal pressures and /or restoring investors' confidence which has essentially taken precedence over adequacy and sustainability issues of the pension system itself, despite being justified as a transition to a more sustainable system.

The pension systems on the eve of the crisis

In understanding the way economic pressures have interacted with the pension system in the two countries during the recent crisis an introduction to their structure prior to the latest reform is useful. Latin American countries have shared with those of southern Europe a common policy legacy of Bismarckian welfare states (cf. Huber and Stephens 2012). In the pension field, the introduction in Argentina and Greece of the first occupational based schemes dates back to the beginning of the twentieth century. Yet in the 1990s, while the two countries introduced pension reforms as part of their attempt to put their battered finances in order, they chose two fundamentally different reform paths.

In 1994, Argentina adopted a structural pension reform of its public PAYG, earnings-related pillar, adding a private pillar to which workers would make contributions in individual accounts managed by pension fund administrators (Madrid 2003). The design adopted was a partial private system where all workers made contributions to a basic public pillar and then had a choice between the private pillar and an earnings related public pillar. Such complex design was a result of the "double payment" problem and the political negotiation with opponents from the labour movement during the 1994 reform (Madrid 2003; Brooks 2009). The ultimate goal of the reform was to ease pressure on government finances and increase levels of savings and coverage. Yet, while pension funds accumulated assets roughly equivalent to 10 percent of GDP up to 2008, the public pension pillar registered a consistent deficit between 1 and 2 percent of GDP following privatization and until 2003. Between 1994 and 2008 contributions to the public pillar represented less than 45 percent of the total resources of the system on average, the rest coming from ad hoc taxes and government transfers (Arza 2009).

The combination of a large informal labour market with harsher eligibility requirements led to a decline in coverage. While around 45 percent of the economic active population was contributing to the pension system in 1994, this fell to 33 percent in 2003, only to recover a few points in the context of the post 2002 economic growth (Arza 2009). In this context, a majority of workers had an insufficient level of savings in their private accounts and an insufficient number of contribution years to qualify for a full pension from the public pillar, leading to an inadequate level of income in retirement. In 2002, around 30% of the elderly in urban areas were below the poverty line (INDEC 2003).

Similar to Argentina, the 1990s were also a landmark for pension reform in Greece. Nonetheless, while reforms have been adopted almost every two years the structure of the pension system has essentially remained the same with reform being limited to housekeeping measures so as to minimize opposition from trade unions (Carrera et al 2011; Featherstone 2005; Sakellaropoulos and Angelaki 2007). Among the successive reform initiatives the 2002 one stands out as an attempt to bring the mono (public)-pillar Greek pension system closer to a multi-pillar one through the development of a second funded pillar (Sotiropoulos 2004); yet transition has remained on paper as the development of the second pillar has been embryonic representing in 2008 a little less than 0.3 percent of GDP (Petmesidou 2009).

On the eve of the 2008 crisis the Greek pension system was a multi-pillar on paper and mono-pillar in practice dominated by a public (first) PAYG earnings related pillar providing main and auxiliary defined benefit pensions. The system was financed from employer and employee contributions representing 20% of earnings, while further financial support was provided by the state yet mirroring the power of various socio-professional groups rather than being a reflexion of need (Petmesidou 2009).

The gross average replacement rate prior to the 2010 reform was close to 100 percent (Symenonidis 2013).

A further distinctive feature of the system is its fragmentation. Successive reform initiatives have attempted to address it with the 2008 reform limiting the number of pension funds from 133 to 13; nevertheless, this rationalization has also remained largely on paper as merged and amalgamated funds have kept their own rules in relation to eligibility conditions giving rise to inequalities. This explains why the risk of poverty for those over 65 years stood in 2009 at 21.4 percent, despite pension expenditure being close to the EU average. In addition to adequacy issues, the system was also faced with sustainability challenges. Pension expenditure amounted to 12.4 per cent of GDP in 2007 and was projected to increase by more than 10 percentage points reaching 24.1 per cent of GDP by 2060, significantly above the EU average increase of 2.4 percentage points projected over the period (European Commission 2009).

While in both cases the introduction of measures to tackle the systems' adequacy and sustainability challenges seemed unavoidable, the crisis speeded up the process in an unexpected way.

Reforms amidst the crisis

The landmark reform of 2008 in Argentina entailing the renationalization of its pension system is the end result of a process that (despite its unexpected outcome) starts with the 2002 crisis that led to the introduction of measures that progressively expanded the role of the state in pension provision. The first step was made in 2005 through the 'moratorium' provided in Law 25,994 allowing people over the retirement age with an incomplete number of contribution years to have immediate access to a

pension. The "unpaid" contributions would then be deducted from their pension. As a consequence of the moratorium and the other measures contained in the law, between 2005 and 2007 the percentage of people over 65 years with access to a pension increased from 68 to 77 percent (Cetrangolo and Grushka 2008). In addition, while the government had given since 2002 discretional increases for public pensions, based on resource availability, the 2008 Pension Indexation Act set a formula that took into account the evolution in wages and the resources of the public pension system. While the Act was not applied retrospectively, it represented an improvement in future benefit adequacy (Arza 2009).

The most significant legislative initiative prior to renationalization is nonetheless the 2007 Pensions Act (Law 26,222). The law contained several measures shifting the balance of the system from private provision to the state. Firstly, it addressed the private pillar bias (essentially reversing it) by stipulating that workers who did not make an active choice would have their contributions allocated to the earnings-related public pillar, instead of the private pillar. In addition, the law allowed workers to switch back from the private pillar to the public pillar, an option that was not available under the previous legislation. The law also mandated that workers with pension pots worth less than 20,000 AR$ (around 6,370 US$) and within ten years of their retirement age would be automatically transferred to the public pillar. Finally, the law improved the replacement rate of the public pillar and mandated that the state would top up pensions paid by private pillar if these were below a specified minimum.

The cumulative effect of measures introduced since 2003 was a significant shift in the public-private pension mix. Between December 2006 (before the 2007 Pension Act) and September 2008 (before nationalization) the number of affiliates to

the public pension pillar grew by 144 percent. During the same period, affiliates to the private system fell by 19 percent (Arza 2009, 13). With declining and irregular levels of contributions to the private pillar and an increasing number of people relying on the public pillar for retirement as a consequence of the reforms adopted since 2003, it is hardly surprising that the performance of the system was not an issue of concern (Arza 2012), even though the reforms had resulted in additional pressure on the system's future sustainability. Even before the 2008 reform only 45 percent of the resources of the system came from active workers contributions, with the rest coming from ad hoc taxes and government transfers (Anses 2013). In essence the measures undermined support to the private system thus lowering the opposition to its reform. In addition, performance gaps undermined further trust in the existing system.[ii]

While the prospects of the private pillar were not favorable, the 2008 crisis would lead to drastic and until that point largely unforeseen consequences. The crisis urged the government to consider the savings accumulated in the private pillar as a solution to its pressing funding problems broadly emanating from the macroeconomic policies adopted since 2003. The (populist and interventionist) policies of the Kirchner administrations included, among others, subsidies to the transport and energy sectors to keep utilities and fuel prices artificially low, promoting wage increases above the inflation rate and expanding the number of public sector employees. In the context of high economic growth due to strong demand for commodities right after 2002, these measures would, initially not affect the government's fiscal position. In fact the central government budget balance registered a record surplus of 3.7 percent of GDP in 2005 (IMF 2013).

During the same period (in 2005 in particular) the Kirchner administration offered a unilateral debt restructuring to holders of the sovereign bonds defaulted in

2002. The operation entailed exchanging defaulted bonds for new ones, worth roughly 35 cents to the dollar, denominated in dollars but linked to GDP growth (The Economist 2005). Over 75 percent of bondholders accepted the deal in an operation that was classified successful as investors were attracted by the "enhancement" of the link to GDP growth in the annual coupon payment of the bonds given that the economy was growing at rates of over 3 percent (the threshold established to make the coupon payment).

While the debt exchange was a step forward for the country, the fact that not all bondholders accepted the deal meant that the country was barred from accessing cheap international lending. Again, in the context of current account and government budget surpluses this did not represent a problem for the country. Nonetheless, the payment of the coupons would represent an increasing outlay for government finances. In 2006 the government paid over 100million USD for the coupon of the dollar denominated bonds. In 2007 this increased to over 200 million and at the end of 2008 the payment due was over 450 million USD.

The government's expansionist macroeconomic policies proved unsustainable and towards the end of 2008 the government budget surplus would fall to 1.1percent of GDP, less than one third of its 3.7 percent peak in 2007. The global financial crisis would further expose the fragility of the Argentine economy as the crisis, at least initially, led to a slump in global demand for imports and to slower economic growth in countries such as China, which had become a key trading partner for Argentina. Being barred to access international markets due to the bondholders that had not accepted the 2005 exchange, investors became weary of the capacity of the Argentine government to honor their debt. In this context, the value of Argentine bonds fell sharply. This was reflected on the price of Argentina's GDP linked restructured bond,

which fell from a peak of 12.7 percent in March 2008 to 3.5 percent in October 2008. The fall in the price of the bonds would increase their yields and thus the payments that the Government would have to make, putting further pressure on government finances.

As the government was unwilling to drastically reduce public spending, renationalization of the private pension pillar was viewed as an option for reducing public debt obligations and improving budget balances (Calvo et al. 2010). Renationalization resulted in an inflow of large sums of money to the Social Security Administration of around 9.5 percent of GDP, as the reform law stipulated that all assets from private pension fund administrators would be transferred to the fund managed by the social security administration (Anses 2013). This transfer was justified in the law by stipulating that future pensioners would be "guaranteed" a pension equal or better than that promised by their private fund administrator (Law 26,425, art 2). This point, while highly contentious as it did not explain what base would be used for making such comparison, allowed the government to circumvent the criticism that the reform would affect future pensioner's property, by "guaranteeing" a similar or better pension than under the existing system (Mesa Lago 2009). In addition to improving government's sources of funding, the reform saved the government another $313 million it would have had to pay to private pension funds for the GDP index-linked bonds due for 15 December 2008 (El Cronista 2008). Finally, the government gained influence in key private sector companies as it became a shareholder in companies where private pension fund administrators had shares.

The government justified the radical reform by highlighting the weakness of the system (a discourse similar to the one used in the Greek reform) and the "bad administration practices" of pension funds, which led to the decline in the funds'

value. In essence the government maintained that its intervention was necessary to protect the funds from the effects of the crisis. Pension funds assets' value declined on average by 19.1 percent between November 2007 and October 2008 as the impact of the financial crisis affected the local stock market (SAFJP 2008). Much of this decline was nonetheless due to the fact that around 55 percent of private pension fund administrators' portfolios were invested in government bonds. Thus, the sharp decline in the value of pension funds was related to the sharp decline of government bonds, in turn partly reflecting investors' concerns on the government macroeconomic policy (Datz and Dancsi 2013).

Overall, short-term funding concerns have been pivotal in triggering the 2008 reform. In fact, shortly after the renationalization the government issued a series of bonds that were subscribed by the social security administration (Anses). As of December 2013, the Public Fund for the Sustainability of the Pension System (Fondo de Garantia de Sustentabilidad del Regimen Previsional Publico – FGS) composed mainly by the assets previously held by private pension funds, had 62 percent of its assets invested in government bonds which in turn represented over 90 percent of the assets in the fixed income category of the fund (Anses 2013). The reform law is vague in terms of the supervision of the FGS: while it stipulates a bicameral commission, the latter does not have binding powers. In practice, this means that the government has ample discretion on how to manage the investments of the FSG (Mesa-Lago 2009, 21).

In terms of the negotiation of the reform, the government presented the reform as a matter of utmost urgency given the sharp fall in the value of assets in the private pension pillar. The law only contained 22 articles and simply stipulated that all contributors and assets of the private pillar would be transferred to the public pillar.

The reform signified a return to the idea of the state as the main provider of retirement income that fitted with the overall orientation of the government macroeconomic policies of more state intervention in the economy. Furthermore, given the poor performance of the private pillar, the history of intermittent contributions to the private pillar and the high costs of the system, opposition to the bill was minimal (Arza 2012). The social partners, in the voice of the main labor confederation (CGT) openly supported the move given their opposition to the 1994 reform. The reform bill was swiftly debated in three weeks passed in the Chamber of Deputies with 68 percent of the vote, and in the Senate with 72 percent (Arza 2012).

The short-term funding concerns that dominated the 2008 reform meant that there was not much analysis on the impact of the reform on public finances in the medium and long-term (Arza 2009). In fact, during the reform process the government did not provide any official estimates on future spending on the new public pension system, thus raising concern about its future sustainability. Under the new system, future pensioners will obtain a pension that will amount to 45 percent of their average earnings in the 10 years prior to retirement. Estimates provided by private analysts at the time of the reform showed that the new system could experience a deficit between 1.7 and 4.1 percent of GDP already by 2030, reaching over 5 percent by 2050 (Bridger and Cado 2008, 12). In sum, the focus on the short-term goal of gaining access to fresh funding may affect the financial sustainability of the system in the long term.

Similarly to Argentina the Greek reform is the (unexpected) outcome of a reform process that started in the early 1990s and culminates with the recent one. Similarly again to Argentina pension reform has been affected by past economic choices with detrimental effects on the country's fiscal position. Pension reform re-

entered the political agenda with the establishment in late 2009 of an Experts' Committee, shortly after the advent of the socialists (PASOK) in government and consistent with their commitment that pension reform would be among the policy fields to be dealt with upon the first year of the new government's term. The Committee's final report submitted in March 2010 proposed a 'new architecture', entailing the separation of the social insurance from the social assistance functions. Despite the focus placed on the separation of the two functions though, the exact configuration –while expected to be complementary- was left open as the mix was regarded a political and not a technical or scientific issue (Stergiou and Sakellaropoulos 2010, 87). While the report was criticized for not supporting the proposed measures with the necessary intensity and clarity (Matsaganis 2010) the crisis brought an unexpected turn to the reform process.

Not long after the onset of the global crisis the government announced the misreporting of earlier fiscal data: deficit figures were revised from 3.7 percent of GDP to 12.9 according to the data submitted to Eurostat on 21.10.2009 and then to 13.6 (revised figures published by Eurostat on 22.04.2010), while debt was revised from 99.6 percent of GDP to 115.1 (Bank of Greece 2009:19). Markets reacted by raising the cost of borrowing to soaring levels as shown in the increase of the spread of Greek bonds and the downgrading of its credit rating.

As 10-year government bond spreads reached 270 basis points by 1st February 2010, 430 basis points by early April and eventually 755 by the end of the month and the country's credit rating was downgraded to below investment essentially prohibiting access to international financial markets it became obvious that the deficit reducing measures introduced until that point (including freeze in wages, increase in VAT rates and other indirect taxes, further reduction in wages through a reduction in

allowances, partial abolition of Easter, summer and Christmas bonuses of civil servants) were not succeeding in placating the markets. Concern over the country's fiscal situation was further exacerbated by its unsustainable pension system.

Following the continuous worsening of market conditions throughout 2010 the government announced on 2 May an agreement with the troika of the EC, the ECB and the IMF on a three-year programme of economic and financial policies, supported by a €110 billion financing package. The immediate priority related to containing the government's financing needs and reassuring the markets on the determination of authorities to undertake necessary measures that would ensure fiscal sustainability (European Commission 2009). In such context pension reform featured prominently among the series of frontloaded measures aimed at restoring fiscal sustainability. Thus, in contrast to Argentina who used pension reform to access funds to bypass her isolation from financial markets Greece used reform as part of an effort to affirm her ability to undertake reforms that would allow her to re-access international markets.

The policy package had immediate effects on pension levels through the introduction of cuts in higher pensions expected to save 350 million euros in 2010 and the abolition of the 13th and 14th pension payments (yet replaced by a flat-rate payment of 800 euros on an annual basis for those with pensions below 2500 euros/month) in turn expected to save 1500 million euros in 2010. A freeze of pension indexation was also foreseen for a three-year period (2011-2013). More importantly, though, the bailout agreement included the elaboration of pension reform before the end of June 2010, which would contribute to the cost-containment effort.

The agreement foresaw the transition from 2015 to a new system that would consist of a basic pension and a proportional one based on life-time earnings in line with the recommendations of the Experts' Report. According to the explanatory

statement accompanying the bill the proposed reform would not only rescue the pension system but would also contribute in avoiding bankruptcy, while ameliorating public finances (Hellenic Parliament 2010). The proposed reform was further justified by reference to the unsustainability of the system: in its absence pension expenditure would rise from the current 11.5 percent GDP to 24 percent and the system's deficit from 3 percent GDP to 15.7percent in 2050 (and without taking into consideration the state contribution of 1percent GDP). Based on these estimates the system's debt would reach 250 percent GDP or even 350 percent according to other, yet optimistic estimates, given their (positive) assumptions on growth and unemployment (Hellenic Parliament 2010). The reform was thus proposed as the only solution for a country in a state of emergency and with no time available. The adoption of the specific reform was thus constrained by the system's structure and the state of the economy; the adoption even of partial privatization that would lead to an increase in public deficit would not have been possible in a country with already prohibitive levels of public debt.

From 2015 pension benefits will consist of a newly introduced basic (flat-rate) quasi-universal component amounting to 360€ in 2010 prices, granted on a 12 month basis and a proportional PAYG one based on life-time earnings; retirement age is set at 65 for both men and women, while the award of full pension requires a 40 year contribution record. The law also introduces a safeguard clause, whereby if actuarial analysis falls somewhat short of the final objective to reduce increases in future pension costs by 2.5 percentage points of GDP (taking 2009 as reference year) the government will introduce further measures aimed at lowering pension expenditure, including a combination of adjusting parameters of the system, the basic pension and auxiliary pensions. In terms of the pension politics the stringent external constraint

(troika) has reduced the role of social partners even though some deviations from the agreement were allowed like the preservation of the separate funds for journalists and 'scientists' (i.e. doctors, engineers and lawyers).

Despite the large consolidation undertaken in 2010 progress became uneven by the end of the year in part due to the reluctance or inability of the government to realize the necessary fiscal adjustment and structural reforms. Furthermore, the country had entered a prolonged and deepening recession with the economy contracting for a fourth consecutive year in 2011 by 6.9 percent, with GDP declining for more than 13 points since 2009, yet with deficit remaining close to 10 percent despite the deep recession (IMF 2012). Market sentiment on the other hand which had plummeted since the onset of the crisis and following a brief amelioration after the announcement of the rescue package continued worsening. As highlighted by the IMF (2012: 6) 'worsening fundamentals, further adverse data revisions and, not least, public calls for a sovereign debt restructuring mechanism for the eurozone made the initial forecast of return to markets by 2012 a distant scenario'. In such context, a second bail-out program of €130 billion was agreed to cover the country's financial needs in the 2012-2014 period. The programme was conditional on the implementation of hard austerity measures and a restructuring of the Greek debt following the agreement of private creditors.

PM Papandreou's decision to call for a referendum on the bail-out agreed by EU leaders, resulted in his resignation following the explicit pressure exercised by the latter. A national unity government (initially composed by the socialists (PASOK), the conservatives (ND) and LAOS a right-wing populist party) was subsequently appointed under L. Papademos, former ECB Vice-President, with the task of approving the bail-out package (Euractiv 2011). The austerity measures – a

precondition for the EU and the IMF for releasing the funds- were approved in mid-February 2012, yet with important political repercussions. The measures were voted against by LAOS that subsequently withdrew itself from the government, while the 43 MPs from PASOK and ND who also voted against were expelled by their parties.

As stated in the Memorandum of Understanding for the second bail-out programme (2012: 5) 'given the high share of pensions in Greek government spending, the large remaining fiscal adjustment will necessary have to involve further pension adjustments'. Following the adoption of Law 4052/2012 the defined benefit system of supplementary funds will be replaced by a notional defined contribution[iii] one, operating on the basis of individual pension accounts. The introduction of a sustainability factor will prevent the creation of deficits by adjusting benefits to contribution levels and demographic characteristics. The passing of the reform has been facilitated by highlighting the unsustainability of supplementary funds, while opposition was minimized by limiting the reform to supplementary funds and through the introduction of a phasing-in period. Additional measures included cuts of 12 percent in primary pensions exceeding 1300 euros per month (affecting 13.6 percent of pensioners) and cuts between 10 and 20 percent in supplementary pensions (affecting half of supplementary pensions' recipients). These measures were expected to generate savings of about €450 million for 2012 (0.2 percent of GDP) (IMF 2012).

According to the Labour Institute between May 2010 and June 2012 cuts in main and supplementary pensions have amounted to 4.2 billion euros, while cuts in main and supplementary pensions, lump sum payments and social assistance benefits foreseen for 2013/14 will result to further cuts of 5.5 billion euros (INE 2013). As a result pension expenditure has decreased from 33 billion euros in 2009 to 22.5 in 2013, a decrease of 32 percent (Robolis and Betsis 2013). This massive retrenchment

has resulted in significantly reduced benefits for current pensioners by about 40 to 50 per cent for certain income brackets (Petmesidou 2013). The 'Helios' Unified System of Pension Payments estimated the average gross pension in November 2013 to 927 euros, compared to 1350 euros in 2009 according to the Labour Institute estimate, i.e., a decrease of 31.5 percent. According to Helios a quarter of pensioners have a mean gross monthly pension of € 360 (equal to the amount of social pension), while in the case of supplementary pensions 99 percent of old age recipients receive a mean (gross monthly) auxiliary pension of about €187 (Petmesidou 2013). At risk of poverty for those over 65 stands in 2013 at 23.6 per cent.

Yet despite the massive retrenchment the system's sustainability is based on shaky ground. Rising unemployment as a result of the crisis (27.5 percent in 2013), contribution evasion (estimated between 12-15 billion euros per year) and the inability of nearly half of the self-employed to pay their contributions (To Vima 2012) raise serious concerns. By mid-2013 the social insurance funds deficit has reached €2.5 billion (Petmesidou 2013). In addition, the debt restructuring took also its tool on pension fund assets that had been invested in Greek government bonds and which lost almost 50 percent of their value.

Conclusions

The present article focused on instances of radical pension reform in Argentina and Greece following the latest economic crisis. Whereas the contribution of pension reform in maintaining sound finances has been examined in the past, the crisis has challenged us to focus on the use of radical pension reform as a tool serving short-term economic goals and on the implications of such choice on the future prospects of pension systems. Fiscal pressures and lack of access to international

financial markets coupled with the unsustainability of the pension systems under study are central in understanding the radical character of enacted reforms. In both countries, pension reform provided an immediate ease on budgetary pressures in a context of no access to international markets. The structure of the pension system has shaped reform content: rationalization of assets held by the private pillar in Argentina and radical retrenchment of the public pillar in Greece. Nonetheless, while the reform mechanism has been similar, the underlying reason was different: Argentina pursued the reform as a way to bypass her continuous isolation from international markets, while Greece introduced the reform as an attempt to show her readiness to them and aiming at an eventual return.

Reform has been facilitated in both cases through a legitimising discourse defending the transition from the current unfair and unsustainable pension system to a fairer and more sustainable one. However, the use of pension reform as a "quick fix" to pressing economic concerns has not allowed the proper consideration of adequacy and sustainability issues raising concern as to the sound-footing of the new pension system architecture opening up a window for further interventions.

External constraints, namely the role of international markets, have gained importance during the recent crisis, while the role of social partners has diminished. In addition, the subordination of the reform process to short-term economic goals has resulted in limited room for consultation with social partners, thus lowering their influence.

The increasing adoption of radical reforms in other countries around the world allows us to argue that the insights from our analysis are useful to understand other recent cases of radical pension reforms. Within the EU, the Hungarian reform constitutes a typical example. In 2010 the government pursued a radical pension

reform by de facto re-nationalizing the second pillar introduced in 1998 under pressure to finance her short-term debt obligations and promote deficit reduction in a context of restricted access to international credit. Like in the case of Argentina, the government sought a 'quick fix' by using the accumulated capital of the second pillar's funds as a source of finance (Simonovits 2011). In 2013 Poland nationalized her private pillar with the government justifying the reform as a way to reduce government deficit and debt levels (Reuters 2013). Beyond the EU, Bolivia adopted renationalization to allow the government to access around 3$billions (Mesa Lago 2013). While critics have argued that the reform would increase long term costs, the government in a similar way to Argentina justified the reform by highlighting the loss in value of funds due to the crisis and the low coverage of the system (Hujo 2013, 263)

As radical reforms are increasingly being adopted by countries a central question relates to the extent at which such reforms succeed in securing the long-term sustainability of pension systems. The analysis of pension reform in Argentina and Greece seem to confirm Datz and Dansci’s (2013: 92) observation that 'when pensions become levers for state financing under duress not only are careful calculations about the long-term sustainability of the pension system [are] neglected. It therefore comes as no surprise that despite the adoption of radical reform pensions are still an important issue on the political agenda.

A final issue of concern relates to the changing public-private mix. Thus far, while we have seen a retreat of the pension orthodoxy, this has not been compensated by an increase in state provision resulting in the overall retrenchment of pension benefits. Pension privatization might not be exactly dead (cf. Orenstein 2011), yet the

new model is still in the process of being shaped without though showing signs of a return to the past, i.e. a reaffirmation of the state's central role in pension provision.

Table A1. Key Facts of the Pension System in Argentina and Greece (before the Crisis)

		Argentina	**Greece**
First Pillar	Membership	Mandatory	Mandatory
	Contribution levels	11% employee	6.67% employee
		17% employer	13.3% employer
	Financing	PAYG + government transfers	PAYG + government transfers
	Benefit paid	Defined Benefit (salary related)	Defined Benefit (salary related)
	Pension benefit spending	5.4% (2007)	12.4% (2007)
	Replacement Rate	60%	100%
Second Pillar	Membership	Mandatory	Voluntary
	Contribution levels	11% ee, if not a member of first pillar	Not specified
	Financing	Member contribution	Member contribution
	Benefit paid	Defined Contribution (contribution related)	Defined Contribution (contribution related)
	Assets (% of GDP)	10% (2008)	0.3% (2008)
Other indicators	Retirement Age	60 women - 65 men	60 women - 65 men
	Old-age poverty ratio (65+)	13.40%	21.40%

Sources: Arza (2009); European Commission (2009); Eurostat (2015); Petmesidou (2009)

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[i] Brought to fame by the World Bank Report 'Averting the old age crisis' (1994) the 'new pension orthodoxy' has advocated the transition to a multi-pillar system as a comprehensive answer to the fiscal problems of state administered PAYG systems resulting from demographic ageing. The proposed model consists of a less generous public pillar together with a mandatory second funded pillar of individual accounts, topped by a third voluntary pillar of private savings.

[ii] Citizens' lack of reaction to the governments' continuous oversight on pensions is explained by the gap between promised and actual outcome as suggested by Arza (2012). Dissatisfaction with the existing system and the promise of a batter outcome favours the adoption of reform; once the gap between (new) promises and outcome becomes evident the reform cycle opens again.

[iii] Notional defined contribution systems mimic a funded system of individual accounts, yet with a PAYG financing structure. Pension contributions are tracked in accounts which earn a rate of return which is set by the government and is not the product of investment return as accounts are notional.

Upon reaching pension age, accumulated contributions and notional returns are converted into an annuity.