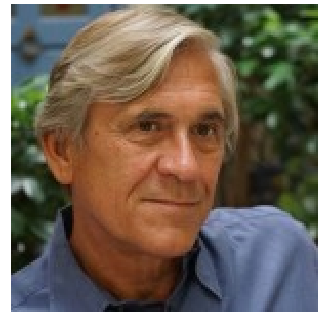
A quick guide to one more Greek Pension Reform

blogs.lse.ac.uk/greeceatlse/2016/01/19/greek_pension_reform_guide/

HO Editor 2016-1-19

By Platon Tinios



Greek ruins tend to be picturesque, blending destroyed architectural fragments with dramatic settings. The succession of columns, marbles and pediments, after a few repetitions, becomes confusing; only the tourist with the good guidebook finds her way around. She does not miss the must-see bits and is able afterwards to put all the different ruins in a sequence that makes sense and can tell a story worth remembering.

Greek pension reforms are a little like this. There have been at least *four* since 2010, and we are now preparing for the fifth (or is it the sixth?) in early 2016. Frantic action and dramatic changes have been the order of the day since the bailout, where each new loan calls for its own pension reform. This is in stark contrast to *before* the crisis, where talk of pensions was associated with resolute immobility. What in the pre-crisis world was talk without action, is now action without talk. Something interesting could be taking place, though only those in the know seem to understand *what* or *how*. To appreciate what is happening, a guide is necessary.

Understanding how Greek pension reforms work and how they are linked to the crisis, is worthwhile, for at least *three* reasons:

1. The pension problem has, supposedly, been tackled, time and again. Each time viability is declared conquered. The same claims are repeated at the next reform, a few years (or months) down the road.
2. Pensions seem to be intimately connected to the mechanics of the crisis. This is for public finance reasons, as pensions are key determinants of short term and long term deficits. It is also for political economy reasons, as pensions have a unique capacity to galvanise opposition.
3. What happened in Greece over the summer of 2015 is, in a way, what pension experts had been warning would happen *anywhere*, if the ageing challenge was ignored. Scenaria raised as distant theoretical eventualities could have been seen being acted out in Greece in real time. For example, what happens when two rival claims to output collide? In June 2015 the Greek government had only enough money to satisfy only *one* set of claims. On one side, were *legal* claims of creditors and, on another, *moral* claims of pensioners. The government elected *not* to pay the IMF, rather than to disappoint pensioners. At the same time, to add to confusion, Greek governments had no qualms about cutting pensions to 85-year old pensioners.

The latest 2016 reform is tabled by a left-wing anti-austerity government concerned to show that signing its own bailout was no capitulation and that it can still show its progressive credentials. It wants its own stamp to be clearly visible, while at the same time not jeopardising the programme as a whole. In doing so, it has to walk a tightrope between satisfying the lenders and retaining the support of a Parliament in which it has a majority of three seats. The Opposition, despite having voted for the bailout, wants to show that its days of acquiescence are over; it is trying to find justifications for rejecting what it had previously accepted. Finally, in technical terms, this pension reform is forced to be inventive: It has no recourse to borrowing, while many other means of reaction are blocked, or others, such as retirement ages are already decided.

As a result, the latest Greek pension reform cannot fail but have interesting aspects. Rather than the usual practice of burdening the young generation and sparing incumbents, it had to do the *opposite*. It takes rules already in force for the young and applies them retrospectively to their parents. In attempting to extend general rules to population groups hitherto subject to special regimes, such as the self-employed, farmers or the free professions, it raises fundamental issues of *general* relevance. Such are: What is the meaning of over-insurance? How ought employers to participate in social insurance? There is, also, interest in the political economy of reform: Will the authorities extricate themselves from the trap in which their own strategy of blame avoidance had condemned them? Will path dependence preclude the emergence of unusual alliances as reform discussions unfold?

Connoisseurs of pension reforms are waiting to see how these and other issues will play out in weeks to come. Without a guide to direct and inform our interest, though, many of the nuances will be lost; the reform sequel will arrive, as it undoubtedly will, unanticipated and unexplained.

The 17-page briefing note, “Greek pension reform once again: Explaining its logic and issues”, to which this is linked, gives a quick explanation of the background of the reform, its key strategic features, a check-list of side issues and areas of contention, and a timeline starting in 1934 but focussing in the period after 2015. Matters tackled include: What are the three types of consolidation which the reform uses as its main instruments? What are ‘auxiliary pensions’ and what is ‘the zero deficit rule’? Does the reform cut or does it raise pensions? And others.

An 11-page technical note, entitled ‘Misperceptions, Misstatements, Misunderstandings’ explains technical issues which are raised or are frequently cited. Such are, whether the pensions were hit by the crisis and how, whether pensioner poverty has been made worse, what part did the write-down of reserves play in today’s pension problems, and others. To get a handle on those questions requires a mixture of conceptual gymnastics and awareness of key statistical ‘stylised facts’.

Dr Platon Tinios is Assistant Professor at the University of Piraeus and Visiting Senior Fellow at the Hellenic Obserevatory, LSE