Pathways to a universal basic pension in Greece

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Abstract

Although basic pension had for years failed to catch the imagination of policy makers in Greece, it was suddenly brought to the agenda in the context of the severe crisis raging since November 2009. In May 2010 the government committed to a harsh austerity programme, aiming at fiscal consolidation, in return for a rescue package easing the sovereign debt crisis. The July 2010 pension reform, a key provision of the austerity programme, provided for the introduction of a near-universal basic pension from 2015. The paper attempts to explain why, paradoxically, the crisis made more realistic a universal basic pension in Greece. We argue, firstly, that social insurance pensions may be ripe for path-breaking reform if heavily subsidised in a non-transparent way, and, secondly, that any progress towards basic income is likely to be gradual, uneven and specific to the national policy context.

Keywords

Universal basic pension, Greece, economic crisis, 2010 reform.

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1. Introduction

The supranational dimension to basic income is undoubtedly important. In recent years, interest in age-specific basic income schemes at the level of the European Union is on the rise. Recent examples include Levy et al. (2007), who explored the implications of a basic income for children, and Goedemé and van Lancker (2009), who discussed options for a universal basic pension.

Basic pensions can be defined as schemes where "the benefit is either flat rate (the same amount is paid to every retiree) or it depends only on years of work, but not on past earnings, nor does additional income in retirement change the value of basic pensions" (OECD, 2009).

As a matter of fact, such schemes are not very common. Among OECD countries, thirteen are currently described as having a basic pension scheme. On closer inspection, only in four of these (the Czech Republic, the Netherlands, New Zealand and Norway) is the basic pension universal – that is, paid at a flat rate, conditional on residency alone. In another four countries (Britain, Ireland, Japan and Luxembourg) the basic pension depends on career length, and is reduced proportionally in case of incomplete contribution histories. Furthermore, in four countries (Canada, Denmark, Iceland and Korea) the basic pension is actually tested against other income, even though income thresholds tend to be relatively high, and withdrawal rates relatively low.[1]

The hybrid nature of most basic pension schemes reflects the fact that pathways to basic income, including its age-specific variants, are always likely to be specific to national contexts (Jordan et al., 2000). In this spirit, this paper analyses the rather tortuous process leading to the unexpected arrival of Greece to the club of countries with a basic pension. More specifically, the paper discusses the current state and future prospects of a universal basic pension in Greece, in the context of the country's severe economic crisis and in the light of the 2010 pension reform.

On the eve of that reform, the outlook for Greek pensions was bleak. Future expenditure was estimated to reach 19.4% of GDP in 2035 and 24.1% in 2060, whereas in the rest of the European Union it was set to rise gently to 11.9% and 12.6% respectively (EC, 2009). While the optimal level of pension spending cannot be determined *a priori* as it must reflect social and political preferences, such a burden on public finances was clearly unsustainable. The current crisis has demonstrated that pension deficits of this scale seriously undermine *inter*-generational equity and future living standards, while the

[1] The thirteenth country is Mexico, classified by the OECD as having a basic income component on the grounds that the government pays a flat-rate contribution to individual retirement accounts.

ensuing fiscal adjustment threatens political stability and weakens social cohesion.

Furthermore, Greek pensions perform poorly with respect to *intra*-generational equity, i.e. within the current generation of retirees (EC, 2010). In a context of institutional fragmentation, pension entitlements differ enormously. As a result of that, workers with identical contributory records are eligible for vastly different pension benefits, depending on occupation, cohort or gender. At the same time, poverty in old age (23%) is well above the European average (20%), especially among the very old (31% and 23% in the 75+ age group respectively). It appears that the country's pension system is failing to deploy the large resources it commands to meet fundamental distributional objectives.

While Greek pensions are unsustainable as well as inequitable, recent attempts at significant reform had ground to a halt, or ended in outright failure. Pension reform returned to the top of the political agenda with a vengeance in the context of the current crisis. Rapidly escalating from November 2009, the sovereign debt crisis made the cost of borrowing from international markets prohibitive. The €110 billion rescue package agreed in May 2010 with the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) was designed to cover the country's entire borrowing requirements for three years. In return of that, the socialist government, in office since October 2009, signed a Memorandum of Economic and Financial Policies which contained harsh austerity measures including drastic pension reform.

The reform raises the retirement age and contributory conditions for current workers, while it establishes a new pension structure from 2015. That amounts to a decisive break with Bismarckian social insurance: it provides for a modest basic pension which falls somewhat short of full universality, and introduces a contributory proportional pension which is less generous than social insurance pensions in the previous system but also more uniform across categories.

The paper is structured as follows. Section 2 examines government subsidies to pensions in the current system. Section 3 recounts the evolution of basic pension ideas in Greece since the early 1990s. Section 4 discusses the 2010 pension reform, including provisions for a new basic pension. Section 5 reviews the positions of political and social actors. Section 6 concludes with a discussion of prospects for a universal basic pension in Greece.

2. Government subsidies to the pension system

Pensions represent Greece's backbone of social protection, providing households with 24.1% of their disposable income on average (ELSTAT, 2010). Not much remains for other social benefits (such as unemployment, family, sickness, housing and social assistance benefits), accounting between them for a mere 3.7% of household disposable income. As the pension system is highly fragmented and fiscally unsustainable, this backbone is broken.

Differences in treatment are pretty extreme, in terms of contribution rates, reference earnings, contributory requirements, replacement rates as well as the statutory retirement age, which for men varies from 45 to 65 years. While the general picture is complex, systematic cleavages can be identified. In general, pension rules favour the liberal professions over wage earners, public over private sector employees, unionised over precarious workers, the middle-aged over the young, and men over (most) women.

Furthermore, the safety net in old age is patchy. Non-contributory pensions are paid to farmers and to the non-insured, while recipients of a minimum pension may also be entitled to an income-tested supplement. More specifically, the main schemes are: (a) the social pension, or "pension to uninsured elderly", aimed for those with no or low lifetime contributions; (b) the non-contributory basic pension to farmers, gradually phased out since 1998; (c) the pensioners' social solidarity benefit *ΕΚΑΣ*, an income-tested supplement to low pensions, reserved for recipients of a contributory pension except farmers; and (d) minimum pensions to those with sufficient lifetime contributions for a contributory pension, but too low to ensure their pension exceeds a certain minimum level.

The social pension, the basic pension to farmers and the pensioners' social solidarity benefit *ΕΚΑΣ* are funded out of general taxation rather than social contributions. In the case of minimum pensions, the non-contributory component is the implicit subsidy intended to ensure that all contributory pensions reach at least a specified minimum. In other words, the implicit subsidy is a top-up to the contribution-related "organic pension" resulting from the strict application of the benefit formula.

Table 1 shows non-contributory components to minimum pensions, including *ΕΚΑΣ*, allowances for a spouse and two dependent children, and the implicit subsidy (estimated as the difference between the minimum pension and the actuarially fair benefit for a low earner retiring with the minimum contributory record). Summing them all up, non-contributory components could reach €592 monthly (80.4% of a typical minimum pension package) in 2007, depending on individual characteristics.

[TABLE 1]

Government subsidies are not restricted to funding non-contributory elements. As Table 2 indicates, total government support to the pension system amounted to €15,170 million in 2008, equivalent to a staggering 6.3% of GDP or 52.2% of total spending on pensions. While most of this was truly intended to fund non-contributory elements, or to support social insurance agencies facing severe financial difficulties due to adverse demographic imbalances (e.g. NAT, the fund for sailors), or to comply with the provisions of Law 2084 of 1992 (stipulating state contribution at 10% of gross earnings to post-1993 entrants), considerable sums actually found their way to smaller agencies insuring high earners. Such subsidies may be direct (aimed to cover the large deficits of currently or formerly state-owned banks and public utilities paying over-generous pension benefits to retired former employees), but sometimes take more covert forms.

The case of earmarked indirect taxes, euphemistically known as “social resources”, is emblematic. These are special surcharges on goods and services, whose proceeds are then transferred to the relevant social insurance agency. In relative terms, such surcharges may provide a very significant share of the agency’s total resources. Note that Table 2 excludes surcharges that in all intends and purposes are identical to the above, except that they are officially classified as employee or employer contributions. Examples of the latter are the 1% tax on the cost of public works (in favour of the engineers’ fund), a surcharge on the price of newspapers (in favour of the press workers’ funds), a surcharge on the cost of legal services (in favour of the notaries’ and lawyers’ funds) and so on. Earmarked indirect taxes are a relic of the not-so-distant past, when privileged groups lobbied governments for special concessions of all sorts (Matsaganis, 2002).

[TABLE 2]

As the above analysis demonstrates, the very large government subsidies to social insurance pensions in Greece generate a “Matthew effect” of redistribution from the poor to the rich[2].

This rather quaint feature of the Greek system suggests the contour lines of a fairer and more sustainable pension design. In brief, a reformed system would pay a purely actuarial contributory pension equating lifetime benefits to lifetime contributions. Government support would be redirected from subsidies to social insurance pensions towards a self-standing state pension programme. Anything from a means-tested minimum pension guarantee to a universal basic pension would then be made possible.

Not surprisingly, this rather simple idea did occur to a few people over the last two decades.

3. The evolution of basic pension ideas

Pension reform has been intermittently on the political agenda since the early 1990s (Featherstone, 2005; Triantafillou, 2005; Tinios, 2005; Matsaganis, 2007; Vlachantoni, 2007; Carrera et al., 2010; Tinios, 2010). Throughout this period,

[2] We owe this insight to an anonymous referee.

proposals for a reformed structure, including variations on a basic pension, periodically emerged as possible solutions[3].

Pension reform gathered pace when the conservative New Democracy party won the 1990 general election and pledged to reduce the fiscal deficit. Cutting pension spending was seen as a key component of the government's fiscal consolidation effort. Law 1902 of 1990 provided for rather modest changes, but was presented as the first step towards a broader reform that would lead to a multi-pillar pension system. However, the original plan for structural reform was soon abandoned. The parametric changes brought in by Law 2084 of 1992 reinforced the logic of the existing system, and the burden of adjustment was placed on future generations, as the privileges of older workers were left almost untouched.

The socialist party *ΠΑΣΟΚ* firmly opposed the 1992 reform in opposition, and promised to reverse it when back in government. A radically reformed three-tier system, including a tax-funded basic pension, was advocated by Costas Simitis, an independent-minded socialist backbencher who later became Prime Minister. However, when the party returned to power in 1993, the entire hot potato of pension reform was carefully put aside.

In 1996, after *ΠΑΣΟΚ*, this time led by Simitis, won another electoral victory, pension reform reappeared on the political agenda. An expert committee, chaired by Professor John Spraos, was set up with the task to investigate the long-term prospects of the Greek pension system. Its report, published in 1997, outlined various options for reform and seemed to favour a multi-pillar system, including a national pension funded out of general taxation.

The report was met with fierce opposition from trade unions and public opinion. In view of that, the government retreated, launching a dialogue dealing mostly with procedural aspects of the existing system. This resulted in the introduction of Law 2679 of 1999, dubbed the "mini-pension reform". Plans for a broader pension reform, including a national pension, were once again shelved.

The second term of the Simitis governments (2000-2004) was marked by the ambitious, but ultimately failed, attempt of socialist modernisers to reform pensions. The government plan, made public in April 2001, provided among other things for lower replacement rates, longer contributory records, and a uniform retirement age of 65. The main idea of the plan seemed to be the elimination of privileges in treatment enjoyed by some categories through convergence to the pension rules of *IKA*, the general regime of private sector workers.

The 2001 plan remained firmly within the boundaries of a public, pay-as-you-go, defined-benefit system. If implemented, Greek pensions would become

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[3] We thank Platon Tinios for advise on the history of basic pension ideas in Greece.

somewhat more viable and considerably less inequitable. Instead, it was widely portrayed by unions, opposition parties and the press as "the end of welfare as we know it". As prominent figures of the socialist party also took their distance, the government decided to withdraw its pension plan and call, yet again, for "social dialogue".

A new pension bill was presented to Parliament in June 2002. In the general spirit of rapprochement with the unions, the new bill did not address the problem of the statutory retirement age. However, because of the extension of seniority pensions and the practice of "hard and arduous" occupations to civil servants, 2.5 million contributors were expected to retire earlier and another 1 million to be unaffected as a result (no-one would retire later). No figures were forthcoming on the bill's impact on future deficits, which the "unnecessarily harsh" measures of the 2001 plan were to dent by a mere 17.5%. On the whole, Law 3029 of 2002 marked a retreat from the timid egalitarianism of the 2001 plan, leaving the problem of ensuring the long-term viability of Greek pensions for future governments to tackle.

In the meantime, basic pensions came up during the consultation with political and social actors attempted by Minister for Labour and Social Insurance Tassos Yannitsis in May 2001. While trade unions and opposition parties from left and right refused to participate, two small political formations made detailed proposals.

The centre-left *AEKA* (active from June 2000 to September 2003) presented a blueprint for a reformed pension system, whose main tier would be based on notional defined contributions, along the lines of the Swedish and the Italian systems after the reforms of the mid-1990s (Hamman, 1997; Palmer, 2000; Whitehouse, 2007; Jessoula, 2009). The first tier would consist in a universal Citizens' Pension, paid to all from age 65, at a total fiscal cost of 4% of GDP. Under this plan, government support would be restricted to funding the Citizens' Pension, and to contribution credits to main-tier pensions in case of sickness, maternity and unemployment (*AEKA*, 2001).

At about the same time, the centre-right Liberals (active from April 1999 to October 2001) presented a similar proposal, except in one crucial aspect. While the main tier would also be based on notional defined contributions, government support would be restricted to funding a minimum pension guarantee, provided on a means-tested basis from age 65 to those with incomes below the 2001 level of minimum pensions (Liberals, 2001).

Needless to say, nothing came of either of these plans, as Law 3029 of 2002 removed pension reform from the political agenda – albeit, as it turned out, only temporarily.

The general election of March 2004 ushered in a 5-year interregnum of New Democracy rule. Having ascertained the strength of popular sentiment to which they themselves had contributed when in opposition, the conservatives were decidedly unenthusiastic about pension reform. In fact, the main piece of legislation in this policy area was Law 3655 of 2008, which, even though nominally consolidated the estimated 155 social insurance agencies into 13, generally maintained the privileges of high-income groups. Otherwise, the period was marked by the decision of the European Court of Justice (26 March 2009) to declare illegal the practice of allowing female civil servants to retire earlier than their male colleagues, as well as female workers in other occupations. It was estimated that as a result of that ruling, the retirement of approximately 140,000 female civil servants would have to be postponed by 5 to 17 years – which, of course, is indicative of the magnitude of privileges in the *status quo ante*.

4. Basic pension (suddenly) on the agenda

During the election campaign which eventually led to their landslide victory in October 2009, the socialists made three promises they must have known they would be unable to keep: not to cut pensions, not to raise retirement ages, not to change contribution rates. After all, this reassuring position was consistent not only with perceived electoral realities, but also with the general drift of the party manifesto, pledging a bold, expansionary economic policy of Keynesian inspiration, designed to kick-start an era of fast growth. As *ΠΑΣΟΚ* leader and current Prime Minister George Papandreou affirmed, money *was* available – the real question was how to spend it.

Very soon the music changed. When the government discovered that the public deficit would be considerably higher than the previous government had admitted, international markets started to demand an ever increasing premium in order to buy Greek bonds. The so-called “spread” over German bonds rapidly escalated from November 2009: having reached 200 basis points (i.e. 2%) in January 2010, it exceeded the 1,000 basis points (i.e. 10%) mark in April 2010. At that point, the cost of borrowing from international markets became simply prohibitive. After much procrastination on all sides, an unprecedented €110 billion rescue package was agreed in May 2010 with the European Commission, the European Central Bank and the International Monetary Fund, designed to cover the borrowing requirements of the country for the next three years.

In return of the bail-out, the government signed a Memorandum of Economic and Financial Policies (ratified by Parliament on 3 May 2010), whose terms included austerity measures immediately affecting pensions and a far-reaching reform of the country’s pension system by September 2010. The future pension system ought to include “a means-tested minimum guaranteed income […] to protect the most vulnerable” (IMF, 2010).

In the meantime, Minister of Labour and Social Insurance Andreas Loverdos had in December 2009 set up an Experts Committee to advise the government on pension reform. The social partners, including the union confederations, were also invited. Nevertheless, *ΑΔΕΔΥ* (civil servants) declined the invitation from the start, while the representatives of *ΓΣΕΕ* (private sector workers) walked out in protest in February 2010. The committee handed in its report on 16 March 2010. The report made a series of recommendations, but was unable to agree on the "new architecture" of the system. Specifically, while it accepted in principle the separation of contributory ("insurance") from non-contributory ("assistance") elements, it failed to specify the exact configuration of basic and proportional pensions.

Following the release of the Experts Committee Report, the government got to work on a draft bill on pensions. Given the exceptional circumstances, the bill was made public on 10 May, i.e. exactly a week after Parliament ratified the Memorandum of Economic and Financial Policies the government had signed with donors. According to the draft bill, the future system would combine a tax-funded basic pension with a contributory proportional pension.

As far as the basic pension is concerned, rather than determining that it would be paid from the same age (e.g. 65), irrespective of when one decides to draw his or her proportional pension, the draft bill made the basic pension a mere addition to the proportional pension, to be paid from the same age as the latter. Granting those retiring earlier the full basic pension, a seemingly innocuous provision intended to make the new system as similar to the old as possible, had undesirable side effects. In the short term, it made the decision to retire early financially more attractive. In the long term, it implied basic pensions would be paid for longer, and hence lifetime transfers would be higher, the earlier one chose to retire. On the whole, by reintroducing unacceptable differences in treatment, this provision clashed with equity – while by strengthening the incentive to retire early, it also undermined the efficiency objectives of pension reform.

The final draft of the bill was presented to Parliament on 25 June 2010, and was debated in early July. With respect to the proportional pension, accrual rates will vary by length of insurance period. The return on contributions will range from 0.8% per year for a contributor with less than 15 insurance years, to 1.5% per year for one with 40 insurance years or more. While the new provision eliminates the blatant inequity of the previous one, the risk that low-paid workers with uncertain career prospects and insecure attachment to the labour market might see little incentive to pay pension contributions is still there, albeit in less severe form.

The basic pension, fixed at €360 per month in 2010 prices, paid 12 times a year, will be available with no means test to all recipients of a proportional pension with a contributory record of at least 15 years. The full rate will be payable at age 65, reduced *pro rata* (by one thirty-fifth a year) for those who have been resident in the country for less than 35 years between the ages of 15 and 65. In cases of early retirement, the basic pension will be paid at a lower rate, reduced by 6% per each year short of age 65. Those with a shorter contributory record will still be eligible for the basic pension, but only if they pass a means test: personal income must be below €5,400 per year, family income below €10,800 per year (in 2010 prices). Neither the means-tested version of the basic pension nor the proportional pension for those with less than 15 years of contributions are payable before age 65.

To allay fears that the new structure may eventually not amount to much, a further safety net has been introduced in the form of a minimum pension. Specifically, those retiring with an insurance record of at least 15 years will have a guaranteed minimum pension equal to the equivalent of 15 minimum daily wages (as stipulated in the National Collective Labour Agreement for 2015). At present, this would be worth €496 per month.

On the whole, the reform breaks with the tradition of Bismarckian earnings-related social insurance and moves towards a multi-tier system separating contributory from non-contributory elements. While its first tier falls short of full universality, it is the closest to a universal basic pension the Greek pension system has ever got. Nevertheless, the value of the basic pension remains modest. Indeed, it is below the fiscally sustainable level of a hypothetical universal basic pension paid to all residents aged over 65, which would be €450 per month approximately at a total cost of 5% of GDP[4].

5. Reactions to the government plan

The government plan caused great controversy and fierce protests. The final version of the bill was first debated at the Parliamentary Committee for Social Affairs (from 29 June to 1 July); the opposition parties and the 14 social actors invited by the Committee all firmly opposed it. A key objection was that, by introducing a basic pension, the government was no longer responsible for guaranteeing an adequate level of contributory pensions. Beyond Parliament, the Economic and Social Committee, in a statement released on 5 July, also rejected the bill, arguing among other things that replacement rates introduced were low, as a result of which the incentives to pay contributions were weak.

On 6 July 2010 the bill was brought to the plenary. In order to soften reactions, the government introduced a series of amendments; one of these, placed at the very beginning of the text of the bill, assured that “the state guarantees the viability of the country’s social insurance system with the aim of ensuring a

[4] The hypothetical level of a universal basic pension at a cost of 5% of GDP for all those aged 65+ in 2015 is based on the assumption that GDP will be €243.5 billion in 2010 prices (as forecast by the IMF), and that the population aged 65+ will be 2.25 million (as forecast by Eurostat). Note that using *all* government subsidies to current pensions (equal to 6.34% of GDP) to fund the universal basic pension would raise its hypothetical value to €572 monthly.

decent pension to each beneficiary". On 8 July, after two days of relentless attacks by the opposition, the bill was approved by a narrow majority (159 to 137), and became Law 3863. A week later, a similar bill related to civil servants was also voted in as Law 3865.

The positions of key political and social actors, based on official documents and *ad hoc* interviews with the relevant spokesmen, are summarised below.

Political actors

The main opposition party, conservative New Democracy, had attempted to conceal its reluctance to be drawn into what it perceived as a vote-losing issue behind the (somewhat incongruous) argument that the proper implementation of its own Law 3655 of 2008 would ensure the long-run sustainability of the system. Being embroiled in an internal fight and a change in leadership after its heavy defeat at the polls in October 2009, the party line had been to wait until the pension bill was finalised. Eventually, at Parliament, the party voted against the separation of basic from proportional pension, claiming that "there should be only one, comprehensive pension".

The Communist Party (*KKE*) rejected the idea of a basic pension financed by the state. With respect to the pension bill, the party pledged to "do everything in its power to organise a mass popular resistance and counterattack against all measures already decided in advance, in accordance with EU guidelines and the demands of plutocracy". It dismissed basic pension as a "funeral benefit", a ploy of government to renege on its financial obligations towards pensioners and the working population.

The far right Popular Orthodox Rally (*ΛΑΟΣ*) was the only opposition party to vote in favour of the Memorandum of Economic and Financial Policies, where the required pension reform was clearly outlined. Nevertheless, the party voted against the pension bill on the grounds that it introduced more severe cuts than those implied in the Memorandum. At the parliamentary debate, its spokesman reiterated the party's proposal for a three-pillar pension system, including a "national pension, provided to all Greek citizens at the age of 65 according to their needs" (foreign nationals would be ineligible).

The Coalition of the Radical Left (*ΣΥΡΙΖΑ*) opposed the introduction of a new pension system separating contributory from non-contributory benefits, on the grounds that it would restrict tax funding to the latter, and criticised the low level of the basic pension. The party favoured a social insurance system along traditional Bismarckian lines.

The Democratic Left party, founded in June 2010, voted against the pension bill as a whole but in favour of specific clauses. The party accepted that the previous system was unviable and unfair, criticised the government for failing completely to eliminate inequalities in treatment, and proposed that the basic pension should be made universal and the proportional pension actuarially fair.

The Greens, represented in the European Parliament, rejected the pension bill. The party saw the future pension structure as an attempt to minimise state involvement in funding social insurance. Its preferred, rather ill-thought, pension system consisted of a national, a main and a supplementary pension, with tax funding extending to the financing of all three pillars.

The Liberal Alliance, a small political formation founded in 2007, came out against the pension bill in support of a fully-funded system, with government subsidies confined to a top-up minimum pension guarantee.

Finally, Action (yet another tiny liberal party founded in 2009) supported the reform on the grounds that "it moves towards the right direction, even though it does not touch the heart of the problem". The party's preferred solution, outlined in a press article[5], involved the complete abolition of social insurance contributions and the introduction of a tax-funded universal national pension equal to the minimum wage (at €10,395 per year in 2010 prices).

In short, with few exceptions, political actors failed to engage seriously with pension reform, or to propose alternative ways to distribute the costs of fiscal adjustment. In a superficial, attention-grabbing manner, they mostly focused on losses relative to the *status quo*. Sensible improvements to the pension bill with an eye to sustainability and intergenerational justice were simply not part of the political debate. In this context, support for a universal basic pension cannot but be weak.

Social actors

Trade unions are hostile to the idea of a basic pension. The two confederations *ΓΣΕΕ* and *ΑΔΕΔΥ* view it as part of a move to abolish the existing tripartite funding of social insurance. The unions walked out of the experts committee in early 2010 and refused to be drawn into the debate on a new pension system thereafter. Staunch defenders of current arrangements, they simply called for parametric changes and increased funding, through the imposition of new taxes and the fight against evasion of social contributions.

The employer federation (*ΣΕΒ*) refrained from commenting on the new pension structure, even though it had criticised the government for lack of firmness in enforcing the Memorandum. In contrast, the Athens Chamber of Commerce (*ΕΒΕΑ*) advocated a notional defined contributions-type main tier, coupled by a first-tier means-tested minimum pension guarantee (Tinios, 2009).

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[5] The article ("We are not quite done with pensions" by *Action* chairman S. Manos) appeared in the *Kathimerini* daily on 11 July 2010.
http://news.kathimerini.gr/4dcgi/_w_articles_columns_2_11/07/2010_407645.

The General Confederation of Artisans, Craftsmen and Tradesmen (*ΓΣΕΒΕ*), reflecting the interests of small employers, shopkeepers and self-employed workers, also rejected the idea of a new pension structure, arguing that Law 2084 of 1992, if fully enforced, would be sufficient to bring the system back to equilibrium.

Finally, “Generation €700” (G700), a movement representing the rights of “Greeks aged between 25 and 35, who are overworked, underpaid, debt ridden and insecure” came out in favour of redesigning the country’s fragmented and unfair pension system. It embraced the idea of a multi-pillar system and was generally supportive of the government plan. The movement criticised the bill for allowing residual inequalities in treatment.

To sum up, those who stand to lose most from a transition away from the old system remained over-represented in trade unions and political parties. However, the influence of those arguing for clearer, uniform rules seemed to be on the rise.

6. Prospects for a universal basic pension

Universal basic pensions appeal to a wide constituency because they represent an attractive component of a successful pension design. Not depending on previous contributions, they provide a modest income base and an effective safety net to all elderly. Not depending on other income or assets, they preserve the incentives to work, to save and to pay contributions (e.g. for second-tier pensions). The usual objection is, of course, that universal basic pensions cost more than, say, means-tested assistance.

The evidence presented here flies in the face of that objection. Somewhat paradoxically, the severe economic crisis and the resulting fiscal squeeze have made a universal basic pension more realistic, not less, as part of a solution to a fairer, financially more sustainable pension system in Greece.

While falling short of full universality, the new basic pension seems to be an acceptable substitute. Proponents of a universal basic pension will be able to make their case in a radically improved institutional context – provided, of course, the country manages to remain solvent. Eliminating the means test for those not meeting the contributory condition, and making the basic pension payable from a uniform age, would be the next battle on the way to full universality.

The risk is that, for all the history of home-grown ideas, public opinion might associate basic pension with the emergency conditions that led to its introduction, in the context of a very unpopular pension reform. If that interpretation becomes dominant, the basic pension could be seen as an “imported idea” promoted by the IMF, to be abandoned as soon as conditions allow. The effectiveness of the new basic pension in reducing elderly poverty, not to mention path dependency, could be powerful forces against such a risk.

While the Greek case is clearly exceptional, our paper offers at least two more general insights. The first is that social insurance pensions may be ripe for reform if heavily supported by tax funding in a non-transparent way. Under the circumstances, separating contributory components from non-contributory ones emerges as an obvious, fair and viable solution. From there, a universal basic pension could only be one short step away.

The second insight is not new, but still worth remembering. Progress towards a basic income, or its more modest age-specific variants (universal child benefits and universal basic pensions), is likely to be gradual and uneven. There are times when the wheels of history turn very slowly, and others when they instead seem to spin almost out of control. Basic income ideas may for many long years be dismissed as utopian or unworthy of serious consideration. Then, suddenly and unpredictably, their force could seem unchallengeable.

Or, in the words of Philippe Van Parijs (2004, p. 24):

> "Like the fight for universal suffrage, the fight for basic income is not an all-or-nothing affair. This is no game for purists and fetishists but for tinkerers and opportunists."

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Tables

TABLE 1

Non-contributory components to minimum pensions (2007)

	benefit amounts (€ per month)	
	all components	*non-contributory components*
actuarial pension	144.60	
implicit subsidy to actuarial pension		*318.58*
minimum pension	463.18	
allowances for a spouse and two dependent children		*78.06*
minimum pension + family allowances	541.24	
pensioner social solidarity benefit ΕΚΑΣ		*195.15*
total: minimum pension + family allowances + *ΕΚΑΣ*	**736.39**	
all non-contributory components		***591.79***

Notes: The case shown here refers to a male worker, contributing to *IKA* (the largest social insurance agency), retiring at age 65, with the minimum contributory record (15 insurance years), a history of low lifetime earnings (equal to the minimum wage), the age- and sex-specific life expectancy of his cohort (born 1942), at a 2% real rate of return on past contributions, and a discount rate of future pension benefits also at 2%. In 2006 (the latest year for which data are available), 60.6% of all *IKA* retirees received the minimum pension, while 26.1% also received the pensioner social solidarity benefit *ΕΚΑΣ*. Similar minimum pension mechanisms are present in other social insurance agencies.

TABLE 2

Government subsidies to the pension system (2008)

	fiscal cost (€ million per annum)	% of all pension spending	% of GDP
direct subsidies to social insurance	**7,847**	**26.99**	**3.28**
IKA (private sector workers)	2,450	8.43	1.02
OGA (farmers)	3,555	12.23	1.49
OAEE (self-employed)	300	1.03	0.13
NAT (sailors)	1,050	3.61	0.44
other agencies (mostly high earners)	492	1.69	0.21
earmarked indirect taxes	**1,532**	**5.27**	**0.64**
IKA (private sector workers)	85	0.29	0.04
OGA (farmers)	633	2.18	0.26
OAEE (self-employed)	60	0.21	0.03
other agencies (mostly high earners)	754	2.59	0.32
state contribution to post-1993 entrants	**2,563**	**8.82**	**1.07**
civil servants	1,268	4.36	0.53
OGA (farmers)	510	1.75	0.21
OAEE (self-employed)	415	1.43	0.17
other agencies (mostly high earners)	370	1.27	0.15
implicit subsidies to state pensions	**2,148**	**7.39**	**0.90**
ΕΚΑΣ	**1,080**	**3.72**	**0.45**
total government subsidies	**15,170**	**52.19**	**6.34**

Notes: Direct subsidies to social insurance exclude subsidies to social health insurance. Earmarked indirect taxes are special surcharges on goods and services, whose proceeds are transferred to the relevant social insurance agency, and do not include similar surcharges officially classified as employee contributions. State contribution to post-1993 entrants, in compliance with the provisions of Law 2084 of 1992, are fixed at 10% of gross earnings. Implicit subsidies to state pensions are net, i.e. exclude state contribution to post-1993 entrants to the labour market, employee contributions, and implicit employer contributions (calculated at 13.33% of gross earnings, i.e. the same rate as *IKA*). The pensioner social solidarity benefit *ΕΚΑΣ* is an income-tested supplement to low pensions, reserved for recipients of a contributory pension from any social insurance agency except *ΟΓΑ* (farmers).