

‘Soft’ co-ordination meets ‘hard’ politics: the European Union and pension reform in Greece

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ABSTRACT The paper examines the process of pension reform in Greece in the context of the ‘soft’ policy constraint (on structural reform) emanating from the European Union. It argues that the EU stimulus to reform complemented a set of domestic pressures. However, the domestic system of interest mediation has largely thwarted reform. The reform process is marked by a strong configuration of institutional conditions undermining the will and capability to adapt. Negotiation reflects a game of ‘non-cooperation’, with those currently privileged fearing zero-sum outcomes and constituting powerful veto-players. Strategies of concertation have proved unsustainable, whilst unilateral approaches by government have failed to build coalitions and offer sufficient incentives. An acute problem of governance prevails, threatening Greek interests in the EU and the Union’s ability to co-ordinate economic reform across an increasingly diverse membership.

KEY WORDS Europeanization; Greece; interest mediation; pension reform.

INTRODUCTION

In many European societies, the reform of the pension system has recently proven highly problematic and controversial (Hemerijck and Ferrera, forthcoming). The European Union (EU) has entered this policy area both indirectly – via instruments concerned to ensure fiscal stability – and directly – in the context of attempts at co-ordinating ‘structural reform’ with a view to reforming the European economy. Thus, in principle, a stimulus of ‘Europeanization’ exists for pension reform. EU obligations can be cited as warranting a shift of domestic policy interests (fiscal discipline; peer credibility on structural reform) and policy ideas (shared learning and policy transfer). For member states endeavouring to enter the single currency ‘euro-zone’ and to abide by its strictures, but suffering long-term problems of high public deficits, the budget stimulus to pension reform was clear. Moreover, these same member states in particular have a clear interest in being seen to be convergent with the EU’s ‘core’ states, displaying affinities of policy perspective and compliance with the Union’s priority goals, such as those of the Lisbon 2000 agenda.

This paper argues, however, that the EU stimuli are in fact limited in their nature and that entrenched institutional obstacles in domestic systems can readily thwart their potency. The paper focuses on a case study – Greece – to show how the will and capability for pension reform can be overcome by a domestic gridlock of power and interests. The perspective of the paper is domestic and the central research question is: why has the record of reform been so modest, given both EU and national stimuli to act? The general argument is as follows. The external stimulus has changed and is currently too weak. The empowerment offered by the EU is limited in nature: it lacks precision; sufficient temporal discipline; and the costs of non-compliance are too low. These features create a weak advantage in the face of the domestic impediments. The latter are very strong: the commitment to reform is ambiguous, given competing political and electoral interests, agency capability is weak, conflicting social interests create seemingly insurmountable veto-points, the relevance of technocratic legitimization is limited, and the social partners exhibit low levels of trust in each other. The analysis is thus one of the limitations to a process of Europeanization and the problems of governance (Featherstone and Radaelli 2003; Cowles *et al.* 2001; Héri-tier and Knill 2001).

The paper is structured in four main parts. The first identifies the nature of the policy problem and the stimuli to reform. The second section examines the interests and strategies of the key domestic actors involved in the reform process and places them within the framework of rational choice institutionalism. It notes the constraints on domestic adaptation in the pensions sector. The third section places the sequence of reform initiatives to date in the context of this framework. The fourth section reviews the relevance of the framework and relates the case to evidence of other sectors in Greece. The conclusion addresses the core question of why, despite both EU and domestic stimuli, the attempts at pension reform in Greece have enjoyed only modest success. It sees the explanation as one that poses questions about the effectiveness of governance both at the EU and domestic levels.

THE POLICY PROBLEM

The domestic stimulus to reform

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

In many respects the pension 'problem' in Greece is similar to that found elsewhere. Demographic changes – an ageing population – and shifts in social practices – with more women seeking employment – are common to Greece and other Western societies. The general policy model follows that of the Mediterranean welfare state (Ferrera 1996) and should be seen in the context of other flanking policies (Matsaganis *et al.* 2003). Katrougalos and Lazaridis (2003) distinguish the systems of Greece and Italy from those of Spain and Portugal: the former are more fragmented in structure and more costly as a percentage of gross domestic product (GDP). They contest, however, the notion that in general the systems of all four states are more generous than those found elsewhere in the EU.

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

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

PAYG systems rely on inter-generational solidarity (one generation paying for another), but also risk an ill-defined and weak budget constraint as costs are deferred to future years. The incentive to political leaders to 'pass the buck' to future generations of workers is high. The current level of expenditure on pensions in Greece, however, is equivalent to 12.1 per cent of her GDP, above the EU average of 10.5 per cent (O'Donnell and Tinios 2003).

- *The extreme institutional fragmentation of policy delivery.*

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

- *Gross inequities of benefits and coverage.*

Traditionally, privileges were granted to particular sectors, not least the liberal professions and public employees.

In important ways, the system *structures* perceptions (O'Donnell and Tinios 2003), with one group contrasting its position with that of another. The impetus is to seek further general public subsidy for existing privileges.

Failure to do so is seen as a government renegeing on promises, weakening civic trust.

The EU stimulus to reform

The domestic stimuli to reform, however, exist in parallel to those emanating from the EU level. The first such pressure related to the fiscal constraints affecting government budgets in the run-up to entry into the euro, single currency system. The Maastricht Treaty provisions on economic and monetary union (EMU) set clear fiscal rules for euro entry. Member states should have a budget deficit equivalent to no more than 3 per cent of their GDP and debt levels no greater than 60 per cent of GDP. Whilst the decisions on euro entry made at the Brussels European Council in May 1998 displayed much flexibility of interpretation on the public debt rule, the 3 per cent limit was adhered to more strictly and was replicated in the Stability and Growth Pact adopted at the Amsterdam summit in June 1997. These rules posed major problems for Greece. Government borrowing had reached 19 per cent of GDP in 1990, with pensions payments alone accounting for 15 per cent of GDP (Featherstone *et al.* 2001). Deficits remained high – 13.4 per cent in 1993, 10.2 per cent in 1995 – until they reached 2.5 per cent in 1998 when the euro decision was due (Eurostat 2003). Debt levels proved more intractable: 110.1 per cent of GDP in 1993, 105.8 per cent in 1998 and not falling below 105 per cent until 2002 (Eurostat 2003). Successive Greek governments – under Mitsotakis, Papandreou and Simitis – affirmed their commitment to reforming public finances in order to gain entry to the euro system. Indeed, during the EU-level negotiations on Greece's entry into the euro, pressure was placed on the Simitis Government – notably by the Germans – to make more substantive progress on pension reform as a specific means of promoting Greece's convergence.¹ Such a direct focus must have strengthened the understanding of the relevance of reform to Greece's European credibility. More generally, the relevance of European stimuli to domestic change in Greece has often been cited (Diamandouros 1994, 2000; Ioakimidis 1998; Pagoulatos 2003).

Following closely on the heels of EMU as a test of EU membership came the latter's move into the area of structural economic reform and a shift to 'soft' law as a decision-making style. The EU agenda on structural economic reform has developed apace in recent years. The EU became very concerned by the late 1980s about the need for Europe to become more competitive in the international economy. These concerns were taken up by the Delors White Paper on 'Competitiveness, Growth and Employment' in 1993. A change of approach resulted in the establishment of the 'open method of co-ordination' (OMC) operating on the basis of benchmarking, 'multilateral surveillance' and sharing of best practice. The EU 'push' on structural reform was taken further at the European Councils held in Luxembourg (1997), Cardiff (1998), and Köln (1999). At Helsinki in December 1999, the European Council established a process to review progress on structural reform across

all member states. In 2000, the so-called 'Lisbon process' was launched, following a European Council agreement. OMC-style co-ordination now covers various economic policies (Broad Economic Policy Guidelines, BEPG); labour markets (European Employment Strategy); and welfare reform (Open Method on Social Inclusion and on Pensions) (Schelkle 2003). EU action on Employment and Social Policy (ESP) covers social protection, social integration and pensions. The 'Social Protection Committee', composed of representatives of national governments, focuses on national pension strategies, reviewing their adequacy and their adaptation to a changing society. The Committee develops benchmarks and receives progress reports on pension reform from each member state. The Council of Ministers, aided by the Committee, and the Commission then prepare joint reports on pension reform.

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

THE POLICY PROCESS: THE DOMESTIC CONSTRAINTS

How can the policy process of pension reform in Greece be conceptualized? The complexity of the process, displaying an array of features relevant to both the sector and its wider social context, suggests the relevance of a variety of different approaches. This paper seeks to explain the process (and outcomes) of pension reform by adopting the framework of 'rational choice institutionalism' (Shepsle 1989; Hall and Taylor 1996; Scharpf 1997). The rational choice aspect is relevant in identifying a select number of actors, exercising a significant degree of operational autonomy in the application of general priorities and in the choice of strategy. The actors display rationality in the consistency of their beliefs and preferences; in the correspondence of their beliefs and behaviour; and in their choice of strategy. Yet, a crucial element in this perspective is the constraining effects of the institutional conditions within which the actors operate. In this perspective, actor preferences are defined endogenously, within their institutional setting.

Consistent with this approach, the *interests and strategies* of the key actors involved in the reform process can be characterized as follows:

- Current pension recipients and their representatives see their interests in reform in zero-sum terms: the outcomes of reform will involve an uneven distribution of material benefits, most likely at the expense of the current 'winners', and thus the incentives for them to co-operate in the process are low.
- Government has divided interests. The interests of Government actors in seeking reform are: (a) a desire for greater equity and universality of provision;

- (b) a fear of escalating budget costs from current pension commitments; and (c) a concern to maintain credibility in EU discussions (e.g. Lisbon 2000; EMU discipline).
- Other Government (and party) actors, without the direct policy responsibility for this sector, are more likely to prioritize and promote interests defined in terms of the electoral cycle and labour market peace.
 - As a result, Government has pursued strategies that are marked by ambiguity and inconsistency, according to which of the above interests has the upper hand.
 - Government actors in charge of reform initiatives have made significant strategic miscalculations, undermining their cause.
 - The strategies of the main unions display unity and consistency, following the interests elaborated above. These unions represent very specific social interests and this leads them to pursue defensive strategies.

Thus, the paper argues that the key actors determining the outcome of reform initiatives have been the Government and the unions, with the employers playing a much lesser role. The interests and strategies of these actors are crucial to the end result. The behaviour of the actors cannot be fully accounted for, however, without placing their interests and strategies in their *institutional setting*. The crucial features of this setting are (Featherstone, forthcoming):

- The institutional capability of the state to deliver policy reform is low, owing to inefficiencies and clientelistic traditions.
- Civil society in general is weak; in particular, there is an absence of a relevant policy community or think-tanks to affect actor interests or to offer legitimation to government reform strategies.
- Interest mediation is constrained by an absence of trust between the key actors and the weakness of a 'social dialogue'. Encouraging co-operative behaviour is thus very difficult with low 'social capital'.
- In a sector such as this, public understanding of the implications of reform (and of a failure to reform) is low and vulnerable to political manipulation.
- The electoral cycle constrains the priority, content and timetable for reform: the scope for bolder reform initiatives lies early in the cycle, with softer and more limited reform attempts likely later in the cycle.

This combination of features reflects the rational choice interpretation of actor behaviour and the institutionalist perspective on how their setting constrains them. The combination is at the core of the subsequent analysis and many of its various features find support in different parts of the literature on Greece.

The weakness of the Greek state defines the overall context of policy-making in Greece: the ability of state institutions to deliver reform is severely limited by inherited problems. Traditionally, it has been seen as 'a colossus with feet of clay', to use the description used by Nicos Mouzelis (1990) and taken up by Dimitris Sotiropoulos (1993). To many, this has been a colossus with an inelegant form, however: huge, ill-coordinated and dysfunctional. It has feet of clay

because of its own institutional weakness, whilst it is imbalanced because of the weakness of civil society and its easy penetration by party interests. As Calliope Spanou (1996) put it, the Greek state has been 'hypertrophied, omnipresent, but ultimately weak'. The capability of the state to introduce major structural reform – liberalizing the state's economic regulation, ownership and social support – has been shown by recent experience to be severely limited. The reputation of the Greek state in the modern period has been low. Today, the state's administrative complex is seen as suffering from internal problems of poor co-ordination; excessive legalism and hierarchical control; turf-fighting; the paucity of high quality technical personnel; the inefficient use, and often the lack, of resources; clientelism and non-meritocratic norms; party infiltration; and the lack of permanency for senior positions. These features appear endemic to the administration, sustained across different governments. High expectations of administrative reform have been repeatedly dashed – as in 1981 and 1990 – as the task proves beyond the will and capability of elected politicians. The effect is that parties with radical reform objectives come into power faced with a weak institutional means by which to engineer policy change.

Moreover, the relationship between state institutions and wider society is also problematic for reform initiatives. No effective community of policy expertise on pension reform has been established in Greece: no group, network or institution independent of party or government has identified itself in this manner or developed a political voice (Marsh and Rhodes 1992; McGann and Weaver 2000). This is symptomatic of the rarity of effective, independent policy think-tanks in Greece. Few such bodies have been created and sustained as effective institutional actors (Stone *et al.* 2003).² The direct consequence is that the reform initiatives of government actors cannot benefit from a wider technocratic legitimization, offering reassurance as to reform objectives and clarification of policy choices, to educate the public debate. This is part of a wider communication problem, related to the complexity of the actuarial projections affecting different social groups. The fragmentation of the pensions system requires different messages to be given to distinct groups, further complicating the clarity of the overall message (Featherstone and Tinios, forthcoming). Thus, actors pursuing reform are left politically and socially isolated, dependent on a 'top-down' policy approach, with a confusing message to transmit.

The characterization of pension reform in Greece as a non-cooperation game can be related to the nature of 'social capital' in Greece (Putnam 1993; Vazquez 2000; Featherstone and Tinios, forthcoming). 'Trust' affects the calculation of interests and the choice of strategy. A strategy of seeking negotiation of pension reform via a process of social dialogue is unavailable to government, given the accumulated weaknesses and suspicions in the Greek system of interest mediation (Featherstone and Papadimitriou 2003). This leaves the reform attempt more exposed and vulnerable to fears and misinterpretation.

The process of interest mediation in Greece reflects key elements of public choice theory: with its depiction of a weak state hindered by rent-seeking behaviour (Krueger 1974). Within the overall climate of clientelism, sectional

interests compete for favours, resources and subsidies. Rational choice models distinguish between zero-sum competition and games where 'win-win' solutions are available. In the case of Greek pensions, those groups that have accumulated significant privileges have found reform threatening; a redistribution of resources to address social inequities would leave them worse off. No matter that in the long term the system might collapse: many current workers have short-term interests. The incentive to co-operate with the reform process is minimal.

There is also a systemic problem in the representation of interests. The major unions are dominated by leaders of those groups with the highest relative rights and privileges. On the union side, GSEE is controlled by the unions of the public utilities (e.g. DEH, the power corporation; OTE, the now partially privatized telecommunications corporation; and the unions of the banking sector, OTOE). Alongside them is ADEDY (Higher Level of Public Servants' Unions). Amongst both, many of the workers have relatively secure employment and generous pension arrangements. Similarly, business representation is skewed towards those firms with an interest in the maintenance of the status quo: large, unionized enterprises serving mainly the domestic market, rather than the smaller and medium-sized firms with an interest in greater flexibility and lower labour costs. For the larger corporations, the peace of the status quo is preferred to the risks of seeking gains from reform, especially if these might entail additional costs. Corporatism in Greece has a tradition of being both disjointed and distorted, with the interests of firms and workers in other sectors being squeezed out (Mavrogordatos 1988; Lavdas 1997). The consequence is that very strong forces exist to defend the accumulated privileges and inequalities, with the beneficiaries seeing reform issues in a zero-sum manner.

The political cost of reform failure for the government is high and immediate, in terms of credibility, trust and reputation. The direct gains from pension reform for government – notably a reduced fiscal burden – are largely obtainable in the long term. An expansion and a greater equality of provision impose short-term financial costs. The future generation of workers constitutes a third player in the game, but one absent from the table. Tinios (2002) sees the future generation as the losers, whilst today's workers and retired can engage in a positive-sum game at its expense. Public attitudes are endogenous to the pension system: as O'Donnell and Tinios (2003) argue, the Greek PAYG system does not engender awareness of a budget constraint and it encourages groups to view pensions as the outcome of a political game. Public ignorance about the system is mixed with every incentive to protect or advance privileges.

The electoral interests of the governing party similarly militate against radical pension reform. Social democratic-inspired objectives of extending welfare coverage and introducing greater equity appeal to a social constituency that is politically weak. The latter go unrepresented in the process of interest mediation, have little voice within the party system, and lack electoral force. Union unrest, mixed with an uncertain government purpose, could have a severe electoral cost, as the Mitsotakis Government found in 1993. Thus, the

interests of labour peace, party politics and electoral weight urge caution in the strategy for policy reform. With a different policy focus, Tsakalotos (1998) noted that in an earlier period 'PASOK was unable to manage a process of structural change in the economy in which there would have been clear winners and losers, especially since many of the losers were part of PASOK's natural political constituency' (1998: 134). Previously excluded groups had been empowered by PASOK's first electoral victory in 1981 and they now 'acted as an obstacle to structural change by seeking to preserve their traditional rights and newly found access to economic resources' (1998: 134). The characterization is relevant to the case of pensions: union interests continue to block the way to a wider and more equitable social net being cast.

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

Reform-minded governments thus face severe constraints in their strategies. Ultimately, it is a dilemma of governance. With entrenched and concentrated interests, one alternative is to attempt to overcome them by scoring a political victory. With uncertainty over outcomes, another alternative is to educate the relevant publics and build up social trust. This stark contrast of strategies might be applied to the pension reform initiatives of Manos (1992) and Yiannitsis (2001), on the one hand, and those of Reppas (2002), on the other. An examination of the sequence of reform attempts can display the relevance of the process characteristics elaborated in this section.

POLICY PERFORMANCE: REFORM BY ATTRITION

What pension reforms have been achieved in Greece? It is significant that the need for pension reform was recognized by the second half of the 1980s, in the context of the policy shift towards economic 'stabilization'. This shift, and its general discourse, was closely associated with Costas Simitis, then Minister of National Economy and later Prime Minister. A domestic momentum

had been started. However, it faltered as pension-funding deficits were covered on grounds of political expediency and tentative reform initiatives were aborted.

Thus, it is even more relevant to note that the first serious moves for reform came in 1990–92 when Greek public finances were in deep crisis and the EMU tests were being established. Fiscal laxity imperilled Greece's European membership. The New Democracy Government of Constantinos Mitsotakis, elected in April 1990, sought swift legislation to tackle the most urgent problems of pension financing.³ It is indicative of the fiscal imperative that the reform was handled by the new Minister of National Economy, Georgios Sioufas. Law 1902/90 was passed rapidly, introducing spending cuts and gradual increases in contributions. Even these short-term measures had been affected by intense union opposition and some funds were excluded from the reforms. The Sioufas Law, as it became known, lacked a long-term perspective and it did not tackle the structural deficiencies of the system. A more radical shake-up was promised before the end of the Government's term of office.

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

The law initiated by Manos (2084/92) represented a substantial dilution of the original radical zeal. More radical changes were not feasible given the domestic opposition. Some major steps were taken: an increase in the retirement age for both men and women; an increase in National Insurance contributions; and a reduction in the ceiling of the pension/exit salary ratio from 80 to 60 per cent. Nevertheless, the major structural deficiencies were left untouched: the fragmentation of the system and the gross inequalities of provision. The privileges of the strongest sectoral interests – the power corporation (DEH), the state banks and the professions – remained unscathed. Yet, the Manos law had put back the crisis: providing 'room to breathe' fiscally until 2010. In actuarial terms, this was a relatively short window.

After the electoral defeat of the Mitsotakis Government in 1993, the return of Andreas Papandreou as Prime Minister witnessed the effective removal of

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

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

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

union confederation, GSEE – with a disproportionate representation of those with the greatest public sector pension privileges – called a general strike (Matsaganis 2002a). In the face of the storm, the Simitis Government rescinded the proposals and called for a renewed social dialogue about such matters. An extraordinary party congress held by PASOK, focused essentially on the issue of pension reform, kept the commitment to reform.

But with fingers having been burnt, the new impetus was for consensus and more sensitive presentation, not least given that the electoral cycle was edging towards the end of the Government's term. Social dialogue has had a highly chequered history in Greece and has rarely been the basis for substantive policy formulation (Featherstone and Papadimitriou 2003). Yiannitsis' successor, Dimitris Reppas, presented a new set of proposals in March 2002. His approach was to show a willingness to spend even more money on pensions, prior to reform, in order to build up trust amongst the key interests (Featherstone and Tinios, forthcoming). This was a significant shift of strategy: attacked as timid, but defended as sensitive to the realities of the policy process. Either way, it sacrificed many of the more radical objectives advanced previously by Manos, Spraos and Yiannitsis.

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

The response to Reppas' proposals was somewhat disparate and muted. Critics seemed unsure as to the basis for their attack: too generous, too little funding offered, or too timid (*Kathimerini*, 22.3.02). New Democracy's Georgios Souflias saw the Government as not being serious about reform. On the other hand, GSEE and ADEDY (the civil servants' union) called

a general strike. But, in general, their attack seemed half-hearted. After the more radical proposals of Yiannitsis one year earlier, based on dire government forecasts, those of Reppas seemed heavily sweetened. An amended version of Reppas' proposals was passed by Parliament on 20 June 2002.

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

EXPLAINING REFORM

The record of pension reform in Greece reflects the significance of non-cooperation amongst the key actors as a result of perceptions of zero-sum benefits and low trust. Successive governments have displayed uncertain will and divided purpose. Strategic mistakes were made. The commitment to reform has been undermined by discordant voices between ministers, making different political calculations. Government has shown an inability to build alliances with likely 'winners' from reform or to discredit union opposition. Trade-offs and compensation were not achieved. By contrast, the unions defended specific social interests with distinct privileges, calculated in the short term. Both interests and strategy showed a greater unity and consistency. The political representation of those likely to benefit in the longer term was distorted and weak. The reform setting posed severe constraints: the weakness of state administration; the non-availability of a wider policy community to legitimize government strategy; the lack of a tradition of social dialogue on which to build consensus and compromise; and the difficulties of public understanding. Government recourse to reform by instalments serves to heighten suspicions and increase timidity. The benefits to any particular government of a successful reform are modest – to be passed on to their successors in the long term – whilst the risk of an immediate political backlash is severe (in terms of the electoral cycle, labour peace). These are characteristics that fit well with a rational choice institutionalist perspective.

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

The dilemmas of the wider structural reform process display some shared characteristics. Tsakalotos (1998) noted the constraints posed on social democratic economic reform by the weakness of institutions within Greece that promote co-ordination and co-operation. Further, Lyberaki and Tsakalotos (2002) examined the problems faced by PASOK's post-1981 project of 'socializing' public enterprises. The failures, they note, were due to the fact that vertical linkages limited the knowledge, resources and social capital on which to build. The emphasis on the 'top-down' control and the weakness of the social base seemed to go to the heart of the early PASOK project. Ultimately, 'mutual suspicion between the groups, and between such groups and the government – whose inclination, let alone ability, to enter into long-term credible commitments was, somewhat justifiably, always in doubt – made the focus on short-term gains the dominant strategy, fatally weakening the policy . . . even before it got off the ground' (Lyberaki and Tsakalotos 2002: 104). PASOK, they argue, has had more success in macro- than micro-economic policy, because the former is less dependent on the social environment. Yet, they comment that the Mitsotakis Government's privatization programme also came unstuck because of 'the difficulty of reform when trust, cooperation and initiative are at such a premium' (2002: 107). Reform projects of different ideological approaches require relevant, though distinct, social conditions.

CONCLUSIONS

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

Yet, the reform achievement has been modest and slow. Initiatives stretched over more than twelve years, whilst the costs of the system have not been significantly curtailed and there remain major inequities in provision. The impact of EU pressures has not been central in terms of content and outcome: the core of the domestic bargaining process. The external stimulus to reform shifted: EMU required quick budget 'fixes' at a general macro-economic level with a temporary urgency. As Matsaganis (2002b: 115) has commented: 'EMU was a good hand played badly.' The opportunity was lost with the failure of the Spraos initiative. More generally, the OMC process lacks strength as a stimulus to domestic reform. Instead of restructuring a bargaining game on distributional issues, affecting core interests, the EU stimulus was probably more evident at the

cognitive level. Sotiropoulos (2004) surveys the impact of the EU across different sectors of the Greek welfare state. He concludes that EU membership has had an effect in terms of policy style ('programming, coordination and rationalization of social policies'; 2004: 282). While such impacts have affected policy-making on pensions to some limited extent, other sectors (labour markets, regional development, vocational training) have shown greater adaptation in these respects. As he recognizes, institutional legacies in the pensions system have shown their resilience in relation to pressures to change stemming from the EU.

The Greek case affirms that the institutional constraints of welfare provision can indeed be 'sticky', albeit for crude distributional bargaining reasons (Pierson 1998). The Greek case is not a simple one of the 'new politics' of welfare. Greece has a centralized state, but one that is socially penetrated and weak, undermining its capability to deliver. The agenda on pension reform has not been so much one of retrenchment, as elsewhere, but rather of reordering privileges and coverage. Yet, the institutional setting is critical to the explanation. Current beneficiaries constitute near 'immovable objects', as in Pierson's schema. Reform efforts have been incremental, rather than radical, following a path dependence, with pension regimes creating their own blocking constituencies. Corporatist politics have proved more relevant than the electoral arena *per se* and support (tacit or otherwise) coalitions are crucial to the feasibility of reform. Successful reform strategies to this end have proved elusive. Government's ability to choose the social model is more constrained by entrenched privileges at home than market pressures from the EU.

The constraints on the reform process identified here question the nature of authority, legitimacy and participation in the Greek system. They pose major dilemmas for structural economic reforms motivated by different ideological perspectives – social democratic or neoliberal – and they are unlikely to be overcome within a short-term project. Government is entrapped in a bargaining process that succumbs to stalemate, unable to build effective alliances and to offer sufficient incentives. Reform initiatives are unilateralist and vulnerable to social unrest. Parallels may be drawn with the case of France. Natali and Rhodes (2004) highlight the distinctiveness of France: unlike other Bismarckian, PAYG systems, with their tendency to pursue reform by social concertation, pluralist France has seen reform by government alone and the power of trade union vetoes. However, in the French case, unilateralist strategies have proved successful when they have pre-empted union vetoes by incorporating the priorities of the latter to build a reform coalition (the Balladur reforms of 1993). But trade-offs, whether pre-emptive or negotiated, have not been attainable in the Greek case, with the accumulated problems in establishing a social dialogue.

The problems of governance are most acute in some of the policy sectors that are central to Greece's adaptation to the new agenda of social and economic integration within the EU. They thus question not only the direction and extent of modernization domestically, but also the ability of Greece to remain within the EU's core. This is of increasing relevance given the extended

heterogeneity of the EU following the 2004 enlargement. The embedded constraints on domestic reform question the ability of the EU to implement the Lisbon 2000 agenda and its reliance on the soft co-ordination of the OMC policy approach. Previous attempts at convergence (EMU) have required stronger instruments and a more closely defined agenda, as the Greek case also shows.

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NOTES

- 1 Comment made by senior member of Greek Government in personal interview, January 2003.
- 2 An exception is ELIAMEP (Elliniko Idryma Europaikis and Eksoterikis Politikis/ The Hellenic Foundation for European and Foreign Policy), sustained by an informed academic community. There are several bodies in Greece functioning as research institutes: for example, EKKE (Ethniko Kendro Ereunon/National Centre for Social Research) and KEPE (Kendro Programmatismou kai Oikonomikon Ereunon/Centre of Planning and Economic Research). These have a different academic focus and remit, however: they do not have a primary role of producing public policy analysis. A number of political centres, foundations or committees are sometimes cited as ‘think-tanks’ (for example, OPEK (Omilos Provlmatismou yia ton Eksigxronismo tis Koinonias mas/Research Association for Modernizing Our Society), promoting Simitis’ social democratic ‘modernization’ agenda), but they lack independence and longevity, whilst their policy research function is often limited. This pattern contrasts with recent experience in Italy, for example (Lucarelli and Radaelli 2003).
- 3 The following paragraphs draw upon Featherstone *et al.* (2001).

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