

## Chapter One: The Influences of the Pension Reforms 2010-2012

The aim of this chapter is to examine and highlight the fact that the pension reforms undertaken within the period 2010-2012 were directly caused by the national debt crisis that arose at the end of 2009, as well as the consequent financial assistance provided by the Member States of the EMU and the IMF. The emphasis on this observation is important in showing the influence of the financial crisis in the examination of the legality of potential interference with the pensioners' rights. The more urgent and severe the background for the pension rights' interference is, the more likely it is that the interference will be classed as legal.

This chapter clearly shows that there were unsuccessful efforts by successive Greek governments to implement ground-breaking pension reforms and reduce public pension expenditures despite the serious internal and external socio-economic factors which pre-dated the financial crisis. However, only after the financial crisis, significant pension reforms and cuts in pension payments were introduced. This indicates that it was actually the serious financial crisis and the consequent need for financial assistance the urgent tipping points which generated domestic pressures for pension reforms and gave rise to opportunities for public pension expenditure cuts.

To illustrate this, the present chapter begins with a description of the internal as well as the external influences behind the pension reforms prior to the financial and economic crisis. Thereafter, the focus shifts to the tipping point of the public pension reforms of 2010 and 2012 and reductions in pension payments of the period 2010-2012. More specifically, I begin with a description of the normative factors that constituted the guidelines for the Greek pension reforms, namely the international guidelines on pension reforms of international organisations, such as of the Organisation for Economic Co-operation and Development (hereinafter: OECD), the World Bank and the IMF (A.I.1), the *vincolo esterno* of the EMU (A.I.2) and the non-binding tool of the OMC (A.I.3). Afterwards, I move on to examine the factual factors that necessitated for reforms in the Greek pension system. More specifically, I will focus on the financial imbalances in the Greek public pension system (A.II.1) as well as the domestic demographic changes (A.II.2). Subsequently, I will then shift the focus to the driving

forces of the public pension reforms introduced after the Greek financial and economic crisis which were the national financial and economic crisis (B.I) and the new form of conditionality imposed through the financial facility agreements between Greece and its international creditors (B.II).

A. The Influences of the Pension Reforms Prior to the Financial Crisis

Pension systems have been influenced by diverse socio-economic challenges and have thus had to be redesigned. In the EU, the factors that motivated the Member States to redesign their pension systems stemmed from demographic challenges,<sup>17</sup> high unemployment rates,<sup>18</sup> financial imbalances in the public budget, European integration as well as wider international developments.<sup>19</sup> The contemporary society is characterised by changing structures in the family pattern and household, such as high participation of women in the labour force, growing rates of divorce and vanishing of the traditional model of social protection based on family support.<sup>20</sup> Moreover, mass unemployment is radically increasing and a large segment of the west world's population is employed with the widespread atypical forms of employment, namely the part-time and fixed-term employment.<sup>21</sup> These new developments influence the way that the public pension systems should function, on the grounds that “*there is a systematic link between the existence of strong family ties, a rigid institutional labour market and an emphasis on pension.*”<sup>22</sup> Besides, in some European countries, like Italy, the impetus for pension reform was the entry into the

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- 17 Overbye, in: Petersen / Petersen (eds.), *The Politics of Age: Basic Pension Systems in a Comparative and Historical Perspective*, pp. 148ff.; Hicks, in: *Friedrich-Ebert-Stiftung* (ed.), *Rentenpolitik in Europa*, pp.16ff. For information about the consequences of the demographic changes see Höhn / Schmid / Wöhlcke, *Demographische Entwicklungen in und um Europa*, pp. 96ff. Population ageing as a cause see Schönäckers, in: Schönäckers / Kotowska (eds.), *Population Ageing and its Challenges to Social Policy*, pp. 27ff.
- 18 Jallade, in: Ferge / Kolberg (eds.), *Social Policy in a Changing Europe*, pp. 44-47.
- 19 Eichenhofer, *Geschichte des Sozialstaates in Europa: Von der „sozialen Frage“ bis zur Globalisierung*, p. 15.
- 20 Petmesidou, in: Petmesidou / Mossialos (eds.), *Social Policy Developments in Greece*, p. 7.
- 21 Leschke, *Working Papers on the Reconciliation of Work and Welfare in Europe 2011*, p. 6.
- 22 Ferrera, in: Kuhnle (ed.), *Survival of the European Welfare State*, p. 171.

EMU.<sup>23</sup> In addition, the EU Member States have had to cope with the most severe financial crisis in recent times. The 2007-2008 financial crisis not only caused substantial losses in private pension funds, but it also had a negative impact on public pensions.<sup>24</sup>

The need to address these common challenges had as a result, a situation in which many western countries have shifted from the policy of social welfare expansion, which started in the post-war period, to a policy of welfare retrenchment.<sup>25</sup> The European welfare reform momentum of the past two decades is best captured as a search for a new welfare state.<sup>26</sup> The policy of welfare retrenchment consists of tight fiscal and monetary rules, the role of the state is limited and individual responsibility through the promotion of private enterprise is fostered, promoting the idea that social contributions should be reduced, in order to achieve low labour costs. Furthermore, social welfare expenditures should be reduced when they conflict with wider economic objectives.

In the field of pension reforms, the need for greater globalisation has played also an important role. Globalisation is regarded as “*a vehicle for significant welfare enhancement*”.<sup>27</sup> Under the notion of globalisation one can understand the efforts towards global economic integration.<sup>28</sup> The aim of the new global economic integration is to secure high competitiveness and economic growth through the liberalisation of financial markets and the free circulation of international capital. It leads to the deregulation of international markets and thus, the privatization of pension funds. Nevertheless, only a weak causal-link between globalization and retrenchment policy has been documented.<sup>29</sup> The association of globalisation with the reduction of welfare expenditure and retrenchment policy is disputable.<sup>30</sup> It has been argued that changes in the global economy play an important role in welfare retrenchment policy, but these changes are not primarily

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23 *Hemerijck / Ferrera*, in: *Martin / Ross* (eds.), *Euros and Europeans: Monetary Integration and the European Model of Society*, pp. 262, 269-71.

24 *Hinrichs*, in: *Eren Vural* (ed.), *Converging Europe: Transformation of Social Policy in the Enlarged European Union and in Turkey*, p. 110.

25 *Pierson*, in: *Pierson* (ed.), *The New Politics of the Welfare State*, pp. 80ff.

26 *Hemerijck*, *Changing Welfare States*, p. 49.

27 *Schulze / Ursprung*, *The World Economy 1999*, p. 295.

28 For a general overview of globalisation as a cause see *Castles*, *The Future of the Welfare State: Crisis Myths and Crisis Realities*, pp. 3ff.

29 *Swank*, *Social Policy and Society 2005*, p. 187.

30 *Starke*, *Social Policy and Administration 2006*, p. 107.

associated with it,<sup>31</sup> while other scholars argue that globalisation is not an influencing factor regarding such a policy, but one that is frequently presented by the national government as an external economic constrain, when domestic reforms are proven difficult to be adopted.<sup>32</sup>

Despite diversity in the structuring and financing of the European welfare states' pension systems, common trends of pension reforms can be observed.<sup>33</sup> Among the most common trends is the increasing of retirement ages to prolong working lives; changes in the system of calculating pension benefits (i.e. reduction of the level of pension benefits by calculating them according to earnings across the career),<sup>34</sup> the introduction of less generous eligibility criteria for full pension benefits through extension of the required contribution periods and limitation of access to early retirement schemes;<sup>35</sup> Another major policy response is the introduction of an automatic mechanism which links life expectancy to pensionable age.<sup>36</sup>

The central and eastern European countries adopted more ground-breaking pension reforms than the western European countries, mainly due to influence by the World Bank.<sup>37</sup> This may be also explained with reference to the fact that the central and eastern European countries aimed to satisfy the Copenhagen criteria and achieve greater convergence with EU guidelines.<sup>38</sup> Although there are many differences in the pension systems of the central and eastern European countries, two main common characteristics are observable. Firstly, the first public and mandatory pillar was shifted from a defined-benefit to a defined-contribution system,

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31 Pierson, in: Pierson (ed.), *The New Politics of the Welfare State*, p. 410.

32 Hay / Rosamond., *JEPP* 2002, p. 152. Hay argues that globalisation is used as a "blame avoidance strategy" so that unpopular policies may be easier adopted. The "blame avoidance strategy" was first described by Pierson. See Pierson, *World Politics* 1996, p. 147.

33 Becker, in: Becker / Hockerts / Tenfelde (eds.), *Sozialstaat Deutschland – Geschichte und Gegenwart*, p.333. See also Becker, in: Becker / Kaufmann / Baron von Maydell et al. (eds.), *Alterssicherung in Deutschland*, pp. 588-594.

34 OECD(2011), p. 64.

35 Barr / Diamond, *Pension Reform: A Short Guide*, p.19.

36 OECD(2011), p. 81.

37 Horstmann / Schmähl., in: Schmähl / Horstmann (eds.), *Transformation of Pension Systems in Central and Eastern Europe*, pp. 77ff. Hungary introduced a first ground-breaking reform in 1998, Poland in 1999, Bulgaria in 2002, Estonia in 2002, Lithuania in 2004, Slovakia in 2005.

38 Grabbe, in: Featherstone / Radaelli (eds.), *The Politics of Europeanization*, p. 307.

whereby the sum of all contributions paid is converted into an annuity, and; secondly, a capital-funded mandatory tier was introduced.<sup>39</sup> However, recently, the de-capitalisation and re-nationalisation of the pension schemes has started taking place in some of the central and eastern European countries.<sup>40</sup>

A tendency towards less state intervention and the establishment of private components can also be witnessed in the pension systems of the western European countries.<sup>41</sup> Italy, in 1995, abandoned the defined-benefit principle and introduced a notional defined-contribution system completely altering the pension formula, linking it closely to contribution in a quasi-actuarial fashion.<sup>42</sup> Germany, in 2001, introduced the Riester-pension, which subsidises savings for private pensions, strengthening the complementary pension plans.<sup>43</sup> Austria introduced a supplementary private pillar while Belgium through the Law on Supplementary Pensions (“*Vandenbroucke*”) aims to generalise access to private pensions.<sup>44</sup>

Following, the internal and external socio-economic factors that predated the Greek financial and economic crisis and necessitated a restructuring of the Greek public pension system is presented. In Greece, the public pension system was reformed to a large extent in 1992, while small-scale efforts of pension reforms took place several times within the period 1993-2008.

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39 *Schulz-Weidner*, DRV 2010, pp. 119-142; *Fultz*, ISSR 2004, pp.6ff.; *Müller*, in: *Stuchlik* (ed.), *Rentenreform in Mittel- und Osteuropa: Impulse und Politikleitbilder für die Europäische Union*, pp. 100-105.

40 Some of the eastern and central European countries, like Hungary, decreased or ceased the contribution rates of the second-pillar pension allocating the contributions to the state pension systems. See *Hirose*, in: *Hirose* (ed.), *Pension Reform in Central and Eastern Europe*, pp. 171ff.

41 *Palier*, in: *Castles / Leibfried / Lewis et al.* (eds.), *The Oxford Handbook of the Welfare State*, pp. 612ff.

42 *Ferrera*, in: *Castles / Leibfried / Lewis et al.* (eds.), *The Oxford Handbook of the Welfare State*, p.625.

43 *Ruland*, *Soziale Sicherheit: Zeitschrift für Arbeit und Soziales* 2001, pp. 43-48; *Blomeyer*, *NZA* 2001, pp. 913-919.

44 *Palier*, in: *Castles / Leibfried / Lewis et al.* (eds.), *The Oxford Handbook of the Welfare State*, pp. 612ff.

## I. Normative Factors

### 1. International Guidelines on Pension Reforms

Multi-lateral institutions, such as the OECD, the World Bank and the IMF published a number of proposals and policy recommendations for a better functioning of the pension systems and tried to influence the structure and functioning of the national social security systems.<sup>45</sup> More specifically, the OECD put forward a number of proposals in the area of pension policy, suggesting that pension schemes should adjust to the requirements of the new global socio-economic environment, so that a comprehensive coverage and long-term sustainability can be guaranteed.<sup>46</sup> It recommended the OECD-countries should avoid a single public pillar that is based on public expenditures and proposed the establishment of pension schemes that combine public and private elements.<sup>47</sup> As far as the guidelines given to Greece are concerned, the OECD reported in 1997, the need for further reforms, since the pension reform of 1992 provided only some temporary breathing space.<sup>48</sup> Ten years later, in 2007, the OECD reported that the Greek pension system was a '*fiscal time bomb*', highly fragmented, with loose eligibility conditions, fostering early retirement as well as contribution evasion.<sup>49</sup> The OECD thus recommended a number of measures to be taken by Greece, such as the reduction of pension incomes, the elimination of the provisions regarding early retirement, a lengthening of the contribution periods, increases in incentives to work at older ages, and the development of private pensions.<sup>50</sup>

Besides the OECD, the World Bank also imposes policy recommendations that have major implications on the social security systems of indebted countries seeking financial assistance. These recommendations are usually applied by the indebted countries. The World Bank, in 1994, proposed the establishment of a multi-pillar pension system.<sup>51</sup> In particular, it recommended a three pillar model: a. one mandatory public pillar which pro-

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45 *Jorens*, in: *Jorens* (ed.), *The Influence of International Organisation on National Social Security Law in the European Union*, p. 18.

46 *OECD*(1981), pp. 10-12.

47 *Disney*, *The Economic Journal* 2000, p. 13.

48 *OECD*(1997), p. 65.

49 *OECD*(2007), p. 68.

50 *OECD*(2007), p. 80.

51 *World Bank*(1994). p. 234.

vides only a minimum basic pension with the aim of reducing the old age poverty; b. one mandatory or voluntary privately managed pillar providing fully funded pensions; and c. one voluntary privately managed pillar. Its financial regime is based on the defined-contribution system and the introduction of individual accounts for the insured. However, the proposed model was said to be inappropriate for countries with low economic growth, huge fiscal deficits, large external debt and unstable monetary and fiscal policies.<sup>52</sup> The World Bank, in 2006, revised its approach holding that private accounts do not guarantee better protection, since they are unpredictable, have high administrative costs and failed to extend pension coverage.<sup>53</sup> The World Bank suggested that countries with financial imbalances should first adopt parametric reforms, which will guarantee fiscal sustainability, before the introduction of a multi-pillar reform.

Besides the World Bank, also the IMF provides pension policy recommendations to its contracting countries. Reforming of the Greek public pension system is one of the IMF's policies. The IMF monitored Greece also in the past before the Greek financial crisis and assessed Greece's progress on area of pension policy, pointing out that efforts to moderate pensions and other costs in the economy are needed. In 2002, the IMF directly imposed policy recommendations on Greece.<sup>54</sup> At that stage, however, the application of these policy recommendations was not part of the conditions for financial assistance. The IMF pointed out that the mounting public spending on pension benefits was among the highest in the EU<sup>55</sup> and the public expenditures on pension could be achieved through parametric and structural reforms.<sup>56</sup> More specifically, concerning the parametric reforms, the IMF recommended the increasing of the retirement age, longer years of contributions and a reduction of the replacement rate, in cases whereby if they remain high and the state would face an excessive pension related public expenditure.<sup>57</sup> Concerning the structural reforms, the IMF proposed the introduction of a flat-rate pension proportionate to the contribution period but not dependent on earnings. They also proposed that the amount of pension payments received should correlate with the

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52 *World Bank*(2006), p. 21.

53 *Ibid.*

54 *IMF*(2002) 02/58.

55 *IMF*(2002) 02/58, p. 8.

56 *IMF*(2002) 02/58, p. 12.

57 *IMF*(2002) 02/58, p. 13f.

amount of the contributions made as well as with the actual life expectancy rates.<sup>58</sup> Finally, the IMF proposed an introduction of individual savings accounts encouraging additional voluntary contributions.<sup>59</sup>

## 2. European Economic and Monetary Union

The European EMU is a prominent driver for fiscal discipline and public deficit reduction. Since its establishment, its Member States have deliberately given up their autonomy in regards to fiscal discipline, in order to meet set objectives for the proper functioning of the EMU.<sup>60</sup> The fact that fiscal discipline and public deficit reduction serves the proper functioning of the EMU derives, for instance, from the establishment of Council recommendations and decisions in cases of excessive public deficit by Member States. Namely, for the proper functioning of the EMU, a Council Regulation on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies was made pursuant to Article 121 of the Treaty on the Functioning of the European Union (hereinafter: TFEU).<sup>61</sup> If a Member State fails to adhere to the Council's broad guidelines, or if its policies jeopardise the proper functioning of the EMU, the Council may make recommendation and address decisions to the Member States concerned with regard to the level of government's expenditures and revenues.<sup>62</sup> The Council Decisions are fully binding for the Member States<sup>63</sup> and thus the Member State is obliged to undertake the respective reductive measures to ensure the proper functioning of the EMU.

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58 *Ibid.*

59 *Ibid.*

60 Clark, *European Pensions and Global Finance*, p. 10.

61 Council Regulation (EC) No 1466/97, OJ L 209 of 2.08.1997, as amended in Council Regulation (EU) No 1175/2011, OJ L 306 of 23.11.2011. This Surveillance Regulation obliges the Member States of the EMU to submit at the start of each year (European Semester) "*stability programmes*", setting out the steps being taken to achieve a balanced budget.

62 Art. 126(7) and 136(1) of the TFEU: The Council recommends the Member States to respect their medium-term budgetary objectives and to take effective action in order to ensure a prompt correction of excessive deficits, as well as to correct the current account deficit by implementing structural reforms, boosting external competitiveness and contributing to their correction via fiscal policies.

63 Art. 288 of the TFEU.



Yet, the relationship between the proper functioning of the EMU and the need for pension reforms is uncertain. Even though the Member States are indirectly forced to reform their pension systems, in light of the fact that there is a certain correlation between economic performance and public expenditures on pensions, there is no clear pension reform provision at the EMU level.

The influence of the EMU on the Greek pension system is thus “*a complex issue*”.<sup>64</sup> Initially, it was believed that the candidacy of Greece and its subsequent membership in the EMU could prove to be an important instrument for sustainable public finances.<sup>65</sup> Indeed, the EMU exerted strong pressure on social spending at the time that Greece was a candidate to join the EMU.<sup>66</sup> The Greek socialist government with Prime Minister Costas Simitis planned to adopt a series of austerity measures, such as the curtailment of public pension spending. More specifically, it attempted, during the period 1996-2000, to pass through the Greek parliament a radical and multi-tier pension reform. However, a viable pension reform was not adopted, because it became evident that entry into the EMU could be achieved without it.<sup>67</sup> Besides, massive protests movements of trade unions opposed to any pension reform, showing thus that the external stimulus of meeting the convergence criteria to enter the EMU did not preclude any social conflicts and the strong opposition of trade unions.

On the 1st of January 2001, Greece entered the third stage of the EMU with the legal introduction of the Euro, which became the new national currency replacing the drachma.<sup>68</sup> Nevertheless, even after the introduction of the Euro and Greece’s obligation to respect the Stability and

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64 *Featherstone / Kazamias / Papadimitriou*, Political Studies 2001, p. 465. Featherstone supports that, firstly, there is no clear pension reform provision at EMU level; secondly, EMU is not the only stimulus to pension reforms; thirdly, the requirement for more liberal and flexible pension schemes is actually forwarded by the wider pressures of globalisation; and lastly, pension reforms may have occurred because of indigenous problems.

65 *Börsch-Supan / Tinios*, in: *Bryant / Garganas /Tavlas*. (eds.), *Greece’s Economic Performance and Prospects*, p. 361.

66 *Petmesidou*, in: *Petmesidou / Mossialos* (eds.), *Social Policy Developments in Greece*, p. 25.

67 *Matsaganis*, *South European Society and Politics* 2002, p. 115.

68 Noteworthy is that later it became apparent that the financial information which the Greek government had submitted had been excessively optimistic. See *EU-COM*(2004) IP/04/1431.

Growth Pact (hereinafter: SGP), the political scene in the field of pension policy did not change. The SGP, which was introduced in 1997 at the Amsterdam European Council and was established by the Regulations No. 1466/97 and No. 1476/97, stipulated corrective and preventive elements, i.e. it demanded that the Member States of the EMU take “*corrective budgetary action*” in case of excessive deficits.<sup>69</sup> The SGP also envisaged the imposition of fines in case of any infringement of the Pact, in order to ensure that the Member States of the EMU did not implement policies that would jeopardize its proper functioning. However, the sanctions were rather abstract.<sup>70</sup> The Pact did not address many other threats faced by the EMU, such as “*the excessive private borrowing and lending, the accompanying moral hazard and the deficient corporate governance*”.<sup>71</sup> Greece was thus free to violate the obligations which were set in the SGP and did not adopt the essential reforms in public pension expenditure. The re-elected socialist government (2000-2004) as well as the successive conservative government of Nea Dimokratia with Prime Minister Costas Karamanlis (2004-2009) adopted only small-scale pension reforms. Thus, the external stimulus of the EMU proved to be weak. The evolving EMU did not manage to play a crucial role in increasing pressures on welfare social protections programmes and addressing new social risks, in order the sustainability of the Greek public pension system to be ensured in the long-term.

### 3. Open Method of Co-Ordination

In addition to the pressures tried to be exercised through the EMU, the EU decided to use another soft channel as a tool of economic surveillance. On the grounds that the EU has no competence to regulate the structure and financing of the Member States’ pension system, which belongs exclusively to the discretion of the EU Member States,<sup>72</sup> in 2000, the EU

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69 Resolution of the European Council on the Stability and Growth Pact, 97/C 236/01, Amsterdam, 17/06/1997.

70 Clark, European Pensions and Global Finance, p. 10.

71 Katsimi / Moutos, EJPE 2010, p. 569.

72 This is indicated in articles 151-161 of the TFEU.

launched the soft non legal-binding tool of the OMC.<sup>73</sup> The OMC is essentially a tool of ‘soft’ policy co-ordination and ‘an additional resource for those domestic actors seeking reform’.<sup>74</sup> Despite the fact that it is not legally binding, it may serve as a guide for the Member States’ social policy.<sup>75</sup> Its main objective is to aid the Member States of the EU, in areas where there is no explicit legislative competence at the European level.<sup>76</sup> It does not harmonise the diverse social security systems of the Member States, but enables the EU to minimize the heterogeneity within the EU and to modernize the social protection of its Member States.<sup>77</sup>

In March 2002, the European Council of Lisbon introduced the OMC on pensions.<sup>78</sup> The aim was to give the Member States general guidelines on reforming their pension systems. In March 2006, the European Council established the OMC on Social Protection and Social Policy,<sup>79</sup> which streamlined the OMC on social inclusion and on pensions alongside the OMC on health and long-term care. Within this framework, the EU has given a number of guidelines regarding pension policy that are generally in tandem with those of the World Bank promoting a multi-pillar pension system. The European pension strategy rests on the following common objectives: solidarity and fairness for all generations; a guarantee of adequate retirement incomes for all, so that individuals can maintain their living standard after retirement; sustainability of public pension schemes by encouraging longer working lives, ensuring an appropriate and fair balance of contributions and benefits and promoting affordability and security of public funded and private schemes; striving for a transparent pension system, designed with reference to age demographics and the pursuit of

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73 *Lisbon European Council*, Presidency Conclusions of 23rd and 24th March 2000, at para. 37.

74 *Featherstone*, JEPP 2005, p. 737.

75 *Eichenhofer*, *Geschichte des Sozialstaats in Europa: Von der „sozialen Frage“ bis zur Globalisierung*, p. 68.

76 For further information about the OMC see *Eckardt*, JESP 2005, pp. 247-267; *Trubek / Trubek*, *European Law Journal* 2005, pp. 343-364; *Dawson*, *European Law Review* 2009, pp. 55-79.

77 *Eichenhofer*, *Sozialrecht der Europäischen Union*, p. 258.

78 *Lisbon European Council*, Presidency Conclusions of 15th and 16th March 2002, at para 33.

79 *Lisbon European Council*, Presidency Conclusions of 23rd and 24th March 2006, at paras. 69-71.

greater equality amongst men and women.<sup>80</sup> More specific guidelines have not been provided. Exceptionally, the European Commission, in its proposals for a better functioning of the OMC, proposed the establishment of a minimum pension income.<sup>81</sup> The abstract proposal through the OMC illustrates the fact that setting specific policies is a rather complex process and successful enforcement of the OMC can only be achieved through a reliable cross-country comparative analysis of the diverse pension systems.<sup>82</sup>

Evidently, pension reforms have been put forward at the national level in many Member States of the EU and common trends are observable. This may indicate that the OMC plays indeed an important role in the policy-making of Member States of the EU. However, it is difficult to argue that they are as a result of the OMC. This is because domestic factors seem to influence the pension policies of the Member States to a greater degree and common trends are seen due to the fact that the Member States face similar social and labour-market policy problems.<sup>83</sup>

Under the framework of the OMC, successive Greek governments reformed the pension system based upon these guidelines. The first effort to implement the general guidelines of the OMC was in 2002 by the so-called “*Reppas Law Reform*”, named after the Minister of Employment and Social Security<sup>84</sup> that introduced an occupational system. However, despite the establishment of a second pillar, the occupational funds in Greece are still not well-developed and thus the multi-tier system does not function properly.<sup>85</sup> A second effort was made through the adoption of the Law No. 3655 of 2008.<sup>86</sup> This legislation introduced provisions in line with the OMC’s guidelines, i.e. by strengthening the link between contributions and benefits, tightening eligibility criteria for early retirement, encouraging older people in employment as well as promoting gender equal-

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80 *EU-COM*(2001) 362 final, p. 2; *EU-COM*(2005) 706 final, p. 2.

81 *EU-COM*(2008) 418 final, p. 5.

82 *Becker*, in: *DRV-Schriften* (ed.), *Renten in Europa: Die offene Methode der Koordinierung im Bereich Alterssicherung – Bilanz und Perspektiven*, p.27.

83 *Ibid*, p. 22.

84 Law No. 3029 of 2002, Official Gazette of the Hellenic Republic 160/A/11.07.2002.

85 *OECD*(2007), p. 27.

86 Law No. 3655 of 2008, Official Gazette of the Hellenic Republic 58/A/03.04.2008.

ity.<sup>87</sup> Nonetheless, the pension bills of 2010 introduced a number of reforms that are more in line with the common guidelines set out by the OMC. These are presented in the next chapter.

## II. Factual Factors

### 1. Financial Imbalances in the Greek Public Pension System

Mismanagement of the social insurance funds, evasion of contributions by public corporations and private firms as well as wrongful granting of pension benefits, were some of the causative factors leading to financial difficulties of the Greek public pension system.<sup>88</sup> Public expenditure on pension benefits increased from below 6 percent of Gross Domestic Product (hereinafter: GDP), in the mid-1970s, to over 12 percent of GDP in 1990, on the grounds that between 1975 and 1990, an increasing amount of old-age pension benefits was allocated to citizens below the age of 60 and about a-quarter of pensioners received an invalidity pension, while about 40 percent of private sector workers were classified as working under “*arduous and unhealthy employment conditions*”.<sup>89</sup> The public pension expenditures on cash benefits for old-age and survivors’ pensions were 11.7 percent of GDP in 2007,<sup>90</sup> and future public expenditures on pensions are predicted to steadily increase over the next 50 years (2010-2060) by 24.1 percent.<sup>91</sup>

The financial imbalances were also attributable to the large number of public pension funds. There were approximately one hundred and thirty social insurance funds with different regulations regarding coverage and retirement prerequisites.<sup>92</sup> These different regulations brought about an unfair distribution of pension benefits among pensioners.<sup>93</sup> More specifi-

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87 *Petmesidou*, ASISP 2010, pp. 7-10.

88 *Petmesidou*, in: *Petmesidou / Mossialos* (eds.), *Social Policy Developments in Greece*, p. 40; *Matsaganis*, *South European Society and Politics 2002*, pp. 110-111; *Sotiropoulos*, *JESP 2004*, p. 271.

89 *Mylonas / De la Maisonnette*, *The Problems and Prospects Faced by the Pay-As-You-Go Pension System: A Case Study of Greece*, p.22-24.

90 *EU-COM(2009) 56 final*, p. 122.

91 *Ibid*, p. 127.

92 *Petmesidou*, ASISP 2010, p. 4.

93 *Hellenic Republic(2005)*, p. 9.

cally, the diverse provisions for retirement ages and replacement rates across occupations allowed the introduction of privileges in some funds, such as the pension funds of state-owned banks and public utilities paying generous pension benefits.<sup>94</sup> Political parties took advantage of the increasingly large fragmentation, in order to build strategic political networks with the leaders of civil service trade unions.<sup>95</sup> For instance, in the mid-1980s, the socialist *PASOK* government granted higher incomes and old-age pension benefits to public-sector employees in comparison to other occupations and empowered the civil service trade unions.<sup>96</sup> Furthermore, old-age pension benefits of the private-sector workers were lower than their public sector peers, but relatively generous in light of the amount of contributions they made. Workers were eligible for old-age pension benefits after contributing for a minimum of 15 years, which corresponded to a minimum pension and a relatively high replacement rate.<sup>97</sup> Moreover, the segmentation and complexity of the public pension system caused poor administration and lack of adequate supervision.<sup>98</sup> Poor record-keeping in regards to pensioners and contributors, as well as a lack of collaboration between the social insurance funds and the income tax authorities led to fraud and abuse.<sup>99</sup> The wrongful granting of old-age pension benefits and unfair welfare distribution towards the populace is depicted in national studies; Greece has one of the highest rates of pension expenditures among the OECD countries, but at the same time, high level of poverty among the elderly.<sup>100</sup>

Since the beginning of the 1990s, a comprehensive pension reform had been at the top of the political agenda. The first reforms took place, in 1992, when the conservative party, *Nea Dimokratia*, gained power. The

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94 *Matsaganis / Leventi*, Basic Income Studies 2011, p.7.

95 *Börsch-Supan/ Tinios*, in: *Bryant / Garganas / Tavlas* (eds.), Greece's Economic Performance and Prospects, p. 412.

96 *Triantafyllou*, in: *Overbye / Kemp* (eds.), Pensions: Challenges and Reforms, p. 155.

97 *Mylonas / De la Maisoneuve*, The Problems and Prospects Faced by Pay-A-You-Go Pension System: A Case Study of Greece, p 6.

98 *Ibid*, pp.20-21.

99 *Hellenic Republic*(2005), p. 9.

100 In 2006, the proportion of the population below the poverty line was 20.5 percent and the 25 percent of which were elderly. Source: *Hellenic Republic*(2008), p.3.

Greek parliament adopted two pension regulations (Law No. 1902 of 1990<sup>101</sup> and Law No. 2084 of 1992<sup>102</sup>) that introduced parametric changes. It unified the regulations for individuals entering the labour force after the 1st of January 1993. The regulations regarding retirement age, retirement prerequisites and methods of financing became less generous than the regulations applying to individuals who had entered the labour force before the 1st of January 1993. In 1996, the socialist party, *PASOK*, with Prime Minister Costas Simitis won the national elections. The main aim of the socialist government was the Europeanisation of Greece as well as Greece's entrance into the EMU. The government thus implemented a retrenchment welfare policy and prioritised the pension reform. In 1997, a special committee of technocrats (the so-called: *Spraos Committee*) was set up to report on the medium and long-term development of the Greek economy.<sup>103</sup> It put forward a proposal for a sustainable Greek pension system, and presented various options for reforms. Nevertheless, disagreements with the trade unions caused constant general strikes and social unrest, and the government dissociated itself from the Committee's report. In 2002, the re-elected socialist government proposed another pension reform to the Greek parliament. The Greek parliament adopted then the Law No. 3029 of 2002. This was the first step towards the establishment of a multi-pillar system, as it introduced for the first time a scheme of occupational funds. However, the reform failed to guarantee the financial stability of the public pension funds and they also failed to balance inequalities.<sup>104</sup> Probable reasons for this are that the main public pension pillar adequately covers all of the working population, the contributions are rather high and the occupational scheme was introduced too late.<sup>105</sup> In 2008, the conservative party, *Nea Dimokratia*, with Prime Minister Costas Caramanlis proposed a third piece of pension reform to the Greek parliament and the latter adopted Law No. 3655 of 2008 concerning the administrative and organisational reform of the social security system. The reform introduced

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101 Law No. 1902 of 1990, Official Gazette of the Hellenic Republic 138/B/17.10.1990.

102 Law No. 2084 of 1992, Official Gazette of the Hellenic Republic 165/B/07.10.1992.

103 *Featherstone / Kazamias / Papadimitriou*, Political Studies 2001, p. 467.

104 Matsaganis characterised the Reppas reform as "*timid and ineffective*": See *Matsaganis*, South European Society and Politics 2002, pp. 118.

105 *Petmesidou*, ASISP 2010, p.5.

essential parametric reforms, i.e. stricter eligibility criteria for early retirement, and an improvement of the administrative structuring of the schemes by merging the various pension funds to just thirteen.<sup>106</sup> Nevertheless, the 2008 legislation did not secure a long-term fiscal sustainability of the pension system neither did it improve the financing of social security nor the transparency of budget allocation.<sup>107</sup>

Therefore, despite the above efforts, the successive Greek governments failed to adopt a pension system that could guarantee its viability and not heavily burden the public budget. None of the above reforms could guarantee the reduction of the public expenditures on pension or address the unfair welfare distribution of the pension welfare benefits. In fact, none of the Greek governments were prepared or eager to risk their political power in the short term, in order to adopt pension reforms that would produce long-term benefits.<sup>108</sup> The domestic impediments were too strong. Under domestic impediments fall “*the limited relevance of technocratic legitimisation, the low levels of trust among the social partners, insurmountable veto-points and strong political and electoral interests*”.<sup>109</sup> The trade unions played a decisive role and limited the possibility of the development of a consensus in regards to the pension reforms,<sup>110</sup> like in many other democratic countries, where trade unions and institutional vetoes can represent a serious obstacle to the administrative capacity of the government in policy-making.<sup>111</sup>

## 2. Demographic Changes

Three main demographic components are of significance in cases of public pension reforms: fertility, mortality and migration. The ageing of the population, decline of fertility rates, as well as the flow of migration, all

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106 *Hellenic Republic*(2008), pp. 62 ff.

107 *Ibid*, pp.5, 11.

108 *Featherstone / Tinios*, in: *Petmesidou / Mossialos* (eds.), *Social Policy Developments in Greece*, p.182.

109 *Ibid*.

110 *Clark*, *European Pensions and Global Finance*, p.2; *Featherstone / Tinios*, in: *Petmesidou / Mossialos* (eds.), *Social Policy Developments in Greece*, p.183.

111 *Bonoli*, *The Politics of Pension Reform: Institutions and Policy Change in Western Europe*, p. 38ff; *Radaelli*, in: *Featherstone / Radaelli* (eds.), *The Politics of Europeanization*, p. 34; *Pierson*, *World Politics 1996*, p. 150.



fall under the banner of demographic changes. Following, I highlight the first two components. During the last few decades, western countries have witnessed dramatic increases in life expectancy<sup>112</sup> and a decline in fertility rates.<sup>113</sup> Rapid growth of the population aged 60 and over and, the decline in younger population has resulted in a situation in which the number of workers, who pay contributions to the social security system, are less than the number of pensioners, who receive social security benefits. This situation illustrates substantial difficulties in the effective functioning of the pension system, since the majority of western countries have adopted the Pay-As-You-Go System (hereinafter: PAYG).<sup>114</sup> The basis of the PAYG is that active workers finance the pension benefits of current pensioners, while the next generation finances the pension benefits of current workers. This intergenerational contract requires steady population growth and high capital accumulation for a long-term sustainable pension system.<sup>115</sup> Therefore, in light of the above mentioned demographic changes, reforms in the financing and administration of the pension systems become necessary and essential.

More intensive financial imbalances and intergenerational conflict may arise, when the large segment of the population, born between 1945 and 1965, the so-called “*baby boomers’ generation*”, will be eligible for pensions in the first quarter of this century.<sup>116</sup> This massive retirement may pose challenges to the national economy and the pension system, since it will cause a dramatic rise in the old-age dependency ratio.<sup>117</sup> More specifically, there are currently, on average, just over four workers for every pensioner,<sup>118</sup> while in 1950, there were more than seven workers for every

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112 In 2005-10, on average in OECD countries, women aged 65+ could expect to live an additional 19.9 years. This is expected to increase to 23.5 years by 2045-50. Men of the same age could expect to live 16.4 more years, with a projected increase of 3.1 years by 2045-50 to reach 19.5 years. Source: *OECD*(2011), p. 166.

113 Fertility rates averaged 1.69 across OECD countries in the period between 2005-2010. This level does not ensure population replacement. Source: *OECD*(2011), p. 162.

114 *IMF*(1996), p. 1.

115 *Barr / Diamond*, Oxford Review of Economic Policy 2006, p. 18.

116 *Visco*, Ageing and Pension System Reform: Implications for Financial Markets and Economic Policies, p. 9.

117 *Hirte*, Pension Policies for an Aging Society, p. 105.

118 *OECD*(2011), p. 168.

pensioner.<sup>119</sup> Furthermore, by 2047 the ratio of workers to retiree is estimated to be two to one.<sup>120</sup>

Demographic challenges in Greece developed in tandem with other western countries. In 1975, the population of individuals aged over 65 years and 80 years, was 12.2 percent and 2.1 percent respectively, while, in 2000, the percentages increased to 17.6 percent and 3.6 percent respectively.<sup>121</sup> Furthermore, it is estimated that by 2050, the figures will reach the 31.5 percent and 11 percent.<sup>122</sup> In the period 1975-1980, the life expectancy for females was 75.8, and for males 71.7 years, while in the period 2000-2005, the life expectancy for females increased to 81.2 years and for males 75.9.<sup>123</sup> A further increase of 87.3 years for female life expectancy, and 83.7 years for males, is forecasted for the year 2050.<sup>124</sup> Therefore, the ageing of the population will lengthen the duration of old-age pension benefit dependency.

Furthermore, the sustainability of a public pension system in the future is questionable also due to low fertility rate. The natural growth of the Greek population was at 0 percent during the period 2000-2005, while a negative growth rate of 0.6 percent is expected by 2050.<sup>125</sup> Another scenario foresees that by 2050, the total fertility rate is expected to reach 1.62 percent.<sup>126</sup> The low of birth rate in southern Europe is a result of difficulties among young to gain firm foothold in labour market as well as because of a lack of affordable childcare, forcing, especially women, to choose between participating in the workforce or forming families.<sup>127</sup> In addition to the reduction of birth rate, the reduction in the employment rate of the prime working age (25-54) and for the group of older workers (55-64) is another contributing factor to the average public expenditure pressures. The unemployment rate increased by 19.7 percent from March 2008 to September 2013 reaching 27.6 percent.<sup>128</sup>

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119 *Ibid*, p. 42.

120 *Ibid*.

121 UN(2002), p.248.

122 EU-COM(2012) European Economy 2/2012, p. 402.

123 *Ibid*.

124 EU-COM(2012) European Economy 2/2012, p. 402.

125 UN(2002), p.249.

126 EU-COM(2012) European Economy 2/2012, p. 402.

127 Hemerijck / Ferrera, in Martin / Ross (eds.), Euros and Europeans: Monetary Integration and the European Model of Society, p. 259.

128 EU-COM(2013), p. 37.

In light of the above, as population ages, combined with low levels of labour market participation and the general economic recession, the public pension expenditures will get higher. Greek demographics over the last decades along with economic adversities affected disproportionately an already fragile social security system. These changes negatively affect the social security system, since mounting aging-related spending is a threat to long-term fiscal sustainability of the state and sustainability of the pension system. Indisputably, under these circumstances the sustainability of the pension system and the adequacy of the pension income is clearly endangered and thus a significant cause for alarm. Public pension costs will get higher as population ages, unless policies are changed and labour-market participation rates increased.

## B. The Influences of the Pension Reforms After the Financial Crisis

### I. The Financial Crisis

The European financial crisis of 2010 has been explicitly connected with the global financial crisis of 2008. Various causes had been suggested as potential reasons for the global crisis; such as the loan market crisis that began in 2007, in the United States of America (hereinafter: USA), the bankruptcy of Lehman brothers in 2008, the real estate bubble in the USA and in other countries, such as Spain and Ireland; as well as the weakness of the financial regulation system.<sup>129</sup> To address the new challenges, the initial response of the majority of the Member States of the EU was to implement Keynesian measures (investing in jobs, investing in infrastructure, tax relief) and grant financial support to the banks.<sup>130</sup> However, the pressures exerted by the financial crisis and its economic aftermath became stronger. As a result, the German leadership consistently requested other Member States to advocate prevailing policy in the EU which would balance household budget, tighter fiscal and monetary rules and greater economic co-ordination.<sup>131</sup> The logic behind this retrenchment policy is that

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129 Allen / Carletti, *International Review of Finance* 2010, p.5; Levine, *International Review of Finance* 2012, p. 39.

130 Vis / Van Kersbergen / Hylands, *Social Policy and Administration* 2011, p.346.

131 Diamond / Liddle, in: Morel / Palier / Palme (eds.), *Towards a Social Investment Welfare State?*, pp. 301ff.; Pisani-Ferry / Sapir, *Economic Policy* 2010, p.343.

tighter fiscal regulations and improvement of financial imbalances may avoid insecurity in international markets.

For this reason, the Member States introduced in their political agenda *inter alia* progressive reductions in government spending on welfare benefits in an attempt to tackle the escalating debt crisis and prevent excessive public deficit.<sup>132</sup> The political agenda involved a cutting of public expenditures on social services and welfare benefits relating to employment, education, health and pension. The German government, for instance, agreed on significant cutbacks amounting to approximately 80 billion Euros between the 2011-2014 period (Sparprogramm), while in the Netherlands the government decided on cutbacks amounting to the sum of 18 billion Euros between the 2010-2015 period, and the Danish government decided on cutbacks amounting to a total of 3,2 billion Euros.<sup>133</sup>

As a result of the European financial and economic crisis, the vulnerabilities of the Greek economy were exposed in late 2009, when the refinancing of the gross government debt increased dramatically.<sup>134</sup> More specifically, the gross government debt of Greece reached 115 percent of the GDP and the net external debt almost 100 percent of the GDP, while the general government deficit was 13.6 percent in 2009.<sup>135</sup> In addition to this, domestic demand dropped by 2.5 percent, while the value of investment also fell dramatically with the number of non-performing loans increasing from 5 percent in 2008, to 7.7 percent, in December 2009.<sup>136</sup> Moreover, Greece entered the financial crisis with mounting pension-related spending which was projected to increase by 12.5 percentage of GDP over the period 2010-2050.<sup>137</sup>

These national economic deficiencies were attributable to a wide-range of factors. The accumulation of constant macroeconomic imbalances, low external competitiveness, rising external and internal fiscal debt and dependency on international funding in combination with high ageing costs,

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132 *Vis / Van Kersbergen / Hylands*, Social Policy and Administration 2011, p. 348-349.

133 *Vis / Van Kersbergen / Hylands*, Social Policy and Administration 2011, p.348-349.

134 *Visvizi*, Acta Oeconomica 2012, p.17.

135 *EU-COM(2010) 61 final*, p.4; *IMF(2010) 10/110*, p. 4.

136 *Ibid.*

137 *IMF(2010) 10/110*, p. 4.

and a low domestic savings rate were some of them.<sup>138</sup> Due to the huge public deficit and the external debt and the poor business environment, the international capital markets started to become concern for Greece's fiscal credibility and sustainability of the Greek economy. A revision of misreported fiscal deficit data for the years 2008 and 2009 shocked further the international markets due to the fact that they were twice as large as the originally reported figures.<sup>139</sup> The majority of rating agencies downgraded the credibility of the Greek economy and Greece could not thus continue to have access to the international markets, which brought about the problem of liquidity. Against this background, the financial collapse of Greece was called into question threatening the sustainability of the banking system and the economy as a whole.<sup>140</sup>

To tackle the crisis, the elected socialist party with Prime Minister Giorgos Papandreou announced an economic programme that set 2012 as the target date for reducing the public deficit to a figure below 3 percent of GDP, as well as it introduced reductions in the public expenditure (i.e. reductions in the defence expenditures and operating costs, reduction in public salaries over 2,000 Euros and reductions in health procurement expenditures).<sup>141</sup> Greece's updated stability programme was approved by the Council of Economic and Finance Ministers of the EU (ECOFIN) in February 2010.<sup>142</sup> However, the international markets remained concerned about Greece's credibility and ability to service its public debt, while their concern heightened when it was made clear that a worsening of the economic crisis of Greece could provoke spillovers to the other Member States of the EMU.<sup>143</sup>

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138 *IMF*(2010) 10/110, p. 4; *EU-COM* (2011) 717 final, p. 2. For a succinct review of the domestic origins of the Greek crisis see: *Featherstone*, *JCMS* 2011, pp. 195-198; *Kouretas / Vlamis*, *Panoeconomicus* 2010, pp. 394-397; *Katsimi / Moutos*, *EJPE* 2010, p. 572.

139 The deficit for 2008 was revised from 5 percent of GDP to 7.7 percent of GDP, while the projected deficit for 2009 was revised from 3.7 percent of GDP to 13.6 percent of GDP. The corresponding public debt was corrected from 99.6 percent of GDP to 115.1 percent of GDP at the end of 2009. Source: *IMF*(2010) 10/110, p. 6.

140 *Ibid*, p. 7.

141 *Hellenic Republic*(2014).

142 *Council*(2010) 6560/10.

143 *IMF*(2010) 10/110, p. 7.

Consequently, the Greek financial and economic crisis turned out to be the cause for the introduction of new intergovernmental institutional arrangements at European level that are described below. The latter proved to be a strong impetus on reductions in public expenditures, which intensified the pressure to reforms of welfare benefits. As a result, the severe Greek financial crisis provided a significant opportunity for high reductions in public pension expenditures showing the vulnerabilities of the Greek economy and of the public pension system and emphasised the emergency that long- and short-term measures had to be undertaken.

## II. The Conditionality of the Financial Facility Agreements

### 1. The Content of the Financial Facility Agreements

The Greek financial and economic crisis could have negative influence on the economic growth of the EMU and its Member States. So as to prevent the Greek debt crisis from being transferred in the form of a ‘*sovereign debt*’ in the EMU, Europe undertook immediate and effective measures. The EU leaders, in collaboration with the IMF, decided to find a solution at European level by introducing new intergovernmental institutional arrangements. A possible default of one or more Member States has the EU not envisaged in the TFEU nor in the SGP. The Treaty set actually out in Article 125 that no Member State is liable to provide a bail-out to other Member State of the EMU, when the latter face financial and economic difficulties. However, under the severe jeopardy of the EMU’s financial stability and its dismantlement, a new paragraph to Article 136 TFEU was added,<sup>144</sup> according to which “3. *The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality*”.

The initial institutional initiative to the Greek sovereign debt crisis was the first Greek rescue package of May 2010. According to calculations by the European Commission and the IMF, the external financing gap for Greece between May 2010 and June 2013 reached 110 billion Euros, in-

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144 Article 136(2) of the TFEU.

cluding banking sector support.<sup>145</sup> Consequently, on the 2nd of May 2010, the Member States of the EMU approved the First Economic Adjustment Programme for Greece.<sup>146</sup> The financing of the first economic programme was based on bilateral loans between Greece and the Member States of the EMU, pooled by the European Commission for a total amount of 80 billion Euros.<sup>147</sup> The remaining 30 billion Euros was agreed to be provided by the IMF under a Stand-By-Arrangement (hereinafter: SBA).<sup>148</sup>

Although Greece made progress in the implementation of the First Economic Adjustment Programme,<sup>149</sup> and the Greek State responded to its conditionality and did institute a series of reforms, it was projected that Greece could not return to market financing by 2015,<sup>150</sup> since the reforms proved to be unsuccessful in achieving the performance criteria. The real GDP fell by more than 7 percent in the last three months of 2011, the final domestic demand shrunk by 9 percent, the account deficit remained at an unsustainable level (just above 10 percent of GDP in 2011), inflation averaged 3.1 percent, while the total employment rate declined by over 6 percent in 2011.<sup>151</sup> Against this background, the European Commission, the European Central Bank (hereinafter: ECB) and the IMF agreed on the 14th of March 2012, to shift the First Economic Adjustment Programme to a Second Economic Adjustment Programme of financial assistance of 164.5 billion Euros for the years 2012-2014.<sup>152</sup> The financing of the second economic programme was agreed to be provided through the temporary European Financial Stability Facility (hereinafter: EFSF) amounting to 144.47 billion Euros, while from the IMF's side, the financing shifted from the

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145 *EU-COM*(2010) 61 final, p. 25.

146 *EU-COM*(2010) 61 final.

147 This amount was reduced by 2.7 billion Euros, because Slovakia, Portugal and Ireland decided not to participate in the Greek Loan Facility Agreement. Retrieved June 2014 from [http://ec.europa.eu/economy\\_finance/assistance\\_eu\\_ms/greek\\_loan\\_facility/](http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/).

148 The details and conditions of the loan facility agreement between Greece, the Euro Area Member States and the IMF is available online in English: [http://www.minfin.gr/content-api/f/binaryChannel/minfin/datastore/30/2d/05/302d058d2ca156bc35b0e268f9446a71c92782b9/application/pdf/sn\\_kyrtwikoimf\\_2010\\_06\\_04\\_A.pdf](http://www.minfin.gr/content-api/f/binaryChannel/minfin/datastore/30/2d/05/302d058d2ca156bc35b0e268f9446a71c92782b9/application/pdf/sn_kyrtwikoimf_2010_06_04_A.pdf). Retrieved July 2014.

149 *EU-COM*(2012a) 94 final, p.21.

150 *Ibid*, p. 1.

151 *Ibid*, pp. 11-16.

152 *Ibid*.

SBA to the Extended Fund Facility (hereinafter: EFF) amounting to 19.8 billion Euros.<sup>153</sup>

The EFSF resolution mechanism was temporarily founded as a response to the sovereign debt crisis of the Member States of the EMU that “are experiencing or are seriously threatened by a severe economic and financial disturbance caused by exceptional occurrences beyond its control”.<sup>154</sup> Its main aim was to provide financial assistance to the Member States of the EMU that faced problems of liquidity through issuance of bonds and other debt instruments, ensuring, therefore, the proper functioning of the EMU.<sup>155</sup> The financial assistance was provided in the framework of a macroeconomic adjustment programme. This temporary crisis resolution mechanism was replaced by a permanent resolution mechanism, the European Stability Mechanism (hereinafter: ESM). The ESM was grounded on the 2nd of February 2012<sup>156</sup> and as of the 1st of July 2013, it is the only mechanism that provides financial assistance to the Member States of the EMU.

The framework of the financial facility agreements (or economic adjustment programmes for Greece) between Greece, the Member States of the EMU and the IMF consist of two steps. The first step is to specify the fiscal objectives and performance criteria of the long-term adjustment economic programme as well as the general framework of the policies that have to be undertaken for the achievement of the objectives. This step is taken place by the European Commission and the ECB in collaboration with the IMF.

One of the fiscal objectives of the programme was the urgent and effective reduction of the public deficit and the achievement of a primary surplus of the public budget. More precisely, the objective of the First Economic Adjustment Programme for Greece was the improvement of the public budget from a public deficit of 8.5 percent of GDP in 2009 to a sur-

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153 *EU-COM(2012a)* 94 final, p. 5.

154 Council Regulation (EC) No. 407/2010, OJ L 118 of 12.05.2010.

155 *EFSF Framework Agreement between the Member States of the EMU and the EFSF* as amended with effect from the Effective Date of the Amendments, Consolidated Version. Retrieved August 2015. From [http://www.efsf.europa.eu/attachments/20111019\\_efsf\\_framework\\_agreement\\_en.pdf](http://www.efsf.europa.eu/attachments/20111019_efsf_framework_agreement_en.pdf).

156 *Treaty Establishing the European Stability Mechanism* – consolidated version following Lithuania’s accession to the ESM, OJ L 91 of 06.04.2011. Retrieved August 2015 from <http://www.esm.europa.eu/pdf/ESM%20Treaty%20consolidated%2003-02-2015.pdf>.



plus of just below 6 percent of GDP in 2014.<sup>157</sup> The European Commission has expressed the view that the Greek pension system “*poses a threat to the long-term sustainability of public finances*”<sup>158</sup> and this made thus the necessity of a pension system reform and the reduction in old-age pension benefits imminent and urgent. The Commission required from the Greek state large cutbacks in pensions, adjustment of the benefits-level of the supplementary pensions as well as stricter link between contributions and benefits.<sup>159</sup> Besides the European Commission, also the IMF has pointed out the mounting spending on old-age pension benefits that is among the highest in the EU, since the government is the main pension-provider in the economy.<sup>160</sup>

Against this background, in the first letter of intent and memoranda of May 2010, the Greek Government launched in details reductions in old-age pension benefits and committed reforming the pension system by the end-June of 2010,<sup>161</sup> with the view to ensure its medium and long-term sustainability of the system as well as to increase the pension expenditures between 2010-2060 under 2.5 percent of the GDP.<sup>162</sup> The proposed pension reforms were designed by the Greek state in close consultation with the IMF, the ECB and the European Commission, that acted as representative of the Member States of the EMU, (hereinafter: Troika). Briefly, the Greek government presented the following parametric reforms: *elimination of the Christmas, Easter and holiday bonuses*,<sup>163</sup> *simplification of the fragmented pension system by merging it into three funds by 2018; application of the new system to all current and future employees; increase of the retirement age for all to 65 years, which will automatic be adjusted according to the life expectancy; increase of the minimum required contributory years to 40 years; introduction of stricter requirements for early retirement and disability pensions; amendment of the pension award formula; calculation of the pension income based on the entire life-time earnings; establishment of a means-tested social pension for all citizens*

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157 *EU-COM(2010) 61 final*, p. 12.

158 *EU-COM(2010) 61 final*, p. 4.

159 *EU-COM(2010) 61 final*, p. 15-20.

160 *IMF(2010) 10/110*, p. 4, 12.

161 *IMF(2010) 10/110*, at para. 13, p. 8.

162 *IMF(2010) 10/110*, p. 51.

163 *IMF(2010) 10/110*, p.47.

above the retirement age etc.<sup>164</sup> IMF responded positively to the proposed pension reforms, arguing that it can guarantee the long-term sustainability of the pension system and moreover, it can curtail pension spending to less than 8.2 percent of GDP in 2050.<sup>165</sup>

In the Second Economic Adjustment Programme for Greece, the objective of the public deficit was refreshed so that the programme was anchored on the objective of reaching a primary deficit of 1 percent of GDP in 2012 and a primary surplus of 4.5 percent of GDP in 2014.<sup>166</sup> As far as the proposed general framework of the policies is concerned, the outlined economic and financial policies are categorised as fiscal policies (including the restructuring of the social security system), financial sector policies and structural policies. Aims of these policies are to strengthen Greece's market confidence as well as its fiscal and financial position during a difficult transition period towards a more open and competitive economy, boost the economy's capacity to produce, save and export, adopt a comprehensive banking sector and promote privatisation.<sup>167</sup>

The second step is the drafting of letters of intent and memoranda by Greece which specify the economic adjustment programme and include the specific policies that shall be implemented in order to achieve the performance criteria. They are formulated by the Greek Minister of Finance and by the Governor of the Bank of Greece in close consultation with the IMF and become integral part of the domestic law, once they are ratified by the simple minority of the total number of Members of the Greek parliament. Under this framework, the Greek state is obliged, in close cooperation with its international creditors, to describe in detail, on a quarterly basis, the fiscal and monetary measures that shall lead to the proper implementation of the economic programme. The letter of intent includes the memoranda, which are: a. one Memorandum of Economic and Financial Policies (hereinafter: MEFP); b. one Memorandum of Understanding (hereinafter: MoU); and c. one Technical Memorandum of Understanding (hereinafter: TMoU). The MEFP describes the recent economic developments and outlines the economic and financial policies that the Greek government and the Bank of Greece will implement to strengthen Greece's economic policies and competitiveness. The MoU details the general

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164 *IMF*(2010) 10/110, pp. 51-52.

165 *IMF*(2010) 10/110, p. 41.

166 *EU-COM*(2012a) 94 final, p. 2.

167 *IMF*(2010) 10/110, p. 45; *IMF*(2012).

guidelines to meet the targets of the economic programme and defines the time frame within which measures shall be implemented. The TMoU entails technical definitions and quantitative criteria already employed in the MEFP and MoU. All memoranda contain various measures, such as an attempt to lower the fiscal deficit by achieving higher and more equitable tax collections. They project a limit on spending in specific sectors, such as public services, healthcare and social security as well as they aim the restoration of competitiveness by reducing minimum wages and market rigidities. The proper implementation of the letter of intent and the memoranda that specify the fiscal objectives are absolute necessary documents approving the grant of the requested by Greece financial assistance at initial phase and then further disbursements of the assistance, at a follow-up phase.

Illustrative of the impact of the EU's and the IMF's policies is the reduction in the Greek public expenditures on pension benefits. For instance, in the first letter of intent and memoranda, the Greek State committed to reforming the pension system by the end of June 2010 and implementing reductions in old-age pension benefits by the end of June 2010,<sup>168</sup> with the view to ensure the short and long-term sustainability of the system as well as to limit public sector spending on pension.<sup>169</sup>

In addition to the memoranda, the measures concerning the coordination and surveillance of the budgetary discipline of Greece and the setting out of economic policy guidelines for Greece are also defined by Council decisions on the basis of the Articles 126(9) and 136 of the TFEU. The Council regarded that Greece was not in constancy with the broad guidelines of the economic policies of the TFEU and reported that this “*may have negative spill-over on the euro-area members... and the current situation risks jeopardising the proper functioning of the EMU*”.<sup>170</sup> The Council thus ascertained that an excessive public deficit existed in Greece and issued decisions addressed to Greece to take effective action in reducing the excessive deficit.<sup>171</sup> For instance, on the 10th of May 2010, the Council adopted the Decision No. 2010/320/EU, providing a number of fiscal consolidation measures intended to reduce the public expenditure, such as a reduction in the Easter, summer and Christmas bonuses, a reduc-

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168 IMF(2010a) 10/111, at para. 13, p. 8.

169 IMF(2010) 10/111, p. 51.

170 Council Recommendation to Greece, No. 2010/190/EU, OJ L 83 of 30.03.2010.

171 I.e. Council(2010a); (2011); (2011a); (2012); (2015).

tion in the retirement benefits to be paid to civil servants and the adoption of a pension bill.<sup>172</sup> That Council Decision provided the general guidelines governing the content of the pension bill of 2010. The Council Decisions are fully binding on Greece regarding the excessive deficit procedure.<sup>173</sup> However, remarkable is that the Council addressed very detailed and specific measures that Greece had to undertake to correct excessive deficit and that the decisions contained measures which belong to the pension policy field, in which the EU has no competence to intervene. The legitimacy and validity of these Council decisions were challenged before the General Court of the EU by the Greek trade union for civil servants and two of its members.<sup>174</sup> The latter brought an action for annulment of Council Decision No. 2010/320/EU and No. 2010/486/EU, which amended the Council Decision No. 2010/320/EU. The General Court held that the applicants were not competent to bring the action before the Court, on the grounds that the relevant Council decision were not of direct concern to them, since they provide only general measures and their proper implementation requires adoption by national law.

## 2. The IMF' Policy of Conditionality

The IMF is an international organisation that operates according to international monetary laws that are enshrined in its Statutes.<sup>175</sup> It supervises exchange-rate arrangements and provides loans to its member countries when they are experiencing difficulties in meeting their external financial obligations. Furthermore, it provides technical expertise. The legal basis of the Fund's conditionality consists of three tiers: the first tier relates to the provision of the Articles of Agreement that requires the IMF to adopt general policies on the use of its general resources; the second tier relates to the performance criteria designed by the Fund to identify the conditions necessary for releasing purchases under an agreement; and the third tier concerns the recommendation of the IMF's staff to the Executive Board on

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172 Council(2010a), Art. 2.

173 Articles 288 and 126 of the TFEU.

174 General Court, *ADEDY et al. v. Council of the European Union*, T-541/10; EU:2012: 626, at para. 76.

175 *Denters*, Law and Policy of IMF Conditionality, p. 15.

financing decisions for member countries.<sup>176</sup> Its economic policies have turned into globally applicable approaches to economic development. The IMF provides financial assistance to its members in situations whereby they face problems regarding balance of payments or have difficulties in finding finance on affordable terms in international or domestic markets. The most basic monitoring tool is the performance criteria, which are either quantitative measures or specified structural reforms which are specified in the country's arrangement with the IMF.<sup>177</sup>

In and of itself the membership does not automatically provide financial support but the provision of financial support requires separate acts in law. The request for financial support is made by the member-country through a declaration (letter of intent – Art. V Sect. 3 (b) (ii)).<sup>178</sup> The loan provided to the member-country is mainly one of assistance, since, firstly, the borrowing terms are more advantageous than what countries would find in the international or national private markets and secondly, its aim is to correct the balance of payment problems. Under Article I of its Statute, its main objectives are to promote international monetary cooperation, facilitate the growth of international trade, promote exchange stability, assist in the establishment of a multilateral system of payments, give confidence to members by making temporarily available the general resources of the IMF under adequate safeguards, shorten the duration and lessen the degree of disequilibrium in the international balance of payments.<sup>179</sup> The prime goal of IMF is thus economical. However, its involvement extends also to poverty alleviation, since this may also ensure macroeconomic and political sustainability. Poverty alleviation was introduced as an IMF's objective.<sup>180</sup>

The IMF's loan is usually provided under concessional loans with zero interest rates that are provided to low-income countries through the Extended Credit Facility, the Stand-By Credit Facility and the Red Credit Facility, while non-concessional loans are provided through Stand-By Arrangement (hereinafter: SBA), the Flexible Credit Line, the Precautionary and Liquidity Line and the Extended Fund Facility (hereinafter: EFF).<sup>181</sup>

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176 *IMF*(2001), p. 8-10.

177 *Ibid*, p. 14.

178 *IMF*(1945), p. 9.

179 *Ibid*, p. 2.

180 *IMF*(2016).

181 *IMF*(2016a).

The SBA is the IMF's workhorse lending instrument for emerging and advanced market countries,<sup>182</sup> which allows instalment withdrawals over a period of time.<sup>183</sup> The SBA was established in 1952 and its aim is to provide financial assistance especially to emerging market countries that face economic turbulences, so that they can emerge from crisis and restore sustainable growth.<sup>184</sup> The SBA provides flexibility in terms of the amount and timing of the loan. The length is typically 12 to 24 months. The repayment of the loan takes place in instalments starting from 3 to 5 years after the date of each disbursement. The lending rate is tied to the IMF's market-related interest rate, known as the basic rate of charge.<sup>185</sup> The EFF was established in 1974 to help countries facing serious financial imbalances that require fundamental economic reforms. The length of an EFF is longer than that of a SBA. A maximum duration of up to four years after approval is also allowed and repayment is due within 4 and a half to 10 years from the date of disbursement.<sup>186</sup>

Many criticised the IMF's structural adjustment programmes, on the grounds that in most cases the objectives have not been achieved, such as the balance of payments, economic growth and reduction of inflation. Although its tight lending policies aim to pool financial resources, the reality is that asking for support from IMF has become akin to writing an economic and political suicide for economies and governments. In the late 1980s and after the collapse of Soviet Union and the communist regime the critiques over the policies of IMF "reached a crescendo" with result that IMF acknowledged the social implications of its adjustment programmes.<sup>187</sup> In 1996, a critical review was published towards the Fund.<sup>188</sup> According to this review, the adjustment programmes implemented in developing countries have failed because the programmes had not sufficiently focused on minimum social safety nets and there was no cooperation with international labour organisations. The failure of the Fund's lack of knowledge and inability in times of financial crisis was also revealed in

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182 IMF(2016b).

183 Denters, Law and Policy of IMF Conditionality, p. 85.

184 IMF(2016a).

185 IMF(2016b).

186 IMF(2016a).

187 Park / Vetterlein., *Owning Development: Creating Policy Norms in the IMF and the World Bank*, p. 101.

188 IMF(1998), p.4.

the East Asian financial crisis in the late of 1990s.<sup>189</sup> During the 2008-2010 financial crisis the IMF revised the policies to prevent and resolve crisis. It includes more protection to the vulnerable during the crisis and strengthening of the use of resources for social safety nets.<sup>190</sup> However, its policies have been regarded as out-dated and that in the long-term they should be revised.<sup>191</sup>

### 3. The Legal Status of the Agreements and their Element of Conditionality

The relationship between conditionality, ownership and the implementation of the financial facility agreements is a complex one. The original documents of the economic adjustment programmes for Greece, the memoranda and the Council's Decisions do not contain any information that could be of assistance to proving that they are legally binding acts. The absence of the lenders' signature leads to the argument that the financial facility agreements are not international treaties and thus legally-binding agreements that would make obligatory the execution of the economic programme.<sup>192</sup> It appears that the Member States of the EMU and the IMF display a margin of discretion to Greece in choosing the specific measures and do not impose legal obligations. Besides, according to the IMF, the member-country may alter or terminate the adjustment programme at any stage and this rule appeals to the primacy of the state's economic sovereignty and this does not entail any violation of a legal obligation; while the resources already released are not possessed unlawfully.<sup>193</sup>

However, IMF will in that case refuse further purchase.<sup>194</sup> The element of conditionality is introduced to ensure that the Fund's resources are used for their intended purpose, which is the proper implementation of the economic adjustment programmes. Namely, the financial assistance is conditional upon the achievement of specific performance criteria, the imple-

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189 *Park / Vetterlein*, *Owning Development: Creating Policy Norms in the IMF and the World Bank*, p. 108.

190 *IMF*(2016c).

191 *Botchway*, *Law and Financial Markets Review* 2009, pp. 368-376.

192 *Denters*, *Law and Policy of IMF Conditionality*, p. 101.

193 *Ibid*, p. 99.

194 *Ibid*, p. 103.

mentation of strict, national fiscal and monetary policies and the acceptance of tight supervision. Once the debtor state acquires financial assistance within the aforementioned financial facility agreements, the state is factually bound to follow the programme set out for the resolution of its debt crisis.<sup>195</sup> In a different case, an insolvency of the state could put in jeopardy the substance of the state itself, on the grounds that the lack of financial support could result so that Greece may not be in the position to service its external public debt.

This policy of conditionality has been subject of extensive debate.<sup>196</sup> The use of IMF conditionality acts as a powerful incentive, when the debtor state's adherence to a particular set of standards is made a condition for the disbursement of IMF funds under a stand-by arrangement, providing a unique platform to exert influence upon the debtor state's policies.<sup>197</sup> The IMF's traditional thesis is that the financial assistance agreements are fundamentally the member-country's ownership and it is the member-country that decides what policies to adopt. However, the margin of appreciation of the debtor state is rather small, since, although the chosen policies are considered voluntary commitments, the IMF influences their development and implementation through the element of conditionality.<sup>198</sup>

In the case of Greece, the development and proper implementation of the economic programmes is monitored by tight national budget control. The surveillance is operated through periodic consultation by the international creditors using quantitative programme targets. The frequency of reviews runs on a quarterly basis. The Member States of the EMU carry out their monitoring activities through quarterly reviews by the European Commission after consultation with the ECB. The Member States of the EMU decide after consultation with the ECB on the basis of the findings of the European Commission, that the implementation of the economic policy of Greece is in accord with the adjustment programme and any other conditions that are laid down by the Council decisions and the memo-

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195 *Goldmann*, in: *Bohoslavsky / Cernic*, (eds.), *Making Sovereign Financing and Human Rights Work*, p. 91.

196 *IMF*(2001), pp. 19, 52.

197 *Lastra*, in: *Bohoslavsky / Cernic* (eds.), *Making Sovereign Financing and Human Rights Work*, p. 137.

198 *Goldmann*, in: *Bohoslavsky / Cernic* (eds.), *Making Sovereign Financing and Human Rights Work*, p. 95.



landa.<sup>199</sup> The IMF does its monitoring through staff reports of its executive board. It combines a retrospective assessment, i.e. whether the programme was implemented within the agreed timetable, as well as a forward-looking perspective, i.e. whether the programme has to be modified in light of new developments.<sup>200</sup>

Furthermore, the Greek Council of State deciding on the legal nature of the financial facility agreements and memoranda of understanding regarded them as political programmes and not as international treaties.<sup>201</sup> The Court argued that they are not international treaties, on the grounds that they do not transfer powers to international institutions and bodies, which according to the Greek Constitution belong to the Greek state. Namely, it remains in the state's own discretion to choose the specific appropriate policy measures to achieve the fiscal targets set out in the economic adjustment programmes. In this way, it is the Greek government that defines and directs the general policy of the state, as this is provided by Article 82(1) of the Greek Constitution, and not the IMF or the European Commission.

However, even if the financial facility agreements appear as non-legal binding instruments, they are functionally linked to other legally binding instruments, namely to national laws. As advocated above, the memoranda are ratified by the Greek parliament. In practice, the Greek parliament attaches the text of the memoranda in national laws, so that they become legally-binding. The first memorandum, the implementation of which approved the First Economic Adjustment Programme for Greece, was attached in Law No. 3845 of 2010,<sup>202</sup> while the second memorandum, which approved the Second Economic Adjustment Programme for Greece, was attached in Law No. 4046 of 2012.<sup>203</sup> By this way the financial facility agreements became an integral part of the domestic law by being rati-

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199 Loan Facility Agreement between Greece, the Euro Area Member States and the IMF, Loan Preamble at para. No. 8. Retrieved July 2014 from [http://www.minfin.gr/content-api/f/binaryChannel/minfin/datastore/30/2d/05/302d058d2ca156bc35b0e268f9446a71c92782b9/application/pdf/sn\\_kyrtwikoimf\\_2010\\_06\\_04\\_A.pdf](http://www.minfin.gr/content-api/f/binaryChannel/minfin/datastore/30/2d/05/302d058d2ca156bc35b0e268f9446a71c92782b9/application/pdf/sn_kyrtwikoimf_2010_06_04_A.pdf).

200 *IMF*(2016c).

201 Council of State (Plenary Session), Judgment of 20 February 2012, No. 668/2012, at para. 27.

202 Law No. 3845 of 2010, Official Gazette of the Hellenic Republic 65/A/06.05.2010.

203 Law No. 4046 of 2012, Official Gazette of the Hellenic Republic 28/A/14.02.2012.

fied by a simple majority of the total number of the members of the Greek parliament. The ratification of the financial facility agreement imposes on the Greek legislature to adopt specific measures laid down in the national laws which specify the financial agreements. In this way, Greece designed, legislated and implemented a number of specific measures that were in line with the economic adjustment programme, as these measures are foreseen in national law.

Against this background, the legislative power stated repeatedly in the explanatory reports on the impugned legislation that the commitment of Greece to adopt all necessary measures so as to achieve fiscal consolidation according to the objectives and targets set in the financial facility agreements was essential in order the release of the financial assistance's instalments to be ensured. More particular, the explanatory report on the law which adopted the first-round of old-age pension benefits reductions, provided that the Greek state was obliged to undertake these measures in order to guarantee the release of the first instalment of the financial assistance.<sup>204</sup> In addition, the explanatory reports on other laws that introduced further reductions in pension payments defined that it was of great public interest the release of further instalments of the first financial facility agreement.<sup>205</sup> Furthermore, in the explanatory reports on laws, that implemented the Second Economic Adjustment Programme for Greece, the legislature defined that further old-age pension benefit reductions were necessary, since they constituted one of the prerequisites for the release of further instalments of the second financial facility agreement.<sup>206</sup> In light of this, the financial facility agreements constitute important driving forces pressuring the Greek state to ratify the memoranda by adopting national laws and thus undertake specific unpopular measures, such as reforming the pension system and reducing pension payments. This element of conditionality, which the financial facility agreements contain, plays a signifi-

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204 See explanatory Report on the Law No. 3845 of 2010.

205 I.e. Explanatory reports on the Law No 3986 of 2011, Official Gazette of the Hellenic Republic 152/A/01.07.2011; Law No. 4002 of 2011, Official Gazette of the Hellenic Republic 180/A/22.08.2011, which amended the pension legislation of the public sectors; and Law No. 4024/2011, Official Gazette of the Hellenic Republic 226/A/27.10.2011.

206 I.e. Explanatory reports on the Law No. 4051 of 2012, Official Gazette of the Hellenic Republic 40/A/29.02.2012, which introduced further old-age pension benefit reductions; and Law No. 4093 of 2012, Official Gazette of the Hellenic Republic 222/A/12.11.2012.

cant role, in the sense that it actually obliges Greece to respect these specific measures ratified in national law so that Greece may receive the financial assistance at an initial stage as well as further instalments in order to overcome its solvency difficulties.

Therefore, in light of the above, the financial facility agreements are not, on the one hand, legal binding documents but, on the other hand, they are also not identical to the soft-law instruments of i.e. the OMC or the EU recommendations for the general co-ordination of economic and employment policy under Articles 121(2) and 148(4) of the TFEU.<sup>207</sup> Correct appears to be the thesis that the financial facility agreements are a *quasi* instrument of hard-law because of the element of conditionality that they contain. Their legal nature belongs between a soft law and hard law legal instrument. They are not legal binding but because of their element of conditionality, the lending states are obliged to implement them in order to acquire the financial assistance.

Indeed, this form of stringent conditionality created strong pressure on the Greek legislature for undertaking pension reforms as well as quick and short-term effective measures to reduce the public deficit, such as reductions in pension payments. Potentially, the financial assistance could still have been released, even if the Greek state had not implemented pension reforms and old-age pension benefit reductions. Instead, however, the Greek State should have undertaken alternative measures of equivalence size and quality to safeguard the budget deficit target. To leave untouched, however, the pension benefits should be regarded as a science fiction scenario in the case of Greece. As it was mentioned above, the need for urgent and effective reduction of the public deficit constituted one of the prerequisites for the release of the financing and the need to balance the public budget is closely related to the need to balance the public pension expenditures. The expenditures and revenues of the pension system are closely related to the overall economic situation of the state and its available resources, on the grounds that “*pensions are the dominant part of so-*

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207 See also *Fischer-Lescano, Human Rights in Times of Austerity Policy: The EU Institutions and the Conclusion of Memoranda of Understanding*, p. 59. Fischer-Lescano argues that “*the establishment of conditionality and its relationship to EU law ... mean more than voluntary and non-binding coordination of behaviour. The signature of the MoUs has binding effects with consequences in international law, which establish precise conditions in each case and can give rise to reciprocal claims for compensation for infringements.*”.

cial security and they form a significant component of the entire Greek macro-economy”.<sup>208</sup> In addition, cuts in pension payments constitute a quick and effective measure that can decrease in the short-term the public deficit and it is a common policy tool of many countries that face fiscal imbalances and liquidity problems.<sup>209</sup> Against this background, the Greek state was obliged to reform its public pension system and reduce its pension benefits. In a different case the IMF and the Member States of the EMU would refuse further releases of the financial assistance. This could have devastating consequences on the Greek economy inflicting serious macroeconomic and structural damage, both on the Greek economy and on the proper functioning of the EMU.

### III. Concluding Remarks

The present chapter illustrated broadly the necessity of reforms in the Greek public pension system. It has showed that many efforts were made to change the public pension system and many reforms were under way before the 2010 economic crisis, since a Greek public pension reform was inevitable over the last three decades. The financial imbalances of the pension funds and the demographic changes have been the most influential domestic pressures since the early 1990s. Moreover, the guidelines given by international institutions, the EMU and the OMC have had a significant influence on the decision making in regards to the reforms. The OMC provided the essential data and indicators underlining the urgency of a pension reform,<sup>210</sup> while the IMF provided general guidelines associated with the need for fiscal consolidation, such as the gradually raising of the retirement age, limiting early retirement eligibility conditions and cutting pension benefits.

Nevertheless, the above factors proved to be insufficient conditions for bringing about the essential pension reforms in the Greek public pension system. The pressure on national public pension reforms reached its apex

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208 *Börsch-Supan / Tinios*, in: *Bryant / Garganas / Tavlas* (eds.), *Greece's Economic Performance and Prospects*, p. 361.

209 I.e. Portugal (Section 25, Law No. 64-B/2011 on the 2012 State Budget Act); Latvia (Art. 2(1) of the Law on State Pensions and State Allowance Disbursement in the Period from 2009 to 2012).

210 *Tinios*, *The Open Method of Co-ordination and Forced Pension Reforms*, p. 3.

in the case of the economic and financial crisis. Despite the pressure exercised and irrespective of Greece's commitment to restructuring its pension system, a ground-breaking pension reform and the necessary reductions in public pension expenditures had not been adopted prior to the crisis. Potentially, this is because of internal impediments such as strong veto-points and electoral interests, as well as the political incompetence of successive Greek governments. A serious effort is now being made in the context of a severe national sovereign debt crisis combined with the demand for public deficit reduction in return for financial support by the international creditors.

Economic recession has prompted the reform process with cutbacks in welfare expenditures. This is mainly because, when the country is facing economic crisis, domestic actors can easier adopt radical changes without any serious political risks.<sup>211</sup> The Greek experience confirms that a severe financial and economic crisis has the capacity to trigger radical reforms and limit various electoral pressures as well as the resistance of the trade unions.<sup>212</sup> Furthermore, the public is more willing to accept unpopular policies, provided they are presented under the promise of “*an effort to save the welfare state*”.<sup>213</sup>

The Greek financial and economic crisis that emerged in late 2009 served thus as a far more immediate constraint on the expansive welfare state policy through the assignment of financial facility agreements which contained a form of conditionality. The serious national external and sovereign debt problem resulted in the adoption of financial facility agreements between Greece, the Member States of the EMU and the IMF, which unofficially demanded the adoption of an unprecedented retrenchment policy in return for financial assistance. Namely, the disbursements of the loan can solely take place upon proper implementation of the prerequisites of the Economic Adjustment Programmes. One of the prerequisites is the restructuring of the pension system, so that the public deficit is

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211 *Horstmann / Schmähl*, in: *Schmähl / Horstmann* (eds.): Transformation of Pension System in Central and East Europe, p. 33; *Pierson*, World Politics 1996, p. 177; *Bonoli*, The Politics of Pension Reform, p.33; *Schmidt*, JEPP 2002, p. 898.

212 *Palier*, in: *Palier* (ed.), A Long Goodbye to Bismarck? – The Politics of Welfare Reforms in Continental Europe, pp. 334; *Overbye*, in: *Petersen / Petersen* (eds.), The Politics of Age: Basic Pension Systems in a Comparative and Historical Perspective, p. 148.

213 *Pierson*, World Politics 1996, p. 177.

reduced and Greece's economic stability is restored. This financial assistance plays thus an important role in the legitimacy of the aims pursued by the Greek legislature concerning the Greek public pension reforms introduced after the year of 2010.

Therefore, although the urgent need for reducing public expenditures on pensions and face the negative demographic changes pre-dated the financial crisis; it was only after the outbreak of the financial crisis that a drastic pension reform and steady reductions in old-age pension benefits were adopted by the Greek parliament. Redressing the Greek public pension system was conditional upon receiving financial assistance from the Member States of the EMU and IMF, on the grounds that the stabilisation of the public expenditures on pension was one of the policies to meet the required reduction of the public budget and the achievement of a primary surplus. In the proceeding chapter, the reforms and old-age pension benefit reductions, which were introduced following the national economic and financial crisis, are presented and examined.