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Patchwork Pension Plan Adds to Greek Debt Woes

By LANDON THOMAS Jr.

ATHENS — Vasia Veremi may be only 28, but as a hairdresser in Athens, she is keenly aware that, under a current law that treats her job as hazardous to her health, she has the right to retire with a full pension at age 50.

“I use a hundred different chemicals every day — dyes, ammonia, you name it,” she said. “You think there’s no risk in that?”

“People should be able to retire at a decent age,” Ms. Veremi added. “We are not made to live 150 years.”

Perhaps not, but that still makes it difficult to explain to outsiders why the Greek government has identified at least 580 job categories that are deemed to be hazardous enough to merit retiring early — at age 50 for women and 55 for men.

The law includes some predictably dangerous jobs like coal mining and bomb disposal. But it also covers positions like radio and television presenters who are thought to be at risk from the bacteria on their microphones and musicians playing wind instruments who must contend with gastric reflux as they puff and blow.

As a consequence of decades of bargains struck between strong unions and weak governments, Greece has promised early retirement to about 700,000 employees, or 14 percent of its work force, giving it one the lowest average retirement ages in Europe at 61.

Greece’s patchwork system of early retirement has contributed to the out-of-control state spending that has led to Europe’s sovereign debt crisis. What’s more, the government’s promises to pay pension benefits will grow sharply in coming years, and investors can see that the country has not set aside enough money to cover those costs.

The predicament has emerged as a divisive topic within Europe, especially because Germany, Greece’s most stubborn taskmaster on fiscal matters, has already taken politically difficult steps to increase its retirement age to 67 and reduce benefits.

Indeed, the problem with Greek pensions far outweighs the troubles caused by finagling with its accounts in the early 1990s to get its official deficit figures low enough to qualify to join the euro club. A recent report by the European Commission found that Greek spending on pensions and health care for its aging population, if left unchecked, would soar from just over 20 percent of G.D.P. today to about 37 percent of G.D.P. by 2060, the highest level in Europe.

Greece is an early indicator of troubles to come. Bigger countries like Germany, France, Spain and Italy have relied for decades on a munificent state financed by a range of stiff taxes to keep the political peace. Now, governments across Europe are being pressed to re-examine their commitments to providing generous pensions over extended retirements because the downturn has suddenly pushed at least part of these hidden costs to the surface.

The situation in the United States is different but also dire. The United States government will face its own fiscal reckoning, analysts say, as 78 million baby boomers begin drawing on underfunded Social Security and Medicare programs to support them in retirement. Without some combination of raising taxes, reducing benefits or pushing back the retirement age, both programs will run out of money within the next few decades. And many American states are woefully short of meeting their pension obligations for public employees.

In Europe, the conflict has already erupted on the streets of several major cities, with workers demanding that generous retirement policies be kept while governments press to pare pensions and raise retirement ages because taxpayers cannot bear any additional weight and creditors will no longer finance excessive borrowing.

To make matters worse, the unfunded pension liabilities far outweigh the high levels of official sovereign debt that governments owe creditors, which have caught Greece and several other weak European nations in a borrowing vise. According to research by Jagadeesh Gokhale, an economist at the Cato Institute in Washington, bringing Greece’s pension obligations onto its balance sheet would show that the government’s debt is in reality equal to 875 percent of its gross domestic product, which is the broadest measure of a nation’s economic ouput. That would be the highest debt level in the 16-nation euro zone, and far above Greece’s official debt level of 113 percent.

Other countries have obscured their total obligations as well. In France, where the official debt level is 76 percent of economic output, total debt rises to 549 percent once all of its current pension promises are taken into account. Similarly, in Germany, the current debt level of 69 percent would soar to 418 percent.

Mr. Gokhale, like many other economists, says he believes that this is a more appropriate way to assess a country's debt level because it underscores the extent to which the cost of providing for rapidly aging populations, if left unchanged, will add to already troubling debt burdens.

"You have to look ahead and see how pension expenditures are rising in comparison to the revenues needed to finance them," he said. "It's not just Greece; all major European countries are facing pension shortfalls. It is a very difficult challenge because it involves selling pain to current voters."

He estimates that to fully finance future pension obligations, the average European country would need to set aside 8 percent of its economic output each year, a practical impossibility given that raising already high taxes that much would impose a crushing burden on their economies.

Mr. Gokhale has done a similar calculation for the United States and estimates that the truest measure of federal government debt, incorporating Medicare, Medicaid, Social Security and other obligations, is $ 79 trillion, or about 500 percent of the nation's output. Currently, United States debt owed to the public is equal to about 60 percent of it domestic output.

Many of these liabilities will not be coming due for decades. But as most developed countries suffer the worsening dynamic of having fewer workers to cover pensions and health care bills for the elderly, their ability to borrow more is rapidly approaching its limits.

In its 2009 annual report on Greece, the International Monetary Fund warned that the government's excessive pension and health payments to the elderly would result in a debt level of 800 percent of its ouput by 2050 if left unchecked, similar to the figures Mr. Gokhale calculated. That is a theoretical number, of course: international creditors, who are already balking at lending Greece more money, will force changes in government programs well before Athens borrows that much.

"The pension crisis is the biggest single test of Greece's willingness to tackle longstanding reform," said Kevin Featherstone, an expert on the Greek political economy at the London School of Economics. "Any meaningful reform must lead to reduced benefits for workers — the government needs to show that it can overcome union pressure."

Greece has already proposed to raise its average retirement age to 63, and that may be just a beginning — not just for Athens but for much of Europe as well.

The French president, Nicolas Sarkozy, has met with union leaders and broached the prospect of raising the normal retirement age from 60. Spain has gone further by proposing a retirement-age increase, to 67 from 65. In the face of union opposition, however, the government is wavering on that proposal.

“Projected pension expenditures are expected to double,” said Manos Matsaganis, a professor at the University of Athens and author of numerous papers on Greece’s pension system. “That is unsustainable.” Still, the millions who have come to rely on these payouts see their pensions as an acquired right, one they will not give up easily. “Nobody thinks they have to be the one to sacrifice,” Mr. Matsaganis said.

That’s certainly true of Christos Bourdakis, a retired government accountant. Sitting in a dusty union hall in Athens, he who is in no mood to offer any concession on his pension, regardless of the severity of the crisis.

He is a full-throated proponent of a system that pays him a yearly pension of 30,000 euros, or $41,000, more than he was making when he retired 13 years ago at the age of 60. He has even written a book in defense of it, “The Guide to Granting Civil Service Pensions in Greece.”

“We have to protect our standard of living,” Mr. Bourdakis said. “The pensioners should not have to pay for the crisis created by the bankers.”

An earlier version of this article misstated that Greece’s retirement plan lets 40 percent of its work force retire early.

Niki Kitsantonis contributed reporting.