

Chapter 11

En-Route to Greece: A Market-Capitalized vs. a Government- Run Retirement System – Comparison and Chronological Development

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ABSTRACT

This chapter is a comparison between one of the most stable, and one of the most precariously managed retirement systems in the world. Both systems grew through the private sector, but their non-parallel trajectories over time offer hints about possible future developments. The system of governing in Greece has garnered little wisdom from financial bankruptcy. The partly unregulated retirement industry of the United States leaves room for en masse asset liquidation. In both systems the transfer of responsibility for pension performance is enabled by non-market-capitalizing mechanisms. The wave of central bank intervention that underpins excessive tail risk-taking combined with lack of fiduciary responsibility, may entice the ultimate liquidation of assets held by retirees, leading to another financial crisis.

1. A BRIEF COMPARISON OF RETIREMENT ORIGINS

Retirement in the United States has its origins in military history, traced back to the Revolutionary war of 1776. Continental Congress (1774-1781) ratified a lifetime income for soldiers, called a pension. Veterans of the Civil War, and every war after that, were also offered a similar plan in the United States. By comparison, Greece's Revolutionary War occurred 45 years later, in 1821. Liberators were not offered a pension. The ultimate trajectory of the retirement system at first followed classical liberalism's dominant ideas about property rights and the role of the market economy in democratic governance. Nevertheless, after the victory of the October Revolution in Russia in 1917, and more drastically after the Great Depression of 1929, ideas changed in favor of broadening interventionist economic policy and direct public involvement. Civil War in Greece broke out in 1944 and lasted five years. Communist

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rule, as opposed to racial integration, was the underlying cause. Greece is now part of the Eurozone. After a series of historic government failures, the new generations of workers in Greece cannot trust that their retirement contributions will not suffer the same fate as the country's recent bankruptcy, in 2009.

2. EARLY HISTORY OF RETIREMENT SYSTEMS

The first American pensions were offered almost 200 years before Greece had become a free country. As early as 1636, when Greece was under Ottoman rule, American colonies started offering colonial pensions. Soldiers injured in battle were to be supplied for by the county where they lived. During the First Indian War, this Act was expanded to widows and orphans in Virginia's Act of 1675. The private sector grabbed the retirement baton in 1875, twenty-seven years after the writing of the Communist Manifesto by Engels and Marx. American Express established a pension plan for the elderly and workers with disabilities. In 1920, the Civil Service Retirement System started offering retirement, disability and survivor benefits for most civilian employees in the US Federal government. The Federal Employees Retirement System (FERS) took over that role, in 1987. By three years before the crash of 1929, the larger employers in the United States had already offered 200 private pensions.¹

The Internal Revenue Act of 1921 made contributions to employee pensions exempt from federal corporate income. In the 1940's it was labor unions that drove pension plans and benefit increases. By the end of the Civil War in Greece, a quarter of private sector employees were covered by a pension. By 1970 in the United States, 45 percent of all private sector employees were covered by a pension plan. Those were traditional defined benefit plans, in which employees had little direct control over their retirement, except work longer, make a higher salary or live longer. But employers controlled the contribution formula and the investments. They generally made all contributions to fund the plans.

The system was far from perfect but its resiliency through economic conditions and political regimes was remarkable. Compared to the interventionist ideology that permeated the Greek economy, the U.S. system adapted as a direct result of *laissez-faire*, coupled with balanced and prompt oversight, without a direct economic involvement. The '70s staggering inflation brought forth important U.S. legislation. Pension funds failed to replace an employee's full income. They only paid out a small portion of the employee's pay at retirement. The Employee Retirement Income Security Act (ERISA) was passed in 1974. Participation of public sector employees in a pension plan was steady until the 1990s. It was common for workers to spend their entire careers at the same company, compared to 2014 when average employee tenure was 4.6 years.² By that time, Defined Contribution (DC) plans had become popular.

Section 401(k) of The Revenue Act of 1978 created defined contribution plans. Employees contributed funds to a tax-advantaged account that supplemented other retirement benefits. Thus, the three main pillars of U.S. retirement became (i) Social Security, (ii) Defined Benefit Plans, (iii) Defined Contribution Plans. Parallels are relatively hard to find, in the historical trajectories of one of the largest and oldest retirement systems (the U.S.) against that of one of the newest and most precarious systems (Greece). One may argue that the Greek and American systems showed similar development patterns during the 1875 to 1937 period, with significant involvement of the private sector and with government restricted in an oversight and legislative role. But things started going south in Greece, during and after World-War II and the influx of communist propaganda, an influence that may still affect the fate of retirees today.

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