

**Mr. Miroslav Beblavý**  
State Secretary (MPSVR SR)

Ladies and Gentlemen,

it was my Minister who was speaking the first and who already spoke quite a lot about the specifics of some of the Slovak reforms, especially on the pension side, but also on the labour market side. So, instead of repeating the things he said I would like to maybe try to put this into a broader picture of what Slovakia is trying to achieve in its overall economic agenda and how our social reforms are placed within this framework. So first of all, yesterday I had a Scottish journalist talking to me and he asked me how I would define, you know, Slovakia in the moment in terms of policy and my response was: "I would say it's a country in a hurry." And that I think is a fairly accurate description for what we have been trying to do over the last five years and especially in the last year and a half. It's a country in a hurry for two reasons. One is that in 1998 when quite a huge majority of our voters said that they no longer wanted to consider themselves the bridge between the East and the West, but they would rather be a part of the West in all its aspects and all its floors, but also in our benefits. We have been in a hurry to catch up with what we saw as Western Europe or the European model and the EU membership. However, sometime in 2000-2001 it began to dawn on many of our policy-makers, analysts, you know, elites, chattering classes that being in the EU, being European is not enough. An EU guarantees you will not be a failure, but it does guarantee you will be a success.

If you look at countries that have joined the EU over the last twenty-three years and they have been in a similar position as Slovakia, countries such as Ireland, Portugal, Spain and Greece, you see a widely disparate path of success. If you look at the Greek GDP per capita vis-à-vis the European average, that hasn't changed much in the last twenty years. So Greece has not been lagging behind the average, but it has not been catching up substantially. On the other hand, Ireland has become from one of the poorest countries of Europe to actually growing above the European average and maybe more substantially for the Irish growing above their traditional British masters, which I think is a source of prominent joy for the Irish. So we have begun to realise that it is not enough to be European, we have to be a successful European country if we want to achieve what most leaders have been promising the electorate in this country for the last 15 years. Those of you who have been here in 1989 would remember that in 1989 people were thinking: "OK, in ten years we will be like Austria and maybe for two years we will need to tighten our belts, oh how tough that is". And you know, we are now 15 years after that and we are still quite far from Austria in terms of economic development. So, there has been a growing realisation and awareness that we need to be more than just a good European, we need to be a very successful European. And also there has been a growing awareness that the reforms that the previous government – the first Dzurinda government – did were extremely necessary, were extremely important but they would not get us to the point of being a successful European. They would make us a good European. We would have banks that would finally lend on the basis of commercial risk, we would have a fairly working insurance market, fairly working products market, but that was not enough. So this government came into power with the mandate to try to set us on a path of being a successful European. And how that is going to succeed I think the voters will judge in few years and the history will more importantly judge maybe in five or ten years, which I think will be the more appropriate time perspective. But the one thing I would like to say is that I would slightly disagree with the previous speaker on saying that in this we have been following more the American model or way of thinking, which is ideologically alien to Western Europe.

If you look at Lisbon agenda, which is the EU's term to become the most competitive and the wealthiest economy in the world by 2010, which is not doing the failure by 2010, but nonetheless, it is a very, very good objective. That is an attempt by mainly the West European elites in 1997 when this process started and in 2001 this was agreed on to actually get rid of policies everyone could agree on when they get it. So it was an attempt to actually get rid of many of the policies that were pulling these countries behind or slowing down their growth, and I think as time goes on there is more and more emphasis on such simple things as making work pay, which is what Mr. Turner has mentioned and which is now one of the principal ideas behind the Lisbon agenda and behind the social policy agenda. But that doesn't mean there is not a lot of harmful ideas on the EU policy table and there is a permanent debate about which idea should be put in place and there is a lot of ideological confusion because the Lisbon agenda is the agreement which in trade unions, employers and government is about things they want to get rid of and what ambition they have is not a complete agreement on the ideology or the policy prescription, so you have trade unions emphasising the cohesion point and you

have the employers emphasising the competitiveness point. And that is logical, but I think Europe is moving forward and let's hope the new member countries will help it move forward.

In terms of social policy I would very much like to appreciate what some of the previous speakers have said about the need for complexity, about the need for a pension reform to be tied to a labour market reform and to be tied to a social assistance and family policy reform. It would take much more time than I have to describe all of them in details, but what I would like to say is that they try to fuse traditional and conservative ideas of making work pay and making sure that actually non-working does not pay, and of trying to look at incentives with the more maybe social democratic idea that people who have been in poverty long need a very, very special helping hand to get out of poverty in terms of access to training, access to jobs and all these things. I think they are necessary and that is why I would argue that these ideas for a reform are not necessarily strictly right-wing or left-wing. They have been usually associated more with right-wing or centre-right-wing governments because it's very difficult for left-wing governments to take electoral steps which might have short-term consequences for their own voters. But in terms of ideology I would say that this is not necessarily ideologically right or left. And in the end as Mr. Turner, I think, briefly emphasised it was the Democratic President Clinton who signed the Republican welfare bill so there is always a mixture there.

In terms of where this puts us is that accession countries, Slovakia being among them, have two problems in terms of future prosperity. One is that – put very simply – not enough people are working, and the other one is that even individual workers are not producing enough. What is enough is what would put them on path with their ambition of being at least an average EU member. So what we are trying to do here with our agenda, with our reform, why we are here today is actually to solve both – so we are trying to put more people on the labour market, not just by creating incentives for the unemployed; but maybe more importantly, by creating incentives for those who might be out of the labour force or are moving out of it to remain in employment or join employment. I'll give you an example, my favourite one. Slovakia and Hungary have the same employment rate, so the same percentage of people between 15 and 64 at work. In Slovakia and Hungary it's about 56 %. But in Hungary the unemployment rate is 6 %, in Slovakia 16 %. So what Hungarians have done is that they have put 10 % of their economically active population somewhere else than in the unemployment, which is nice politically, looks nice on the international figures, but it actually does not do anything for your economy. On the contrary, it might be harmful because as you decrease the available labour supply, it creates inflation pressures, it creates competitive pressures and I think that is one of sources of the problems that Hungary currently has in its macro economy though. The sources are much more complex and I would not like to comment on that in detail.

To finish that thought, the key is actually not what is the unemployment rate, but what is the employment rate in Slovakia. That is why we are actually most proud of the fact that employment has grown by 1.8 % last year in Slovakia, which is the best result we've had since mid-1990's and our attention will be on making sure that this continues. Just another international comparison: The Czech government has recently calculated the Slovak worker and the Czech worker are equally productive or the difference in productivity is very small. But the Czechs have the employment rate of 65 %, so they have 10 % more than we have people in actual employment. So it's no wonder that they are wealthier. It is not that they are more productive, it's that more people are working. That is why we are emphasising we need to get people into work and give them incentives to remain in work, and of course the other challenge is to make them more productive. But at the moment with the inflow of FDI or some of the others actually I think in the medium-term the productivity issue will be less of a problem than the unemployment issue despite the reform so I think we will stay focused on the unemployment front.

The last thought I would like to give concerns is the reform diffusion and the reform cross-pollination. There are no property rights or copyright in economic reform or in policy in general. So stealing is not only allowed, it's usually encouraged. We are very proud that we have taken over some of our ideas and if we have more time I could trace some of the ideas we have from the Netherlands, some of the ideas we have from Denmark, some of the ideas we have from the UK and some ideas from the US. We hope to reconfigure them in a way which is good for the Slovak economy. We are very proud and I'll conclude with that for example the Czech Republic seems to be then taking on some of the ideas because they were implemented in Slovakia even though they are not our original. So that the tax credit for working families per child is now being discussed and I think proposed by the Czech minister something we have just implemented. The need to earn a part of the social system by voluntary or

municipal work is now going to be introduced in the Czech Republic. So I hope that this cross-pollination because it's never one-way will continue. What I also hope – but that might be my very naive hope – is that countries of the current EU will actually realise that some of the new member states might be much more faithful to the Lisbon agenda and to the social reform than there are proposing the actual current member states, and that in some aspects at least they might be more to learn in some of the new member states and I don't mean Slovakia necessarily, I also mean many of the others than in the current member states. But that is a hope probably not to be expressed for those in this room but for those in rooms of Brussels. So thank you very much.