Panel 1 – Social system reform

Summary report:
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1. Pension reform

Generally all speakers agreed that the need of the reform is clear everywhere (because of ageing population and growing deficits of pension schemes), but the ideas about how to implement the reform are inconsistent and vary from one country to another depending mainly on different fiscal conditions. **Mr. Gersdorff** from the World Bank told us that **there is little discussion about a reform that would go beyond fiscal consideration at national level. Such a reform should move us toward a more coordinated pension system within an integrated European Union.** He added that the pension reform needs to be a part of the whole integration process and to be compatible with increased work-force mobility. It should simply allow transfers of money from one country to another.

How such a system might look like?

As **Mr. Tomes** from the Czech Republic said, there is more than one choice – from conservative parametric reform of PAYG to radical non-parametric approaches (like introduction of mandatory funding). The selection depends not only on macro-economic calculations, but also on social and political aspects, meaning mainly social viability and political sustainability of the reform. According to **Mr. Tomes**, these are the reasons why the reform approach must be country specific and backed by an all-national consensus.

The challenge for Europe: to design a pension system that would be country specific and, at the same time, coordinated within the EU.

According to **Mr. Gersdorff**, Slovakia has taken legislative steps that put it on the road to create such a system. This is actually the system similar to that of Estonia described by another speaker – **Mr. Leppik**. It is a three-pillar scheme with traditional PAYG as the first pillar, fully funded mandatory second pillar and fully funded but voluntary third pillar. **One of the biggest obstacles in building such a system is the fiscal burden imposed by transition costs appearing due to the 2. pillar introduction.** The transition costs rise with the participation in the 2. pillar. **Mr. Leppik** gave us an interesting experience from Estonia, where (just like in Slovakia) the participation was optional (except for new entrants to the labor market). It increased rapidly, reaching over 50% of the work force. Poland and Hungary had the same experience and Slovakia will probably be not exception. However, Slovakia has saved large part of privatization revenues to finance these costs and thus it was able to build the biggest 2. pillar in Europe – **Mr. Kanik** (Slovak minister of labour).

2. Reform of social assistance

Mr. Turner, who designed and implemented the welfare-to-work program in Wisconsin and later in New York gave us a valuable insight into this issue. As he said, **the American experience with social welfare reform has resulted in the number of dependent families being reduced nationwide by over sixty percent since the reform was enacted in 1996.** He emphasized, that **the primary change was not due to better education and training that should help adults to find employment. This had proven to be ineffective! Instead, requiring work, even in the public sphere, as a condition of aid, appeared to be most effective. The principle of this approach is quite simple: no work – no money!**

Nowadays, this work-oriented idea spreads across many western European countries but also in Slovakia which has legislated a very good work-oriented concept for the reform – these are the words of **Mr. Turner**. However, he continued, the reform implementation has been maybe too rapid, causing several problems. Well remembered are for example recent social upheavals and looting of part of Roma population in Eastern Slovakia.

Nevertheless, I will finish this short report with positive remarks presented by **Mr. Beblavy** who said, that the **measures adopted in Slovak social system reform have already brought first results. They have made contributions to growth in employment (1.8 % over 2003) and GDP**. **Over the medium term, these measures should assure that Slovakia will rapidly converge to the EU living standards.**