

PROCEEDINGS OF THE
INTERNATIONAL WORKSHOP ON

SOCIAL SECURITY REFORM

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Chapter 4: Summary Report

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Summary report from the international workshop on social security reform Warsaw, September 1997

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The present Report summarizes the discussions, presentations and proposals of the Workshop. It thus occasionally refers to definite papers, authors or cases presented. On the other hand, it should be also understood as a conclusion from the meeting, being a definite proposal in itself. This applies in particular to the second part of the Report, in which individual issues are raised and suggestions made or quoted. The first part is a short overview of the Workshop.

I. Overview of the Workshop

The aim of the meeting was to exchange and discuss the opinions and proposals concerning the introduction of the new social security systems among the group of international and Polish experts in the domain. The meeting, co-organized by the International Institute for Applied Systems Analysis (IIASA), and the Polish Academy of Sciences, was run by the Systems Research Institute from Warsaw. The meeting hosted the scholars from the organizing bodies, as well as a number of guests from other foreign and Polish institutions, the latter including notably the Office of the Plenipotentiary of the Government for Social Security Reform.

During two days of discussions and presentations the problems of social security systems and their reforms were considered in a comprehensive manner. Thus, the definitely interdisciplinary and systemic nature of the issues related to the SSR (Social Security Reforms) was emphasized. Quite a portion of the meeting was

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devoted to consideration of the experiences from different countries, where either the SSR have already been introduced, with varying degree of success, or are underway, or are planned. The cases cited and discussed included Chile, and the pitfalls of the approach applied there, Sweden and Latvia, Hungary and Bulgaria. Naturally, more time was devoted to a broader presentation of the current situation in Poland (the areas of demography, health, and poverty) and the SSR designed. In all the cases the insufficiency of the pay-as-you-go (PAYG) systems was stated and the necessity of moving away from it - at least to a significant degree - was emphasized. One of the important shortcomings of the PAYG system, namely dependence upon demography, was shown to be largely gotten rid of in case of the Polish proposal. In the cases of Hungary and Bulgaria the doubts as to the adequate financing of the potential systems were indicated. Generally, it could be seen that the SSR constitutes in its fundamental traits a truly universal problem, proper for undertaking at IIASA as such.

Another dimension of the SSR problem is connected with politics. Since SSRs constitute a very sensitive subject, the politicians often take into consideration the mood around it to a far greater degree than the requirements of the economic reality. In particular, in many of the countries analysed the pensioners and the retired people constitute an important - and growing - group of voters.

Not only is the SSR domain an interdisciplinary and systemic one, but it is also increasingly international in its nature, which makes it even more appropriate for the research and synthesis at IIASA. This is related to the international character of the capital market within which a large portion of the financial operations of the SSS (Social Security Systems) is starting to take place and will do so on an increasing scale. This brings in an additional risk/security dimension and amplifies the political one.

There was an ample discussion of the financial aspects of the SSR, starting with the legal foundations for the funds and their selection, and ending with the appropriate methodologies and techniques for fund managers, especially in terms of risk vs. revenue.

A separate subject was constituted by the analysis of the household economy, as the source of knowledge necessary for adequate design and implementation of SSR. The analysis of the household savings is of interest for the economists on the macro level, but also for the specialists from the private financial institutions.

There were several presentations devoted to more concrete systems methodologies which can be applied to support the SSR, like decision support and optimiza-

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tion techniques, mathematical methods of financial analysis, socio-economic modelling and the reverse scenario analysis.

II. Main conclusion points

This is a succinct presentation of the most important points which ought to be addressed in any research dealing with the social security reform. First, the actual policy-related problems are outlined, and then the research „challenges” resulting from them. This part of the Report closes with the summary presentation of the potential Polish input into the SSR Project.

1. The issues in Social Security Reform

1.1. Ineffectiveness, inefficiency & financial breakdown of the present pay-as-you-go system.

Not only there are numerous instances of this phenomenon currently observed or looming, but in principle - e.g. due to demographic changes - the PAYG system is simply not sustainable. Can it be improved so as to serve yet for some time? Can it be changed without much ado? Such questions are being asked in various countries, and the respective analyses are being carried out (see, e.g., the Polish documents presented during the meeting). They are certainly of universal nature and they call for a fundamentally unified approach, including models and criteria applied.

1.2. Political/ideological aspects of the current system, its continuation and change.

Politics is unavoidably involved in the SSR, both on the verbal and real levels. Depending upon detailed circumstances this may lead to a swifter and more radical realization of the SSR or, more frequently, to a slower implementation and not too radical solutions (e.g. France or Germany). Therefrom the search for „safer”, more time-wise and socially „distributed” solutions. Polish design can be cited here, consisting of three „pillars”: 1. Obligatory notional PAYG, 2. Obligatory funded, with a certain degree of choice, and 3. Voluntary private funded. International - globalizing - aspects come also into play (relation to international capital markets and international financial institutions - see point 2.2.2), in close relation to security and effectiveness.

1.3. Socio-economic problems perceived and dealt with.

Opposed to the feeling of the need to change there is the apprehension of the unknown and also the definite poverty problem, which cannot be dealt simply and automatically by any

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system or its reform (see the Polish case where the present minimum pension is at 34% of the average salary, but in the new system - on the basis of its two out of three „pillars” - will go down to 28%, though the analyses performed do not indicate a growth of the poverty sector of the society after the Polish reform will have been introduced), and has to be considered in a special manner. The dynamics of age and health vs. economic structures come exactly here into play.

- 1.4. System design and promotion. There is a variety of concrete circumstances which influence the choice of the reform path and objective, as well as the social response and the ultimate effectiveness. What befits Chile or is good for Sweden, does not necessarily have to be appropriate for Poland or Bulgaria (as discussed during the meeting in several presentations). The arguments and levers used in promotion do also have to vary appropriately.
- 1.5. Implementation & manoeuvre. System design has to account for the adequate course of implementation, leaving the possibility of manoeuvre during it, either through voluntary steering or by an „automatic” adaptation of the system.

The above real-life policy and implementation issues related to the (potential and actual) reforms of the social security systems are now translated into problems and research areas for the systems sciences.

2. The scientific input into the Social Security Reform

2.1. The definition of perspective

- 2.1.1. The universality of existing experience, its conditioning, and the gaps (see the whole of 1 above). In view of the obvious quasi-universal nature of the SSR issues it becomes necessary to monitor the experiences of various countries with the existing systems, the plans they have for the change, and the actual introduction of reforms. A lot of information can be gained from a well-designed comparative study which takes into account the variety of national situations, the developments over time, and the effects. It is obvious that the spectrum covered by the actual cases used in comparison will have a number of gaps, but this would be an indication of some directions for research as well. Such a comparative effort ought also to constitute an input into definite modelling work.

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Perhaps a kind of bulletin could be a vehicle for the study, which might evolve from the current „roundtable” task of the SSR project at IIASA.

2.1.2. Interdisciplinarity. The analysis and design of the SSS and SSR cannot be a simple juxtaposition of studies concerning individual disciplines involved (political economy, law, economics, finance, demography, health statistics, epidemiology, modelling, decision support, ...), but have to account for the close interactions leading to interdisciplinarity and a true systemic treatment.

2.1.3. Dynamics of the path (see 1.1 and 1.5 above). The social security system is constantly changing in its actual functioning and the economic significance, as well as financial contents (flows). It is possible that the evolution proceeding in a „natural” way might preempt the externally construed reform, or at least provide for its significant part. In any case it is necessary to track the actual developments in the domain (e.g. in Poland the - officially recognized - number of private pension insurance contracts increased from approximately 2,000 in 1994 to 37,000 in 1995, and presumably even quicker afterwards), and to be able to assess their role for the designed system. The very important demographic changes which will occur in Poland in the coming decades (vast increase of the labour force followed by an abrupt increase of the share of pensioners) constitute a very good illustration for the necessity of analysing the dynamics.

2.1.4. The actual economic structure of the society (see 1.3, 1.4, 1.5 and 2.1.3 above). Without the appropriate knowledge of the actual economic structure of the society (e.g. distinct categories of households, not just in terms of income and income per capita, but also their more general economic behaviour - savings, purchases,...) it is not possible to realize 2.1.3 above, and therefore to design rational SSS. Knowledge of such a structure would enhance - if not secure - effectiveness and efficiency of the SSS designed, as well as its implementability and adequate fairness.

2.1.5. Simplicity & promotion. The schemes devised must be simple enough to be readily understood by the men-in-the-street. Otherwise there would be a tendency to reject. Simplicity, therefore, is a requirement or a constraint on the designs. It includes the constancy and homogeneity (equality) of principles. This aspect of the SSR problem is best visualized by the image of a potential promotion campaign („what would you say in 20 secs. on TV?”). On the other hand,

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adequate information must be provided to all the clients of the system, whenever required (choice options, rates of return, premium/payment schemes,...).

2.1.6. Globality vs. universality. Although discussions at the meeting distinctly indicated that the SSR problems fall much more into the „universal” than „global” category (due to the very differentiated demographic and economic structures of the societies, different economic potentials etc., which can, though, be analysed within the same analytic and modelling frameworks), and so there is first of all a need for universal yardsticks and instruments, there is also an essential global dimension related both to the financial markets and their dynamics over time and space, and to the - supporting - real side of the global economy (see also 2.2.3).

2.2. The necessary knowledge and instruments

2.2.1. Demography vs. Economy. Along with the demographic analyses and forecasts, necessary for the design of the SSR, there must go the demo-economic models accounting for the direct and indirect effects of the proposed schemes on the macroeconomic level, for the financial markets, for the labour market, etc., with due consideration of the dynamic and structural aspects mentioned under 2.1.3 and 2.1.4. Within this context the primarily globally oriented modelling efforts, like EDAM, have to be supplemented with the models proper for representing internal structures of a definite country or adequately homogeneous region (e.g. EU). Although such analyses and/or models are being elaborated in particular countries (including Poland), a universal framework or even a modelling methodology could constitute a subject of work for IIASA.

An issue apart is constituted by the poverty phenomenon on the one hand and the individual perspective on the other. These two questions are closely linked with each other and must get an appropriate reflection in the analyses and models („what will happen to me?”, „what should I do?”, „what are the perspectives and the unfulfilled needs?”).

2.2.2. Health status. Since the SSS encompasses, in general, also the financing and the supply of medical service, even if as a separate chapter or set of institutions, and the pension side of the SSS is heavily influenced by the health status of the population, adequate analyses and models are necessary - again coupled with the economic analysis (e.g. cost of prevention, curing, prolonged life, prolonged

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professional activity, existing common/public/individual investment into these areas, etc.).

2.2.3. Financial aspects: capital market, industrial bases, international dimension.

The post-socialist countries are currently developing their capital markets and financial institutions. A reform is at the same time an opportunity for enhancement of this development and a challenge for the underdeveloped infrastructure. This invites the foreign interest in the (potential) market and leads to international repercussions, involving also the security, policy and international regulation domains. Research has to focus on the capacities of the markets (see also 2.1.4), their structures, and functioning. The solutions related to risk, optimization, etc. should in this context be regarded as necessary technical implements. In the international context (or the universal/global interface) there is also the problem of regulations applied by the international financial institutions and operators, bordering upon legal issues. Such regulations concerning criteria, assessment methods, credibility etc., may have to be treated as variables rather than as constraints in view both of the different situations of particular countries, and of the generally broader perspective taken in the appropriate studies. An appropriate interface between the universal and global dimensions can be provided by means of respective non-trivial models, which may also help in resolving certain politically sensitive issues.

2.2.4. Decision making, policy making, strategic analysis. It appears that if we think of a definite SSR and the ultimate SSS then the policy & strategy selection applications are of utmost importance. They should allow choosing the implementation path(s) and the final state(s), as well as identification of the available manoeuvre margin. This is not only the question of selection of the best of existing methodological know-how, but often of devising new approaches, especially those oriented at social structure and debate.

2.2.5. Modelling capacities. This ought not be a separate domain, but there must exist an effective possibility of modelling in the areas listed above (at the universal as well as global levels), and of actual use of such models for a variety of situations and hypotheses. Otherwise the analyses and reports from them may remain ineffective due to lack of capacity of analysing alternative development paths and insufficient hypotheticality of considerations.

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3. Poland as a case and as a source of know-how

3.1. The current situation & the perspective. Poland can offer rich documentation on the current situation and the perspectives of the „business-as-usual” scenario, on the design of the new system and its implementation, and the discussion thereof.

3.2. The analyses and design(s). There is a number of alternative designs for the Polish SSR, out of which the accepted, governmental, is just one. The discussion around has already taken some time and reached serious depth. There is a definite institutional infrastructure (both the governmental - first of all the Bureau of the Plenipotentiary for the SSR, the Labour Protection Institute, the Institute of Labour and Social Studies, or the Institute of Public Affairs, and the non-governmental, represented by a variety of institutions) behind the analyses and proposals, as well as a well-developed community of scholars. They offer a wealth of information and alternative scenarios.

3.3. The methodological and substantial research offer. Thus, Polish scientific community is capable of offering its know-how in the majority of the domains here quoted, both substantial and methodological. Besides the institutions involved directly in the analyses for and of the SSR, mentioned in 3.2 above, let us just quote the group of Professor Jerzy Holzer at the Warsaw School of Economics, dealing with the demographic and economic analyses and models, or the methodological groups led by Professors Andrzej Wierzbicki and Roman Kulikowski.

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