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The politics of pension reform in Eastern European countries: the Slovak example

The collapse of the state-socialist regimes at the end of the 1980s brought out the idea that liberalism and globalization were synonyms of development and well-being in general. The opening-up of the post-socialist economies was a desirable event not only for the liberal world, but also for the countries that wished to belong to a more advanced group of nations. This article discusses the influence of economic globalisation on post-socialist welfare states. Since the issue under discussion is political by nature, the topic of pensions is a good example of how political context has defined the diverse futures of structural reforms in post-socialist countries. Perhaps the most indicative of the tendency to be identified is extensive literature about external pressure that Eastern European countries have been facing since the end of state socialist dictatorships. Most of the times, international organizations, particularly the World Bank, are blamed for imposing a neoliberal reform without taking into consideration the particularities of each country and, above all, the citizens' interests. In our view, however, this is only one part of the story as there are many other elements that should be considered as well. We will analyse the problem from a historical perspective, which will allow us to divide the analysis into two main periods: the first years after the economic reconversion (1990-2004) and the time after the financial crisis, which started in 2008 and whose effects are still felt today. The Slovak case will be analysed as an example, given that ideological features of the Slovak pension reform document the change of the course from an old state-socialist to a new neoliberal type of welfare state.

Key words: pension reform; social policy; post-socialism; Eastern Europe; Slovakia

1. The first stage: from the openness to the pension reform (1990-2004)

To the former state socialist countries from Eastern Europe, the 1990s symbolize a decade of transition from a centralized economy to a market system, a transition that has been considerably painful. Conciliating the implementation of market-friendly solutions with a need to avoid social collapse was not an easy task, mainly because the end of state socialism meant the destruction of unnatural equilibrium created by the central planned economy.

Orenstein (2008a) identifies four main points among the characteristics of the state-socialist welfare states: they are based on full employment, which means fewer social costs; they secure a broader social provision; they are providers of social benefits through state-owned social enterprises; and they are sustained by socialist ideals; all these are features that make them far more generous than other regimes.

With regard to old-age pensions, the state socialist model of welfare means that the state plays a large part in providing retirement benefits. In general, pre-transition pension schemes, designed mainly to redistribute income, were based on a weak linkage between contributions and pension benefits, or, worse, on a low level of contributions or no contributions at all. The benefits were egalitarian, which allowed some privileged situations (Fultz and Ruck, 2001; Novak, 2001).

During the transition times, governments, constricted by the citizens' expectations (which were understandably higher because of the past experience), attempted to maintain this kind of concessions in an unsustainable way. For instance, certain social problems such as unemployment, which resulted from massive economic restructuring, were solved via early retirement and disability pensions.

Furthermore, high unemployment rates on their own, high tax evasions and contraction in output only worsened the problem. As a result, the mathematical equilibrium in pension schemes was disrupted: the number of citizens who became beneficiaries increased dramatically, while the number of contributors dropped, creating an ever-widening financial gap. The result was that social policy budgets could not meet the growing demands (Fultz and Ruck, 2001; Goliaš, 2004; Orenstein, 2008a).

Makszin and Greskovits (2013) refer to the difficult equilibrium between achieving low government expenditure and respecting the entrenched interests from the socialist-era social policies as 'conflicting pressures'. What is worse, the reforms in these countries were crammed into a relatively short period of time given the context of radical change of the entire economic and political systems.

With this dramatic socio-economic scenario as a starting point, governments had to find a way to answer population demands, bringing alternative proposals into the political arena. Put simply, governments had to choose between improving the sustainability of the public pension scheme (PAYGO) and finding an alternative way to finance pensions.

On the whole, in addition to some measures to preserve the public system's budget (such as increasing retirement age), most countries in Central and Eastern

Europe (usually referred to as CEE countries) implemented partial privatization of their pension insurance organization, which meant transition from a one-pillar to a multi-pillar system, introducing voluntary schemes along with compulsory ones. The social needs of the elderly were, at least in part, delegated to the market place.

The first reason put forward to justify this option was demographic prognosis: the decline in birth rates and the rise in average life expectancy would lead to a future reality of financial unsustainability in which a few productive people would have to finance many pensioners. To deal with population ageing, proponents of the pension reform suggested that each worker should contribute to a privately managed individual account, which would guarantee a proportional old-age pension in the future. Yet, the demographic argument remains a kind of fallacy, because the increase in social needs during the transition was not motivated by the changes in birth or death rates, but mainly by the changes in the labour market, i.e., by unemployment. Furthermore, Eastern European countries are on average ‘young’ when compared with European standards (Fultz and Ruck, 2001; Goliaš, 2004).

Alongside demography, fairness was put forward as another argument for reform. As generally proposed by the neoliberal theory, the reform was based on the strict application of the merit principle, to the detriment of the solidarity principle. This meant that old-age pension was to reflect the amount of paid contributions, i.e., that each pensioner was to receive a pension directly proportional to the monthly contributions made during the working life. Implying a radical change in the way pensions are financed, this logic shifted the responsibility of having sustaining pensions from the state (or society in general) to each citizen, in keeping with the concept of individual justice.

Simultaneously, as explained above, the development of capital markets was seen as another important function of the new pension system, helping to convert pensions from expenditure to profit (at least for financial companies).

Alternative explanations of the motivations behind the pension reform can be found in the era of market transition; these are based on the idea that inherent problems of the pension systems were not severe enough to justify a huge transformation project. This allows us to distinguish the real grounds from the stated grounds of the pension reform (Lesay, 2006). Etxezarreta (2003), for instance, argues that the crisis of the traditional system and the inherent need to privatize pensions are far from being conclusive, which suggests the existence of other reasons to support this political proposal, such as financial, political and ideological interests.

Summing up briefly, while the reform's proponents tended to emphasise an objective necessity for restructuring the pension scheme, and technical problems with sustaining the existing system, critics tended to argue that reform was not ideologically neutral, but, rather, politically motivated.

Eventually, the pension reform in CEE countries resulted in a new mixed model, "coming from the fusion of pre-communist (Bismarck social insurance), communist (universalism, corporatism and egalitarianism) and post-communist features (market-based schemes)" (Cerami and Ettrich, 2005, p.9). As suggested by Inglot (2008), this happened because social policy developments are path dependent or at least strongly historically contingent.

1.1 Reform actors

1.1.1. International organizations

It has been widely accepted that the pension reforms implemented in CEE countries during the time of transition to an open economy were introduced by external forces. In other words, the multi-pillar model of pensions was not an original creation of the former state socialist countries, but something that came from abroad. The reform process involved foreign experts and international organizations, and developments in pension policy in other parts of the world influenced national discourse (Novak, 2001). International organizations, which were part of the so-called Washington consensus, and which encouraged countries to integrate into the world economy, are generally accused by the left-wing groups of being tools of U.S. imperialism.

The World Bank (in close collaboration with the IMF) is commonly recognized as the leading actor of pension reform worldwide. Its influential publication in 1994, entitled *Averting the Old-age crisis*, started a series of intensive debates on the pension reform policy and strategy (World Bank, 1994)[1]. According to the report, social policy represents a public cost that should be substituted by pro-market solutions, creating a new model of welfare sustained by the investment of

1 For a better understanding of how the World Bank led the pension reform process in Eastern Europe, see the work published by Mitchell A. Orenstein, especially his book "Privatizing pensions: the transnational campaign for social security reform" (Orenstein, 2008b). In his book, Orenstein shows how transnational actors have driven change in a policy area once thought to be beyond reform in many countries, and how they have done so by deploying their unique resources and legitimacy to promote new ideas, recruit disciples worldwide and provide a broad range of technical assistance to government reformers over the long term. Having worked for the World Bank, the author gives special attention to the making of new pension reforms in the former socialist countries.

savings in the private capital market. According to Etxezarreta (2003), international organizations pursued a ‘neoliberal strategy’, which made the link between welfare and financial systems a central one.

In this sense, the World Bank was committed to spreading its ideology across the countries that were in condition to receive it. The former socialist countries, which were undergoing a political transformation, were considered a perfect target. Woods (2006, p.65) argues that the greatest success of the IMF and the World Bank has been as globalizers, for their managed to persuade the borrowing countries to implement their economic and social model, or, more precisely, the model of the governments that have guided them. The author considers these institutions “powerful coercive instruments of the international community and bastions of a dominant way of thinking”.

In addition to different forms of policy advice and technical assistance, one of the most important instruments used by the World Bank to influence national governments was the loans that would comply with the social policy conditions. Through this strategy of conditionality for granting loans, the World Bank lent money to relieve the government’s indebtedness on the condition that social policy would adapt to the previously declared parameters, which is to say that the rules of the game were defined in advance by the institution’s interests. Deacon (1997) establishes a direct connection between the country’s level of indebtedness to the West and its exposure to the pressure to cut welfare state budgets. In the same way, IMF has always reminded governments that implementation of open economy requires a reduction in the public sector borrowing and, above all, expenditure reduction in the social protection sector (Deacon, 1997).

In fact, the reality of being an open-market economy may suggest limited options for politicians, who became subjugated to the pressure to lower social spending and to privatize welfare in order to encourage global competitiveness. Moreover, the transition process occurred in the era of globalization, which facilitated greater political influence from abroad, especially where the countries in question favoured an export-oriented, foreign direct investment-led model of development (Makszin and Greskovits, 2013). In addition, each CEE country exercised a ‘neighbourhood’ influence on the others, creating a vicious cycle of self-replicating international pressure, which grew with each new country that adopted the new pension system. In fact, during this first wave of reforms, the Czech Republic and Slovenia were the only countries that did not implement the World Bank’s orientations, pursuing only parametric reforms in their state-run pension schemes instead of implementing a mandatory private component (Drahokoupil and Domonkos, 2012).

1.1.2. European Union

Regarding EU's influence on pension reforms around Eastern Europe, there are two main aspects to explore: the influence on the candidate countries at the time of their accession, and the influence among the countries inside the Union once they have become EU members.

The basic premise in the former case is that the states which were on the path to EU accession had to harmonize their pension systems with those of the more advanced member states. This was done indirectly, because in order to meet the entry requirements of the European Union or of the European Monetary Union, one of which was transition to a single currency, countries had to have a functioning market economy as an indicator of their capability to cope with competitive pressure within the Union. These economic and political conditions known as the "Copenhagen criteria" were an entry fee that the post-socialist countries from Eastern Europe had to pay to join the EU, which affected the governments' decisions to adapt their democracies to the European criteria (Lendvai, 2004; Cerami and Ettrich, 2005). Inevitably, these constraints impacted on pension systems as an important political issue.

In addition, even though the candidate countries did not expect the reforms to bring any risks, the negotiation process to enter the EU did not place enough emphasis on social policy. An example to illustrate the point is the PHARE programme, one of the main pre-accession assistance instruments for the countries of Central and Eastern Europe. As pointed out by Lendvai (2004, p.322), "between 1990 and 1998, only 3.6 percent of the total PHARE budget was used for social development and employment".

At the same time, the pension privatization reform was seen as another step towards European financial integration, because it strengthened the internal capital market and endorsed the role of institutional investors in the provision of social services (Lesay, 2006).

With regard to the other aspect, i.e., EU's influence among the countries inside the Union, EU considers it to be insufficient compared to other international forces. .As a consequence, social policies in post-socialist countries have remained almost unaffected by the EU (Deacon, 1997; Lesay, 2006).

On the one hand, the European Code of Social Security, which entered into force in 1968, aimed to set and guarantee a minimum level of social security protection in the member states, which was binding on all contracting parties. The additional Protocol provides for a higher standard of social security coverage, constituting the desirable European level that each member state should endeavour to attain (Murray, 2002). On the other hand, EU's role in the social security area has been reduced to promoting and encouraging co-ordination of social security schemes among the member states.

The conclusions of the Stockholm European Council in April 2001 called for the application of the 'open method of co-ordination' in the area of pensions. Accordingly, Article 153 of the Treaty on the Functioning of the European Union prescribes that EU should "support and complement the activities of the member states" in the field of social security, among others. In this regard, pension policy remains a responsibility of each member state, through the application of the principle of subsidiarity. This coordination method implemented by the EU seems to leave the responsibility with the member states, under the fallacious argument that social systems are deeply ingrained in national features.

On these grounds, the EU has avoided interfering with core social policy competences, working only on the basis of brief interventions and soft advice, which proves its incapacity to promote a European vision on social issues such as old-age pensions. Thus, theoretical engagements stated in the treaties such as economic and social cohesion, as well as social issues in general, have been more rhetorical than real and softer than desirable, mainly because most EU's social commitments lack a compulsory element and a coercive power (Etxezarreta, 2003; Makszin and Greskovits, 2013).

Nonetheless, whether the European Union does or does not have a direct impact on each country's welfare, and seems, or does not seem to, be paying attention to social issues, its 'soft social policy' has been producing effects on the way social issues are handled, discussed, thought of and resolved. This means that EU policies do exercise a certain influence on the member state level, including pension issues, at least in defining common goals and making pension provisions compatible with the four freedoms that define the internal market, which, ultimately, carries some weight (Jacob, 2002; Lendvai, 2004).

In the same way, European authorities, through their regular reports, recommendations and guidelines, identify the best practices in the pension area under the theoretical construction of a 'European Social Model'. This gives the member states an impression that EU has very definite views about what kind of social policy should be exercised by national governments, and makes every effort to carry out the same social philosophy (Etxezarreta, 2003). Reinforcing this view, Lendvai (2004) points out the political weakness of the Central Eastern European countries, adding that CEE's social partners have been largely marginalized by their respective governments, while social partners at the European level have virtually become legislators.

Moreover, some voices have been asking whether the strong interest in pension privatization has been led by an objective motivation to achieve a long-term sustainability of pension schemes or whether this is only a market expansion strategy, benefiting the largest financial companies, which aim to dominate new pension markets of transition economies (Cerami and Ettrich, 2005). For Etxezarreta (2003), EU is trying to convince the population, or at least their political leaders, of the unsustainability of public pension systems with the purpose of enhancing the expanded and integrated European financial markets through the establishment of private funds.

1.1.3. National actors

To shed the burden of the socialist past with its negative connotations, CEE strove to emulate Western institutions and the capitalist world based on privatization and marketization. Social policy tended to be relegated to almost last place in the priority of many post-socialist governments, which rejected the 'social' elements that made them remember the painful past of socialism (Offe, 1993; Deacon, 1997; Cerami and Ettrich, 2005). As fittingly illustrated by Offe (1993, p.671), "virtually everything that starts with "social", not just "-ism" but also "social democracy" or "social policy" tends to be discredited by post-communist political elites".

The path of transformation in CEE countries was characterized by a 'social policy vacuum', which Cerami and Ettrich (2005, p.67) defined as "a situation in which all social policies established by the command economy became obsolete and, thus, needed to be replaced immediately". Simultaneously, the political and economic environment was volatile, with frequent changes in government and unstable social agents (Etxezarreta, 2003). This state facilitated the openness approach proposed by international organizations, which started to fill up the space not occupied by the national governors (Cerami and Ettrich, 2005; Deacon, 1997). Accordingly, poor countries with weak governments were, by nature, more exposed to the World Bank's pressure to reform (Lesay, 2006).

Meanwhile, right-wing national politicians, who strongly adhered to pension privatization, worked in collaboration with international organizations, or, more than that, called for their support. Even left-wing parties had strong incentives to demonstrate their commitment to democratic capitalism by endorsing pro-market policies (Naczyk and Domonkos, 2016). In other words, the reform toward market interests was desired by both sides of the political ideology and, naturally, by the financial industry, with domestic support for pension privatisation. Identifying a number of factors that constrained the political options on a national scale, such as historical legacies or entrenched interests, Makszin and Greskovits (2013) also report relative weakness of social actors, such as labour unions and employers' organizations in CEE countries, compared to their Western European counterparts. The authors argue that global pressures cannot explain everything, namely the timing of reforms or some instances of non-reform, concluding that, despite international pressure, national political actors had significant room for manoeuvre, thus shaping the policy outcome.

As a matter of fact, national governments, which could either welcome or block advice coming from abroad, actually even sought it (Deacon, 1997). As stated by Woods (2006, p.65), international political actors "must find willing and able interlocutors in borrowing governments"[2].

1.2. The Slovak case

Experience with the pension system and gradual implementation of the reform in Slovakia were similar to those of many transitional countries in Central and Eastern Europe. Since the fall of state socialism, the predominant model for pensions has again been the Bismarck insurance model, (re)constructed on the basis of democratic consolidation. The relatively favourable demographic and financial conditions of the Slovakian pension system, even though with a much higher unemployment rate than the Czech Republic, kept the country under the former scheme inherited from Czechoslovakia, without implementing structural pension reforms in the 1990s (Hetteš, 2011; Terrel *et al.*, 1998). However, Slovakia continued to suffer from the same long-unresolved problems left over from the state socialist period (Inglot, 2008)[3].

Discussions on pension reform only began in the early 2000s under the neoliberal government, when the legacies of the socialist era were not strong enough to block the introduction of innovative pro-market reforms. In Slovakia's example, conditions for the reform were fulfilled in 2002, when the second Dzurinda gov-

[2] Showing that the World Bank's policies were not as strong as claimed, Deacon (1997) argues that the Bank policy varied from country to country and was constituted by internal divisions. The author gives the example of internal tension between a more liberal perspective maintained by Louise Fox in her paper entitled 'Old Age Security in Transition Economies', and the preferences of Nicolas Barr, much more in keeping with the existing practice in the mainstream European systems, which he made public elsewhere . Such tensions are seen by the author as a competition between diverse fractions of global capitalism.

[3] For more detail about the history of the Slovak Republic after gaining independence, see Cerami and Ettrich (2005). For a better understanding of the structure and characteristics of the pension scheme in Slovakia before and after the reform, see Lesay (2006).

ernment came to power, as the interests of the right-wing coalition were aligned with the agenda of the international actors. The result was that in its pension system, which adopted a three-pillar-based approach with the first pillar remaining a pay-as-you-go one, Slovakia introduced a strong capitalization element based on property rights and private accounts.

Mathernová and Renčko (2006) present a number of reasons behind the success of Slovakia's reforms after the Mečiar governments, which ended in 1998. First of all, due to the failure of the previous government's policies and frequent transgressions against democratic principles, which had kept Slovaks away from their neighbours in terms of global integration, the population had a strong desire to change the course of development. Secondly, the first Dzurinda government (1998-2002), which had to deal with international scepticism, did its utmost to produce the results quickly. Another aspect was the wide spectrum of left-right coalition, which helped to legitimize the reforms before the public at large. What is more, international assistance, especially technical aid, added credibility to the reform process.

As mentioned above, the country had to face political pressures from international financial institutions to implement neoliberal concepts in its pension scheme. Thus, the reform of the social security system in the Slovak Republic was motivated neither by the unsustainability of the previous way of financing public pensions, nor by the political or ideological preferences of its domestic authors. In fact, it was accomplished through the agency of international organisations by means of loans, but also, and perhaps more effectively, via technical advice and assistance (Mathernová and Renčko, 2006). Lesay (2006) identifies extrinsic influence and international context as the main factors of what happened in Slovakia, with pension reform being a concept imported from abroad, albeit introduced into Slovakia with extreme zeal. Mathernová and Renčko (2006) describe extraordinary capability of external experts to overcome the constraints and to drive the reform process forward, adding that vested interest groups frequently lacked the capacity to mobilize forces or to block changes, and that there were no negotiations with trade unions or opposition parties when the reform was under discussion. As explained above regarding the CEE countries in general, the prospect of EU membership was another convincing argument in favour of the reform.

Yet, the pension reform in Slovakia was not only a consequence of the World Bank's involvement; it was also largely pushed forward by some internal actors, such as liberal-conservative politicians[4] and libertarian think-thanks like

[4] Ľudovít Kaník is a good example of an influential liberal-conservative politician during the reform era. In 2002, Ľudovít Kaník, who had become the Social Affairs Minister of Mikuláš Dzurinda's right-wing government, proposed introducing private accounts, claiming that without a reform, pensions and economic growth would decline.

the Slovak F.A. Hayek Foundation (Naczyk and Domonkos, 2016). As stated by Mathernová and Renčko (2006, p.638), "the assistance was driven by demand, not supply, with local staff able to shape the donors' agenda to meet the government's needs".

From another point of view, Inglot (2008, p.251) considers that a group of new actors, many of them coming from outside, "stepped in to fill the gap in know-how and expertise within the Slovak social insurance community". The author claims that Slovakia's pension reform may be accounted for by the political weakness of some internal actors such as the unions and the growing importance of other agents such as the newly emerging financial lobbies. At the same time, he argues that Slovakia, due to become a minor emerging country with limited resources, had to rely more heavily on foreign help and imported models than its post-socialist neighbours. Furthermore, close consultations with the World Bank and the IMF made the Slovak governors feel that they were on the right path, at least by addressing the longstanding Western concerns about financial stability of the new state. Similarly, Makszin and Greskovits (2013) state that pension privatization may also have been driven by efforts to build their financial credibility to attract international investors and lenders.

The World Bank's involvement in Slovakia started to gain momentum after the 1998 elections. With a strategy of intervention based on loan assistance, the amount of money provided by the programme depended on how the government would meet the criteria set by the Bank, which were essentially linked with the rapid implementation of structural reforms. The Bank justified the pension reform by the need to reach fiscal consolidation, i.e., to control public expenditure. Moreover, it was argued that the reform was necessary for maintaining the pensioners' income, sustained by the alleged capacity of private pension funds to mitigate the looming demographic crisis and higher expected replacement rates (Goliaš, 2004; Lesay, 2006).

2. The second stage: after the crisis of 2008

The global financial crisis of 2008–2009 resulted in a dramatic decline in economic output and in an unemployment increase in Eastern Europe. The crisis was accompanied by a severe economic slump that put public finances under strain: besides the increasing demands on state spending, caused mainly by unemployment-related social needs, the revenues fell, and the governmental budgets became deficit. However, the immediate impact of this crisis was particularly severe to the private pensions, with the private pension funds recording significant losses in their asset values.

On the one hand, the crisis revealed that the newly created pension funds had invested a very large part of their assets in government instruments, mainly government bonds issued to finance the growing public debt. In fact, since the private financial markets in Eastern countries are small, volatile, and risky, investing in government paper seemed to be prudent. However, lower earnings from investments in government instruments, often coupled with high administrative fees, lead to lower benefits in general and, in the case of this recent crisis, led to an excessive exposure to the public debt (Kritzer, 2002; Naczyk and Domonkos, 2016).

On the other hand, while showing the weakness of arguments used to privatize pensions (such as the idea that markets could solve the fiscal imbalances resulting from demographic ageing), the financial crisis stressed the already existing funding gap problem. The funding gap resulted from a deficit generated by the transition costs to change from a public pension scheme to a partially privatized one, i.e., a deficit generated by the pension contributions lost from the public system due to the introduction of the second pillar and the simultaneous claims on the public system. The outcome was that the public scheme had to pay to the existing pensioners without receiving contributions (or receiving just a small part of them) from workers, who were contributing to the private funds.

In fact, this so-called ‘first-generation deficit’ brought about a problem in covering the ever-increasing costs of privatizing part of the public pension system, which, along with the increased sovereignty debt, were making the situation chaotic.

Ironically, it seems that pension privatization was being implemented at the cost of increased public debt. The introduction of a fully funded second pillar was seen as a solution to the demographic deficit during the first wave of reforms. However, after some years, policy makers started to realize that pension privatization had created a funding gap in the public pension system’s budget, and domestic political actors from CEE countries began to face the transition-costs dilemma. In addition to the funding gap issue, maturation of the first wave of reforms has shown that privatization cannot solve the demographic issue.

Furthermore, as said by Drahokoupil and Domonkos (2012, p.290), “the plans to finance the transition costs proved unrealistic among these first-wave reformers”. The CEE countries- members of the EU strove to exempt pension privatization transition costs by asking for the non-application of Maastricht criteria, which limit the burdens on public finances. However, the European Union rejected the attempt. In this context, all the measures that policymakers could adopt to fix the funding gap problem implied an aggressive attitude towards the workers and/or the pensioners, hitting their incomes or, at least, their expectations.

Naczyk and Domonkos (2016) wrote about the implementation of significant reform reversals and the restoration of the role of public provision, noting that most policymakers in Eastern countries began scaling down the private accounts. At least, the level of contributions paid into the second pillars decreased.

By the time the financial turmoil erupted, the World Bank had already changed its view on pension privatization; so did IMF, which stopped promoting pension privatization after 2008.

In fact, transnational policy networks started by persuading national policy-makers to privatize their pensions and assisting them to do it, but gave up several years later. Naczyk and Domonkos (2016) argue that the change in the view of international actors was not the main reason why pension privatization started losing its importance. In their article, the authors show that it was the pre-existing advocacy coalitions of domestic opponents of pension privatization that played a crucial role in bringing about these changes.

Altogether, this means that the pension agenda returned to the domestic policy instead of continuing to be controlled by international actors and also that the left/right dimension of politics became prominent again.

2.1. The Slovak case

By and large, the post-financial crisis pension reforms can be seen as strikingly different from the pension reforms implemented during the decade of the 90s in the Eastern Europe region (Drahokoupil and Domonkos, 2012). Now, however, let us continue to focus on the Slovak example.

With 9% of the contribution rate to private funds, Slovakia implemented a pension system with a funded pillar that was one of the biggest in the world. At least, the percentage of contributions diverted to the second pillar was among the highest of the transitional countries that partially privatized their pension systems. The transition costs were planned to be covered from the savings generated by the public pillar, mainly thanks to the increased retirement age. However, these savings would not have been sufficient in the case of massive switching (Goliaš, 2004; Hetteš, 2011), which, actually, did take place. Perhaps due to the marketing campaign of the private pension fund management companies and the little criticism that transpired in the media, the Slovak pension reform has been perceived quite positively among the citizens: about as many as 1.5 million out of 2.6 million insured persons opted for the new system, as opposed to the Government's estimate of between 300,000 and 800,000 (Lesay, 2006; Hetteš, 2011). Consequently, as was also the case in other CEE countries, Slovakia had to deal with the funding gap problem in its pension system. As stated by Drahokoupil and Domonkos (2012, p.287), "the transition costs of the Slovak pension reform adopted in 2005 were expected to peak around 2030, when costs would have reached approximately 2.9% of GDP. After this point, the number of retired workers who would rely on the second pillar would have started to grow, thus reducing annual transition costs. Contributions lost and benefits spared due to the introduction of the second pillar would have evened out around 2052".

On the other hand, in line with the arguments of the World Bank, pension privatization was presented as a means of investing in Slovak economy. However, since Slovakia's capital market was underdeveloped, the Dzurinda government allowed pension funds to buy foreign securities. In Slovakia, the funds invested only about one-third of their portfolios in Slovak sovereign bonds and more than 40% in foreign securities (Naczyk and Domonkos, 2016). Once more, the argument used to sustain privatization was shown to be a myth. To sum up, even though private pension funds managed to accumulate assets, there is no evidence of financial market development following the introduction of the second pillar (Hetteš, 2011).

On a different note, it is important to note that the fickleness of the Slovak political scene made the pension scheme unstable, with governments alternating between their willingness to weaken or to maintain private accounts, which made it difficult to implement a coherent pension policy (Fultz and Ruck, 2001; Kritzer, 2002). Actually, since the introduction of the second-pillar system in 2005, the Slovak Republic has undergone frequent changes. On some occasions, the government made the participation in the second pillar obligatory, while on other occasions, there was an opportunity to switch systems.[5]

For instance, in 2008, participation in the second pillar changed from mandatory to optional, and employees born before 1987 were forbidden to join the system, with the purpose of maintaining its stability. Moreover, during two short periods in 2008 and 2009, those who had become members of a private account before 2008 were given the right to leave it and to return to the state-run system.

[5] This political switching of direction occurred even inside the same party. As an example, it can be remembered that in 2006, during the preparation for legislative elections, Smer-SD party ran a public campaign against the pension savings in the second pillar, declaring their intention to reverse the system. However, when in the government, they slackened this proposal (Makszin and Greskovits, 2013).

However, in 2010–2012, the centre-right coalition government partially reversed the previous government's amendments, keeping the second pillar voluntary and reintroducing automatic enrolment of all young workers and restored the right to join for those born before 1987. The fall of the government led to another change in the direction of Slovakia's privatized pension pillar: in early 2012, with the returning of the Smer Party to power, the trend changed again, and the role of the second pillar was limited once more. It scrapped the reforms of the 2010–2012 right-wing government, making non-membership of private accounts a default option, and downsizing the funding pillar, with the contributions to the private accounts lowering from 9% to 4% of gross wages (Naczyk and Domonkos, 2016).

In terms of international involvement, it has been shown that national actors were more involved in pension privatization than international organizations, contrary to what had been thought earlier, namely, that private pension accounts would continue to be protected after the international actors stopped promoting them. For instance, Naczyk and Domonkos (2016) enumerate a set of arguments suggesting that the World Bank's statements were used opportunistically, initially by opponents but also by supporters, such as pro-market politicians or financial industry. Basically, political parties reformed the second pillar according to their preferences whenever in power.

Moreover, it should be noted that, due to Slovakia's EU membership, the European *acquis communautaire* is an integral part of Slovakia's legislation, with its growing share being prepared at the European level. In July 2010, the EU issued a Green paper on pensions and launched a European-wide discussion on the future of pension systems (Hetteš, 2011).

Concluding remarks

Perhaps the only conclusion that could be drawn from this exposition is that the arguments used to justify or to criticize the pension reform in post-socialist countries are magnified or mitigated when filtered through a political lens.

In the middle of a political struggle, it is sometimes forgotten that the main objective of any pension scheme is to ensure a decent standard of living for the elderly. The pension system, due to the risks involved, the long-term scope and the number of citizens affected by it, should be a priority of the social policy agenda.

Apart from the discussion of which pension system (public or private, funded or non-funded) is better, it could be recognized that the one way to improve a pension scheme is to increase economic output, which is directly related to a high employment rate and a high wage level. A pension system does not operate in isolation from economic conditions but rather depends heavily on them.

In this sense, the arguments presented to sustain the pension reform or to try to reverse it were often inconsistent with the outcomes revealed with the lapse of time. The choice between the types of pension scheme is a matter of values, ideology and principles, more than a matter of technical reasons. However, this fact has been largely ignored.

Are elderly people considered a burden on the rest of society? Or do they represent a way of the solidarity principle coming into effect? Is solidarity the most important value? Or is justice more important?

These kinds of questions are the starting points for understanding the society the citizens of a specific country want to live in. In the case of the (radical) pension reforms implemented in CEE countries, we can conclude that social dialogue was limited, and the consensus was not often achieved. This lack of social consensus should be a serious cause for concern, because national citizens had to deal with a situation that they did not choose. At the same time, there is no evidence that reforms introduced into, or rather imposed on, CEE countries were well-suited to their political or economic environments. While the historical heritage of the Eastern European countries should not be neglected, democratization cannot be seen as a mere alignment with Western standards. To sum it all up, it is crucial to preserve the level of freedom in national decision-making, which means that the values and expectations of the citizens of the post-socialist countries must be the first element to consider in the event of a social reform.

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