

COMMENTS ON SESSION 1: PUBLIC EXPENDITURE TRENDS

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I would like to thank the Banca d'Italia, especially Daniele Franco, for inviting me to participate in this conference. My task today is to discuss the Finnish, Dutch, Slovenian and American papers, which were presented during the first session of the conference. This session deals with the public expenditure trends. The papers presented have provided an extensive coverage of this topic. All the papers we have listened to were extremely well prepared and I would like to congratulate their authors.

Each paper represents an individual country's experience and also a different approach of how to analyze the topic. Although there are a lot of differences between the countries, the papers deal with issues which are also topical in the Czech Republic. At first it is growing public expenditure, especially in the social area, which is the main source of the fiscal imbalance in my country. Secondly, we are also facing the question of how to keep public expenditure under control and how to reform it. Finally, the issues about the role of the government in society are one of the crucial questions which we have tried to answer from the beginning of the transition period.

The first paper I would like to comment on is the Finnish paper, written by Helvi Kinnunen and Marfja Tuovinen. The paper deals with population ageing issues and public expenditure trends in the next 45 years in Finland. The changes in the population structure will push up spending on pensions and welfare services. The projected shortage in the labor force supply will limit the potential growth of the Finnish economy. This scenario is also very similar to many other countries. Nevertheless there are some differences. Firstly, a very high increase of people aged 55-74 is expected. Secondly, a big increase of employment in the same group of people is projected, although in many European countries the opposite development is expected. Finally, the high ratio of public sector services will continue and the sustainability of this development is questionable. I would welcome a short comment on this from my Finnish colleague.

The second paper, simulating four scenarios for the Dutch government and health care sector, written by Frits Bos, Rudy Douven and Esther Mot, might serve as a very good illustrative example about the role of the government and the openness of the economy in economic development. The result of this exercise is obvious. The highest economic growth is achieved by a combination of international cooperation and a larger role for the market. I would like to comment on this paper mainly from this point of view. The authors mention in the paper the Lisbon agenda, which aims to increase productivity growth while maintaining social cohesion. We

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all know very well the latest development in this area. The results of the Lisbon agenda are, using diplomatic language, not as encouraging as we had planned in the past. Europe doesn't have enough courage to adopt more ambitious structural reforms. One of the latest examples might be a very weak willingness to liberalize the services sector. I know that it is not possible to directly compare the past of the new EU member countries with the present situation in the EU. Nevertheless, we have gained in our countries some experience. Only fundamental economic and structural reforms lead to economic growth. Economic reforms are painful and touch all people in society. We also very well know that firstly we must achieve economic growth and then we can speak about social cohesion. I don't want to simplify things, but I wanted to say, that if Europe wants to remain one of the most competitive economic regions in the world, it will require more ambitious economic changes. The Dutch paper shows us that the only way how to set Europe on a more prosperous course is a combination of scenarios, where there is more room for greater international cooperation and a larger role for the market (and less for government).

The third paper, the Slovenian one, presented by Andreja Strojjan Kastelec, strikes a chord with me. The past trends and current issues are very similar to the Czech ones. One of the main reasons is that Slovenia went through the transition period in the same way as the Czech Republic. She stresses in the paper a need to make expenditure more flexible. This is also something that we would like to achieve in the Czech Republic, but we have not yet been as successful as Slovenia.

When I read this paper I found many similarities with the Czech development in the past. Slovenia had a fiscal surplus at the beginning of transition period, but later it recorded a deficit. In addition, the share of mandatory expenditure is very high and similar to the Czech Republic. Nevertheless there are also differences. I would like to mention the pension reform and a much higher level of wages in the public sector than in private sector. In particular, the level of wages was a little surprising for me. Therefore, I would like to ask my Slovenian colleague what the main factors are behind the wage development in the public sector in Slovenia. I would also like to ask whether the parametric changes, which were adopted in the past have been sufficient to stabilize government spending on pensions in the long term.

Finally I would like to make a brief comment on the paper presented by Ranjana Madhusudhan. This paper analyzes the trends in the state spending in New Jersey over the last ten years. Although it represents a rather different situation in public expenditure than in Europe, it is another interesting overview of public expenditure trends. What I found very interesting was the structure of expenditure. The highest ratio is seen in expenditure on education and on medical aid. Although I have limited knowledge about the role of federal and state budgets in the U.S. government sector, it seems to me that we could find here a much inspiration for Europe. For example, the New Jersey budget has been in balance over the recent years. Also the room for private sector functioning (e.g. from the point of view of state investments) is much higher than in European countries. Therefore, I would

welcome a brief comment from my American colleague on some of these aspects, especially the role of the federal budget in the New Jersey budget, the issue of the ageing population in the USA and what are the mechanisms for keeping the New Jersey budget in balance.

To conclude, I would like to stress the following. During the first session a lot of differing views on public expenditure trends were presented. Some of the negative trends in public expenditure, especially in pension and social welfare services were mentioned. I think that the main question is how to react to some of these negative trends. Personally, I think that the answer is to be found in the Dutch paper. We need more room for the private sector, more liberalization and to let people know they can't continue to rely on the state to the same extent as in the past.

