

ECONOMIC STRENGTH OF SLOVAKIA'S REGIONS AND LABOUR-MARKET POLICY

PhDr. Stanislav Buchta, CSc., National Labour Office

The current problems connected with ongoing restructuring changes, different economic conditions, geographic differences in foreign investment, and employment growth, etc have multiplied the differences between individual regions as regards their infrastructure and potential for economic development. Therefore large regional differences can be seen in the economic strength of regions, which in recent years have exhibited a tendency to further deepen.

Problems connected with the development of the economic infrastructure, the lack of modernisation in industry, the slowdown in construction, recession in agriculture, etc. are now exacerbating these current regional disparities.

Economic strength of regions according to collection of insurance contributions during unemployment.

The economic strength of regions is, among other factors, determined principally by the economic, technical and social infrastructure in place. Quite naturally, this infrastructure is concentrated mostly in urbanised areas, where consequently there is a high share of job opportunities. The economic strength of a region is significantly reflected in unemployment insurance payments, which comprise both an employee as well as employer aspect. This indicator partially, but relatively accurately shows the economic potential of a region. The contribution for unemployment insurance according to Act on employment no. 387/1996 of the Digest of Laws as amended must be paid by employers, employees and self-employed persons. The employer pays an unemployment insurance contribution of 2.75%

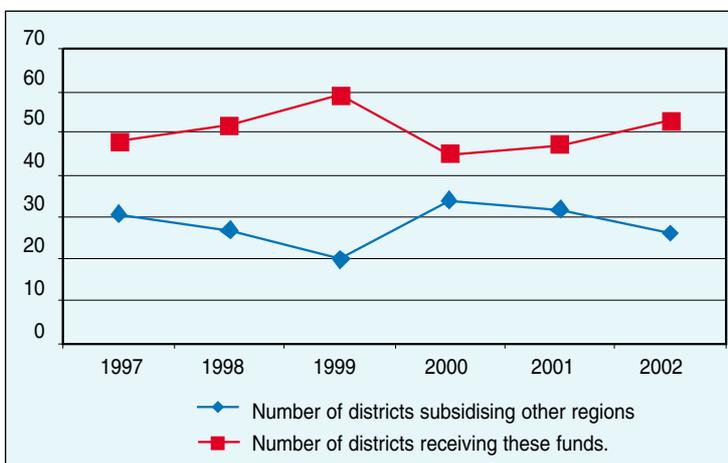
of the aggregate of the assessment bases of his employees. The employee pays an unemployment insurance contribution in the amount of 1% of the defined base and self-employed persons pay this contribution in the amount of 3% as of the defined assessment based.

Unemployment insurance contribution funds form the main income of the National Labour Office, financing its liabilities (unemployment benefit and premiums) as well as active labour-market policy, the administration and activity of the National Labour Office, etc.

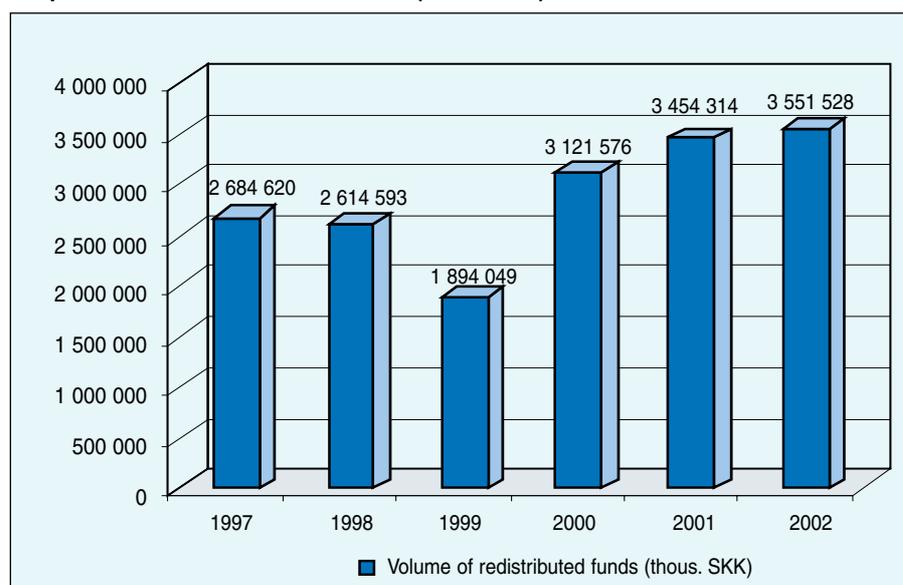
The employer deducts the unemployment insurance contributions for itself and for all its employees to the account of the respective district labour authority according to where the company is registered or according to the registered address of its organisational part. The volume of funds collected is indicative of the respective regions economic strength.

Trends

Graph 1 Development of funds surplus and deficit districts since 1997



Developments over the years 1997 to 1999 indicate a fall in the number of districts creating surpluses from unemployment insurance collection (meaning that the collection of premiums in these districts was higher than actual drawings for labour-market policy). On the other hand, the logical consequence of this process was a significant increase in the number of districts receiving these redistributed funds. The total volume of redistributed funds did however in this period fall (Table 1). A breakpoint in this development occurred in the year 2000. The number of districts creating a surplus (i.e. the number of districts subsidising other regions) increased and the number of regi-

Graph 2 Volume of redistributed funds (thous. SKK)

Table 1 Comparison of redistribution flows for labour market policy 1997 – 2002

Year	Indicator	Value
1997	Volume of redistributed funds (thous. SKK) to other districts	2 684 620
	Number of districts subsidising other regions	31
	Number of districts receiving these funds	48
1998	Volume of redistributed funds (thous. SKK) to other districts	2 614 593
	Number of districts subsidising other regions	27
	Number of districts receiving these funds	52
1999	Volume of redistributed funds (thous. SKK) to other districts	1 894 049
	Number of districts subsidising other regions	20
	Number of districts receiving these funds	59
2000	Volume of redistributed funds (thous. SKK) to other districts	3 121 576
	Number of districts subsidising other regions	34
	Number of districts receiving these funds	45
2001	Volume of redistributed funds (thous. SKK) to other districts	3 454 314
	Number of districts subsidising other regions	32
	Number of districts receiving these funds	47
2002	Volume of redistributed funds (thous. SKK) to other districts	3 551 528
	Number of districts subsidising other regions	26
	Number of districts receiving these funds	53

Source: Own calculations

ons receiving these redistributed funds fell. In the years 2001 and 2002 the number of districts creating a surplus again began to fall.

In the year 2002 26 districts (after financing their own labour-market policy) subsidised from their own surpluses the remaining 53 districts using funds collected and thus SKK 3.55 billion was redistributed to other regions, i.e. 35.8% of the annual collection of unemployment insurance contributions. This was the highest volume of funds gained from unemployment insurance contributions to be redistributed. SKK 1.94 billion, i.e. 54.6%) of the redistributed funds were created in Bra-

tislava. The urban areas of Bratislava and Kosice (excluding the urban part Kosice III) generated two-thirds (67%) of these redistributed funds (Bratislava, Kosice and Zilina) created together three quarters, i.e. 75.1% of these funds). The high surpluses were caused not only by the above-average economic infrastructure, but also by the low rate of unemployment. Bratislava itself created almost a quarter of the total premiums collected (SKK 2.3 billion, i.e. 23.2%) or of funds.

Those regions highly urbanised and well-equipped in terms of infrastructure (outside the urban parts, the districts of Bratislava, Kosice Zilina, Nitra, Trnava, Banska Bystrica, Prievidza, Trencin and Presov) in 2002 created more than half of the unemployment insurance collection (51.9%) and concurrently also the overwhelming majority (91.1%) of all free funds for redistribution to economically weak regions. In 2002 the volume of funds available for redistribution increased for the third year running alongside a concurrent increase in the number of districts to which these funds were redirected. There is thus prevailing a trend where economically strong districts are

becoming stronger while, concurrently, smaller and economically weak districts (of which there are an increasing number) weaken further. A growth trend in the collection of premiums was caused primarily by the improved collection of premiums and payment discipline of subjects, wage growth and also a regionally differentiated improvement in the economic situation.

The number of regions creating a financial reservoir for redistribution to other, economically weaker districts has slowly fallen and the number of districts becoming recipients of these funds has grown. Concurrently there has occurred a significant growth in the volume



of funds available for redistribution to deficit districts (meaning that after settling all funds for needs connected with their own labour market policy there remained funds for redistribution to other “poorer” regions), this however occurred concurrently with an increase in the number of districts becoming recipients of these redistributed funds.

In other words, the number of regions to which it has been necessary to redistribute free funds due to their not creating sufficient finances from their own collection

labour market policy and therefore available funds gained from other districts had to be additionally redirected to these districts, or other free funds used. The pressure on the regional redistribution mechanisms in solving labour-market policy has thus continually been increasing. At present the collection of insurance premiums has increased in all regions (with the exception of Banská Bystrica). Positive development trends are continuing particularly in the Bratislava and Žilina regions (see Table 2).

Table 2 Comparison of premium collections (thous. SKK) 1997 – 2002 by region

Collection of premium (thous. SKK)										
Region	1997	1998	1999	2000	2001	2002	Rozdiel 02/97	Rozdiel 02/01	Index 02/97	Index 02/01
Bratislava	1 729 745	1 912 715	1 955 950	2 139 369	2 210 939	2 533 890	804 145	322 951	1.46	1.15
Trnava	694 555	723 083	722 310	792 849	850 729	879 316	184 761	28 587	1.27	1.03
Trenčín	784 632	845 882	863 009	954 293	973 504	1 038 884	254 252	65 380	1.32	1.07
Nitra	838 096	904 907	899 830	933 202	940 526	1 015 694	177 598	75 168	1.21	1.08
Žilina	864 075	906 534	862 764	977 472	982 321	1 213 255	349 180	230 934	1.40	1.24
Banská Bystrica	818 327	847 906	837 474	907 023	1 033 848	1 006 245	187 918	-27 603	1.23	0.97
Prešov	767 823	833 018	783 334	841 914	891 378	921 981	154 158	30 603	1.20	1.03
Košice	1 038 931	1 056 009	1 012 137	1 113 583	1 082 621	1 325 307	286 376	242 686	1.28	1.22
SR Total	7 536 184	8 030 054	7 936 808	8 659 705	8 965 866	9 934 572	2 398 388	968 706	1.32	1.11

Source: National Labour Office

has increased, alongside a growth in the volume of funds available for this redistribution. This trend has held true since the year 2000. At the same time in 2000 94.5% of the total volume of funds assigned for labour-market policy was spent on passive labour-market policy and only 5.5% on active labour-market policy (exclu-

From Table 3 it is evident that the annual cumulative volume of lacking funds for passive labour-market policy (i.e. unemployment benefit and contributions to the respective insurance funds) in every district represented in 1995 only SKK 15.4 million, a culmination occurred in 1999, when this figure reached SKK 2.1 billion

Table 3 Number of districts with negative difference between collection of premiums and passive labour market policy expenditure 1995 – 2002 in thous. SKK (collection does not cover passive labour market policy).

Indicator	Year							
	1995	1996	1997	1998	1999	2000	2001	2002
No. of districts	4	4	28	40	59	40	24	28
Total volume of deficit	-15 439	-31 930	-318 215	-817 773	-2 136 816	-847 592	-316 368	-170 303

Source: Own calculations

ding publicly beneficial works for the long-term unemployed). The majority of these funds were absorbed by passive policy (unemployment benefit and premiums to the respective funds – health, social insurance etc.).

In 2002 63% of the total volume of funds assigned for labour-market policy was spent on passive labour-market policy and 37% on active labour-market policy (excluding contributions from the state budget). The share of funds assigned for active labour-market policy over the years 2000 – 2002 increased.

In 2002 53 districts did not create sufficient funds (from premiums collected) for financing their own

and since the year 2000 this deficit has fallen to now only SKK 170.3 million (2002). This means that the largest volumes of redistributed funds have formed the means for active labour-market policy.

In 1995 and 1996 the collection of insurance premiums was insufficient for covering spending on passive labour-market policy. A significant worsening of the situation occurred in the course of 1998, when the number of these districts increased to 40, and in particular in 1999, when in 59 districts the situation occurred that the collection was insufficient even for financing unemployment benefits. Since the year 2000 the

number of these districts has, with certain exceptions, decreased. Since 1999 the volume of funds lacking for covering passive labour-market policy has decreased significantly.

The East Slovakia districts of Bardejov, Kosice surrounding districts, Vranov nad Toplou and Svidnik were, over the years 1995 to 2002, unable to gain sufficient funds from the collection of insurance premiums for covering passive labour-market policy. This is something of a hard core of regions, reliant over the long term on additional funds redirected from other regions. The volume of these shortfalls in funds in these districts has been increasing enormously from one year to the next (even where since 1.7.1996 a new territorial administrative categorisation was made and this comparison was to a certain extent significantly relative, on the other hand the situation in the surrounding districts of Kosice remained unchanged), where this trend indicates the long-term economic stagnation of these regions.

District categorisation

We have categorized the so-called surplus, economically strong districts, into the following groups (Table 4):

- regions with high collection and low labour-market policy expenditure,
- regions with high collection and concurrently also high labour-market policy expenditure,
- regions with low collection and low labour-market policy expenditure.

This regional classification shows that the most numerous group of surplus-creating regions in 2002 shifted to the group with high collection and low labour-market policy expenditure. The number of these regions since 1999 has continually increased, in contrast to regions with high collection and high expenditure, the number of which has since the year 2000 been falling.

The remaining, so-called deficit districts, which did not have sufficient funds for labour-market policy, break down into three groups (Table 5):

- regions with low collection and relatively low labour-market policy expenditure,
- regions with low collection, but high labour-market policy expenditure,
- regions with relatively high collection, but also with high labour-market policy expenditure.

The majority of these deficit regions from the aspect of real labour-market policy continued to remain in the

Table 4 Categorisation of districts with positive difference between collection of premiums and labour market policy expenditure

Regions	Number of districts			
	1999	2000	2001	2002
High collection and low PLP expenditure	8	9	13	14
High collection and concurrently high PLP expenditure	12	23	19	12
Low collection and low PLP expenditure	0	2	0	0
Total	20	34	32	26

Table 5 Categorisation of districts with negative difference between collection of premiums and labour market policy expenditure

Regions	Number of districts			
	1999	2000	2001	2002
Low collection and low PLP expenditure	4	9	16	10
Low collection and high PLP expenditure	30	19	23	33
High collection and high PLP expenditure	25	17	8	10
Total	59	45	47	53

worst group of regions (with low collection and high expenditure), where persistent long-term socio-economic problems persist and any change in their standing will be problematic and difficult. Concurrently these regions will continue to draw financial resources from economically strong regions.

Conclusion

From the foregoing analysis it can be seen that in the years 2001 and 2002 the number of regions subsidising other districts fell and the number of districts becoming recipients of redistributed funds increased. Since the year 2000 there has been significant growth in funds for redistribution to those regions not creating sufficient funds for financing labour-market policy. Alongside increasing regional polarisation in the rate of unemployment there continues to rise the redistribution of funds for labour-market policy from economically stronger regions to economically weaker regions, which are reliant on socio-spatial solidarity. The cause of the non-generation of a sufficient volume of available funds for fully financing labour-market policy in these districts lies primarily in their economic and structural difficulties, from which results financial dependency and thereby also an increased need for additional funds. This situation is manifested, among others, in the form of fewer businesses, increased unemploy-



ment, worsened payment discipline in the collection of these funds, etc. From the macro-economic aspect there exists here a complementarity, since the level of unemployment insurance contribution collection depends on the level of current employment.

The rate of unemployment over the past years has been influenced in particular by progress in economic restructuring and the pressure of an increased growth in the number citizens in the productive age range. These and other factors are contributing to a deepening differentiation between regions. On the other

hand, there exist long-term growth poles – districts and regions with a relatively low and falling rate of unemployment. Concurrently, however, in other regions we can see deep and long-term economic depression, contributing to high unemployment.

The course of economic transformation to date has had significantly different regional impacts. The long-term persistence of this state creates a danger of societally unacceptable regional differentiation and concurrently creates unequal chances for people as well as businesses in the afflicted areas.