

Economic strength of Slovakia's regions

Ekonomická sila slovenských regiónov

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Abstract: The article deals with the identification and categorisation of economic power of Slovak regions on the base of collecting of unemployment support payment from the employers, employees, and natural persons entrepreneurs into the employment fund. The analysis shows that during the last years, the number of rich regions has decreased and there rises the number of counties which have to be supported by the division of means from the rich counties. The article consequently categorises the development of economically strong and weak counties of Slovakia in the years 1999–2002 and marks the causes of regional polarisation of Slovakia, lying in its economic and structural difficulties. Alongside increasing the regional polarisation in the rate of unemployment, there continues to rise the re-distribution of funds for labour-market policy from the economically stronger regions to the economically weaker regions, which are reliant on socio-spatial solidarity. The course of economic transformation up to date has had significantly different regional impacts and creates unequal chances for people as well as businesses in the afflicted areas.

Key words: economic strength of regions, unemployment, distribution of means, active labour market policy, passive labour market policy, categorisation of regions, regional diversification of Slovakia

Abstrakt: Článok sa zaoberá identifikáciou a kategorizáciou ekonomickej sily regiónov Slovenska na základe výberu príspevku na poistenie v nezamestnanosti od zamestnávateľov, zamestnancov a samostatne zárobkovo činných osôb do fondu zamestnanosti. Z analýzy vyplýva, že za posledné roky sa znižuje počet bohatých regiónov a zvyšuje sa počet okresov, ktoré sú odkázané na prerozdeľovanie prostriedkov z bohatých okresov. Pri zvyšujúcej sa regionálnej polarizácii v nezamestnanosti sa tak stále zvyšujú prerozdeľovacie mechanizmy z ekonomicky silných do ekonomicky slabších regiónov. Článok podrobne kategorizuje vývoj ekonomicky silných a slabých okresov SR za roky 1999–2002 a naznačuje príčiny zvyšujúcej sa regionálnej polarizácie Slovenska, spočívajúci v ich ekonomických a štrukturálnych ťažkostiach. Pri zvyšovaní regionálnej polarizácii v miere nezamestnanosti sa stále zvyšuje prerozdeľovanie prostriedkov na politiku trhu práce z ekonomicky silnejších regiónov do ekonomicky slabších, odkázaných na priestorovú sociálnu solidaritu. Doterajší priebeh ekonomickej transformácie mal výrazne rozdielne regionálne dopady a vytvára nerovnaké šance pre obyvateľstvo i podnikateľskou činnosť v týchto postihnutých oblastiach.

Kľúčové slová: ekonomická sila regiónov, nezamestnanosť, prerozdeľovanie prostriedkov, aktívna politika trhu práce, pasívna politika trhu práce, kategorizácia regiónov, regionálna diferenciacia Slovenska

The current problems connected with the 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 the 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 the employee as well as employer aspect. This indicator shows partially, but rel-

atively accurately the economic potential of a region. The contribution for unemployment insurance according to the Act on Employment No. 387/1996 Coll., as amended, must be paid by employers, employees and self-employed persons. The employer pays unemployment insurance contribution of 2.75% of the aggregate of the assessment bases of his employees. The employee pays unemployment insurance contribution in the amount of 1% of the defined base and self-employed persons pay this contribution in the amount of 3% of the defined assessment base.

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 policy, the administration and activity of the National Labour Office, etc.

The employer pays the unemployment insurance contributions for itself and for all his/her 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

Developments over the years 1997 to 1999 indicate a fall in the number of districts creating surpluses from the unemployment insurance collection (meaning that the collection of premiums in these districts was higher than the actual drawings for labour policy). On the other hand, the logical consequence of this process was a significant increase in the number of districts receiving these re-distributed funds. The total volume of re-distributed funds did, however, fell down in this period (Table 1). A break-

point 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 regions receiving these re-distributed 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 re-distributed 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 re-distributed. SKK 1.94 billion, i.e. 54.6% of the re-distributed funds were created in Bratislava. The urban areas of Bratislava and Košice (excluding the urban part Košice III) generated two-thirds (67%) of these re-distributed funds (Bratislava, Košice and Žilina 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 one 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, Košice, Žilina, Nitra, Trnava, Banská Bystrica, Prievidza, Trenčín and Prešov) created in 2002 more than half of the unemployment insurance collection (51.9%) and concurrently also the overwhelming majority (91.1%) of all free funds for re-distribution to economically weak regions. In 2002, the volume of funds available for re-distribution increased for the third year running alongside a concurrent increase in the number of districts to which these funds were redirected. Thus, there is prevailing a trend where econom-

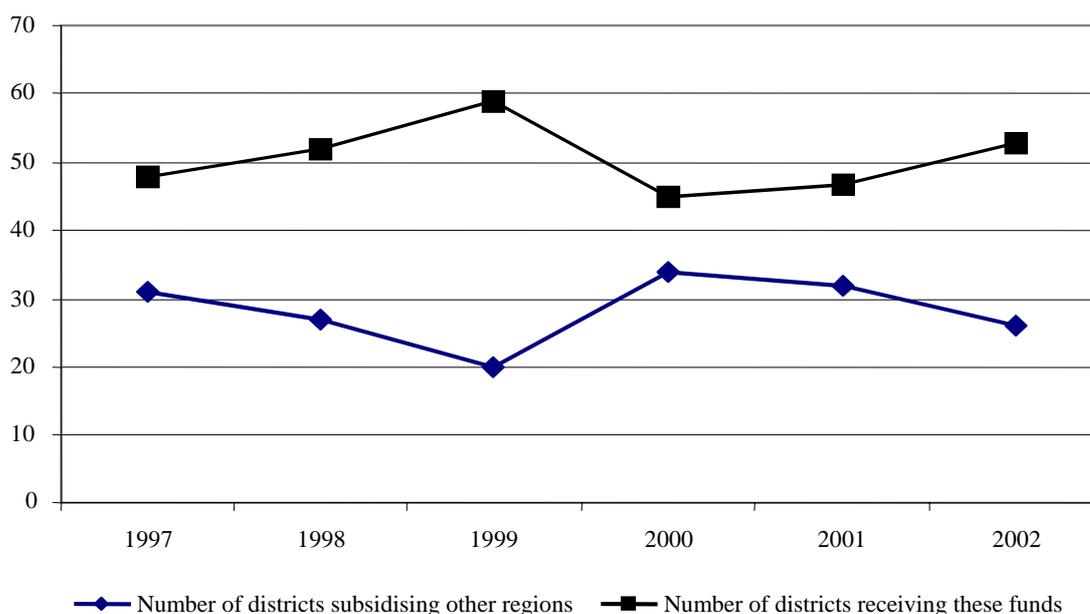


Figure 1. Development of funds surplus and deficit districts since 1997

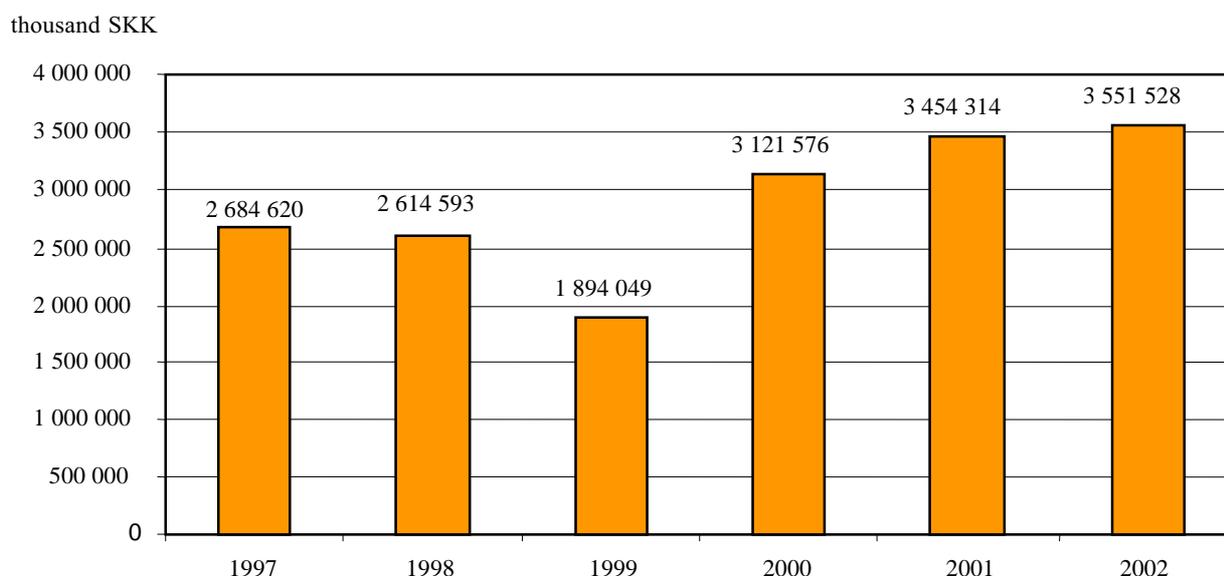


Figure 2. Volume of re-distributed funds (thousand SKK)

ically strong districts are becoming stronger while, concurrently, smaller and economically weak districts (of which there is an increasing number) weaken still 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 re-distribution 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 re-distribution to deficit districts (meaning that after settling all funds for needs connected with their own labour market policy, there remained funds for re-

Table 1. Comparison of re-distribution flows for labour policy 1997–2002

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

Source: Own calculations

distribution to other, “poorer” regions), this, however, occurred concurrently with an increase in the number of districts becoming recipients of these re-distributed funds.

In other words, the number of regions to which it has been necessary to re-distribute free funds due to their not creating sufficient finances from their own collection has increased, alongside with the 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 were spent on passive labour policy and only 5.5% on active labour policy (excluding 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, 53 districts did not create sufficient funds (from the premiums collected) for financing their own labour 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 re-distribution mechanisms in solving labour 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).

From Table 3, it is evident that the annual cumulative volume of lacking funds for the passive labour policy (i.e.

unemployment benefit and contributions to the respective insurance funds) in all districts represented in 1995 only SKK 15.4 million, a culmination occurred in 1999, when this figure reached SKK 2.1 billion and since the year 2000, this deficit has fallen to now only SKK 170.3 million (2002). This means that the largest volumes of re-distributed funds have formed the means for active labour-market policy.

In 1995 and 1996, the collection of insurance premiums was insufficient for covering expenditures on passive labour 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 policy has decreased significantly.

The East Slovakia districts of Bardejov, Košice surrounding districts, Vranov nad Toplou and Svidník 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 re-directed from other regions. The volume of these shortfalls in funds in these districts has been increasing enormously from one year to the next (even if since July 1, 1996, a new territorial administrative categorisation was made and this comparison was to a cer-

Table 2. Comparison of premium collections (thousand SKK) 1997–2002 by regions

Region	Collection of premium (thousand SKK)						Difference 02/97	Difference 02/01	Index 02/97	Index 02/01
	1997	1998	1999	2000	2001	2002				
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
Trencin	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
Zilina	864 075	906 534	862 764	977 472	982 321	1 213 255	349 180	230 934	1.40	1.24
Banska Bystrica	818 327	847 906	837 474	907 023	1 033 848	1 006 245	187 918	27 603	1.23	0.97
Presov	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

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

Indicator	1995	1996	1997	1998	1999	2000	2001	2002
Total volume of deficit	-15 439	-31 930	-318 215	-817 773	-2 136 816	847 592	316 368	170 303
Number of districts	4	4	28	40	59	40	24	28

Source: Own calculations

tain extent significantly relative, on the other hand the situation in the surrounding districts of Košice 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 policy expenditures
- Regions with high collection and concurrently also high labour policy expenditures
- Regions with low collection and low labour policy expenditures.

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 policy expenditures. The number of these regions has continually increased since 1999, in contrast to regions with high collection and high expenditure, the number of which has been falling since the year 2000.

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

- Regions with low collection and relatively low labour policy expenditures
- Regions with low collection, but high labour policy expenditures
- Regions with relatively high collection, but also with high labour policy expenditures.

The majority of these deficit regions, from the aspect of real labour policy, continued to remain in the worst group of regions (with low collection and high expendi-

ture), 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 the 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 the re-distributed funds increased. Since the year 2000, there has been a significant growth in funds for re-distribution to those regions not creating sufficient funds for financing labour policy. Alongside increasing regional polarisation in the rate of unemployment, there continues to rise the re-distribution of funds for labour policy from the 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 full financing of the labour policy in these districts lies primarily in their economic and structural difficulties, from which there results the financial dependency and thereby also the increased need for additional funds. This situation is manifested, among other in the form of fewer businesses, increased unemployment, worsened payment discipline in the collection of these funds, etc. From the macro-economic aspect, there exists 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 the progress in economic restructuring and the pressure of an increased growth in

Table 4. Categorisation of districts with positive difference between collection of premiums and labour 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 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

the number of citizens in the productive age range. These and other factors are contributing to the 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 a deep and long-term economic depression, contributing to high unemployment.

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

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