

New Trends in Regional Development and Their Financial Base

Milan Bucek

Economic University Bratislava

This paper concentrates on three areas connected to regional development in the Slovak Republic:

- new trends in regional development;
- automatic stabilizers, public expenditures, and their impact on the financial power of regions; and
- the competitive strength of Slovak regions in the context of European integration.

New Trends in Regional Development

Globalization and Its Regional Impact

As international corporations cross borders around the world and build qualitatively better networks, internationalization is being replaced with "globalization" (OECD 1994), specifically:

- globalization of markets (smaller trade barriers, sophisticated communication and transportation routes); and
- globalization of firms (high and growing volume of direct foreign investments, growth of world trade, increasing number of cooperative agreements between research and development— R&D— firms, distribution, marketing, and provision of all kinds of resources).

The global processes characterized by the total mobility of human, physical, and financial capital threaten the comparative advantages of individual regions and restricted mobility of human and physical capital. An Organisation for Economic Co-operation and Development study notes that the significance of re

gions is increasing primarily in terms of specific human resources and technological infrastructure. In globalization, there is a danger that disparities between regions will be enhanced.

Geographic concentration is most significant:

€in crafts;

€in the high-tech sector (electronics, biotechnology); and

€in certain kinds of services, such as finances (New York and Frankfurt), fashion (Paris and Milan), and the film industry (Hollywood).

On the other hand, research increasingly tends to hold that growth in a locality often begins accidentally. But even an accident must be "assisted," and, therefore, the significance of regional development programs and investment agencies should not be underestimated. It is evident that strategies targeted at a specific sector and tailored to the needs of the customer are more successful than those focused on general development. Classic localization theories do not adequately explain locational decisions; these theories can thus be supplemented with behavioral concepts (subjective approaches to decisionmaking, accessibility of information, safety, crime, territorial image, etc.).

Bottom-up Development

Recent years have seen a rediscovery of the role of small and medium-sized businesses in regional development, as part of a whole complex of processes denoted as "bottom-up development"—which is the complete antithesis of earlier concepts of development as managed and initiated from the top down (Economic

Council of Canada 1990). Several studies cite the experience of local institutions, emphasizing the roles of enthusiastic local actors in creating and sustaining development. For example, Economic Innovation International (1992, p. 8) notes :

No international organization or national government can economically revive a town or a region... Different organizations from the outside can provide technical or financial assistance but the revitalization itself of the economy definitely originates from within. [This] is because revitalization of [the] economy is only successful when:

- it is approached as a *long-term process* with a certain measure of enthusiasm that can be sustained for 10 or more years only when the actors of the process are directly involved in it,
- it stems from *internal understanding* of local comparative advantages,
- its strategies are constantly *adapted and adjusted* along [with] the changes in needs and possibilities within [the] local economy.

In contrast to traditional approaches for attracting firms from outside an area to settle in a particular territory, endogenous development focuses on

creating new firms and encouraging them to embrace recent technologies. Maier and Toedtling (1996) explain:

In a large number of cases, entrepreneurs stay in the region of their residence or in the territory of their previous business... As the development in different European regions shows, the linkage of small and medium-size businesses in the regional network becomes a factor of growing significance.

Armstrong and Taylor (1993) point out that

Small businesses provide many advantages in regional development: they are capable of creating a relatively high number of job opportunities, improve industrial environment and industrial relations, create a diversified and flexible industrial base, stimulate both competitiveness and cooperation with small and big businesses, stimulate innovation, etc.

Technologically Oriented Regional Policy, Regional Networks, and Clusters

Regional diffusion and technology transfer have assumed an increasing significance in recent years, especially from the standpoint of regional development policy (OECD 1992; Bergman, Maier, and Toedtling 1991). Support policy primarily targets technology transfer through research parks, transfer centers, and other advisory consulting institutions. The growing role of *networks* in this process is evident: Networks facilitate relatively stable relations with selected partners. This includes both formal cooperation with other firms and institutions (e.g., cooperation in R&D, as well as long-term stable supplier relations) and informal cooperation and a regular exchange of information. Networks thus occupy a middle position between the market and the hierarchy (Maier and Toedtling 1996). They have more flexibility than an internal organization, they shorten the innovation process, and they are successful in the current period of dramatic technological change.

The development of new technologies (e.g., microelectronics or biotechnology) in other sectors strongly stimulates the networking process. Maier and Toedtling (1996) distinguish global networks (connecting international partners for the benefit of access to new markets, complementary technologies, or acquisition of a highly sophisticated knowledge base) from regional networks. These latter are, to a larger extent than global networks, based on informal relations and spatial proximity. Often, joint efforts by top managers, intercompany mobility of managers and employees, long-time mutual acquaintance, and trust play a role.

Universities, research institutes, and technology transfer centers are important actors. In innovation, the role of innovative milieus is recognized:

Many works have shown that technological innovation must be organized on territorial bases ... and requires careful coordination between regional

qualification, community development, education, research, fiscal and regulatory policy on [the] local and regional levels (Stoehr 1989; also see Stoehr 1986).

According to Steiner (1997), the existence of networks and clusters is a decisive element in the competitiveness of regions and countries (as opposed to cheap labor, land, energy, etc.). The mechanism of feedback replaces linear relations. According to Porter, com

petitiveness comprises four sets of factors— location, demand, market structure, and a corresponding strategy of firms and networks (clusters) of interconnected and support activities. Innovative activities exhibit strong externalities (in the sense of nonmarket relations), accumulating tendencies, and savings from economies of scale. Innovations are increasingly becoming a matter between firms, a product of the environment of the firm itself (spatial relations to research, development, transfer institutions, clients, cooperation partners, production services, public institutions, etc.).

In the transition period in the Slovak Republic, a depression occurred in research in general and in its regional distribution in particular. As a result, many R&D institutions either perished or were restricted, and the number of workers in research was cut as were the financial resources dedicated to research. This significantly complicates the situation at a time of technologically and innovatively oriented regional development. Insufficient development of networks prevents many peripheral areas of the Slovak Republic to link to domestic and foreign development centers and profit from, or be influenced by, such development. Typical forms of R&D diffusion used in developed countries (technological centers, research parks, technology transfer institutions, etc.) are underdeveloped in Slovakia— which threatens to increase the technology gap between the Slovak Republic and developed countries both at the national level and, more significantly, at the regional level by increasing disparities in development and in its internal structure. It is thus necessary to foster the competitiveness of Slovak's regions, particularly by creating conditions for technologically oriented regional policy.

Of Slovak's regions, it is Bratislava that mainly stands a chance of meeting the challenging criteria of the globalization process (see, for example, the study "Empirica," which highlights the region's locational advantages). Bratislava's excellent location as well as its position as a transfer site for innovation and its well-coordinated links to European networks and clusters, particularly to Vienna must be maintained. In technologically oriented regional development, Bratislava is ripe for the diffusion of innovation to other regions of the Slovak Republic.

Foreign investment in Slovak regions is becoming a condition for diversification of regional structure on the one hand, with its associated highly positive

processes (technological know-how, new skills and managerial techniques, job opportunities for local labor, opportunities for interacting with local firms, etc.); on the other hand, it is necessary to face the threat of a new type of "monoculture" resulting from the disadvantages of "external management" of regions.

Decentralization of Economic Power and Interregional Transfer of Public Expenditures From a Regional Policy Standpoint

The processes of distributing economic power related to regional development—and, particularly, to eliminating regional disparities—share several tendencies. On the one hand, integration processes have shifted responsibility for social cohesion and uneven development across areas to the level of the European Union (EU); on the other, subsidiarity and endogenous development act in a decentralizing manner. On closer inspection, however, this is only an apparent contradiction. EU assistance—with the exception of coordinating policy—concentrates on the support policy, which is in essence a redistribution policy of richer countries in favor of poorer regions through designated funds. This mechanism of assistance engages regions in the creation of programs and projects as well as in the processes of cofinancing. In this way, centralization of regional policy becomes significantly more relative and narrows down to a single instrument (subsidizing policy) through redistribution.

Decentralization has many aspects; we briefly concentrate on one, connected to its regional economic effects. The main elements of economic power—fiscal, monetary, and trade policy—vary widely across countries, ranging from totally centralized (e.g., Great Britain) to significantly decentralized (e.g., the United States and Canada, where economic power is vested in individual states and provinces). Most decentralization traditionally occurs in federal states. Armstrong and Taylor (1993) studied several scenarios: centralization of all three policies (fiscal, monetary, and trade); partial decentralization (some regional power over fiscal policy, with monetary and trade policies remaining at the central government level); and total decentralization (we are not concerned with this here, as own currency and trade policies for regions are an academic construct). We here summarize the study's main conclusions (Armstrong and Taylor 1993, pp. 305-27).

Regional Impacts of Centralized Control. These impacts affect the way central government implements regional policy and how and whether macroeconomic policy can be used (not only fiscal, monetary, and trade policy, but also sectoral policies, such as industrial, agrarian, transport, etc.) to solve problems in areas that are lagging behind. The arguments for centralization revolve around the possibility of deploying centralized measures for depressed regions (either through own regional policy or expenditure control, with an increasing role for regions or legislative

expenditure control in prosperous regions—for example, the competitive policy of the EU).

It is argued that central government has a legitimate interest in searching for solutions to regional problems and that its engagement in effective coordination of regional policy is necessary. (With the exception of coordinating central, regional, and local actions, it is also a problem of coordination with a range of macroeconomic instruments.)

Another set of problems—using macroeconomic policy to promote depressed regions—is not so rare as would seem to be the case. For example, general support of investments in the national economy within an industrial policy often can be connected to additional support of underdeveloped regions.

Fiscal Policy. Here we encounter two forms of instruments: automatic stabilizers and targeted action. Armstrong and Taylor (1993, p. 309) note that:

Many taxes and transfer payments are so constructed as to automatically stabilize employment and pensions... The progressive pension tax, for example, leads to an automatic increase in tax revenues when pensions rise... Unemployment benefits play a similar role on the side of spending in budgetary policy. These benefits grow in recession, thus helping to keep expenditures down at a time when it is necessary.

Very often, progressive taxes tend to reduce regional disparities in pensions, whereas regressive taxes enhance these disparities. The government can affect the level of employment through state orders from particular industries, or it can subsidize some sectors (e.g., mining) localized in depressed areas. Moreover, the government itself is a major employer and can directly create job opportunities in supported areas. Many authors claim that all taxes and outlays have a regional

impact (e.g., "nonregional" outlays on defense are regionally determined, and, in turn, disarmament cuts in outlays also have a regional impact).

Monetary Policy. The implementation of such policy is limited, mainly because the assistance provided to regions through increasing aggregate demand can strike against the borderline of inflation and balance of payments.

At the regional level, easier access to credit by households and businesses can be implemented. A general problem of the resultant increased demand is that the demand is "implemented" through import from other regions or from abroad (e.g., from increased investment activity in a depressed region, firms from a developed region can profit—which is not rare). Because of the highly integrated nature of monetary policy, its regional employment is limited.

Trade Policy. This policy, especially through the use of tariffs and quotas to control imports, always puts some regions at an advantage at the expense of others, as a result of regional specialization (regardless of the fact that these measures are not regionally compounded). The reverse also takes place: state policies favoring high-tech industry will probably concern prosperous regions. Trade policy limits are determined by cost and international agreements (e.g., the General Agreement on Trade and Tariffs—GATT).

Partial Decentralization of Fiscal Policy to Regional Elements. Of the three macroeconomic policies, it makes sense to focus on fiscal policy. The question is whether decentralized fiscal policy helps or hinders regional policy. Armstrong and Taylor (1993, pp. 321-22) note:

First, passing powers over expenditures to regional officials allows individual regions to implement their own development policy. This can have the advantage of having a direct buttress in the knowledge of local conditions and employment of local initiative...Second, the existence of regional councils can give regions a stronger voice in the process of national decisionmaking...Third, the existence of regional councils enables improved coordination of development initiatives at the level of local elements.

Passing fiscal power on to regional councils allows them to generate revenues to cover additional expenses and have clarity and transparency in them, administrative management, efficient selection, and flexibility. These taxes should not affect the remainder of the country's fiscal system. Taxes on income and sales best meet the above criteria.

There is, however, a danger in central government losing control over fiscal policy, which would affect macroeconomic policy.

Increased power over fiscal policy creates two problems in underdeveloped regions: (1) their weak financial position does not allow regional governments to increase the tax burden (it could cause decreased outlays on consumption and migration); and (2) with regard to the openness of regions, increased outlays may largely be shifted to other regions (either through consumption or investments). Underdeveloped regions would struggle constantly with a budgetary deficit. In countries with a federal arrangement, this problem is resolved by subsidies from the federal to the regional governments.

In conclusion, feasible types of decentralization fluctuate between total centralization and economic separatism. The example of federal states shows, however, that significant power over taxes and expenditures can be passed on to regional bodies without the central state losing control over macroeconomic stability.

Automatic Stabilizers, Public Expenditures, and Their Impact on Regional Financing

Since regional economic policy is concerned mainly with eliminating disparities among regions, attention is primarily given to direct cash flow aimed at regional assistance. In reality, however, the volume of resources flowing into regions through redistribution of public finances is several times higher than direct regional support. Automatic stabilizers (Mackay 1992) are derived from the country's welfare standard in the area of public services and general taxes. Fiscal transfer in developed market economies is so self-evident that it confirms Hirschman's earlier thesis (1958) that "nonmarket forces are not necessarily less automatic than market forces."

As a large EU study¹ notes, many fiscal mechanisms of redistribution (primarily aimed at social protection and increased equity) have, at the same time,

an important regulatory effect on the economy. And although they are not, as a rule, established specifically for this purpose, they can reduce regional inequalities.

The effect of public expenditure through redistribution of personal income from richer to poorer (through income taxes) is quite considerable in EU member countries. When we start from the assumption that the wealth in a territorial unit is in proportion to the citizens living within that territory, we can also assume that the effect of transfers among populations has a general tendency to redistribute in favor of poorer territorial units—and thus contributes to a more balanced redistribution of income. It is unfortunate that the redistribution effect of public finances has not been studied very often in the EU (it was most recently studied in 1992; before that, it was looked at in 1970). According to the 1992 data:

€Public expenditures increased in the EU on average to 49 percent of gross domestic product (GDP).

€Public expenditures on social security amounted to 17.8 percent of GDP.

€More than half of all public sector expenditures went to social services in the broadest sense of the word (social security, education, medical care, personal services and assistance).

In the Slovak Republic, the ratio of public budget expenditures to GDP for 1996 was 36.7 percent; public expenditures were 55.7 percent of GDP, and expenditures on social insurance amounted to 11.8 percent of GDP (SR 1997).² The scale of direct regional assistance is insignificant.³

Functional redistribution mechanisms in EU member states are numerous and complex. It is very important not to confuse the scale of redistribution—either through revenues or expenditures—with the effect on the development of territorial units, which depends more on the way redistributed resources are used. Citizens and organizations, which are the recipients of the

transfers, can use them in different ways. Some of these can help reduce territorial disparities in degree of development; others cannot. Expenditures can:

€ directly contribute to increasing productive potential (investments in infrastructure or education and training of the local workforce),

€ help maintain local economic activity (expenditures on locally produced goods and services),

€ help maintain economic activity in other areas (sales of imported goods and services), and

€ facilitate transfer of revenues or investments from the region directly.

Obviously, the scale of redistribution does not directly determine its efficiency or the quality of development.

Below, we briefly summarize the conclusions of studying redistribution effects on individual economic segments.

Redistribution Effect of Social Security

Retirement pensions comprise the largest part of social security, and an aging population increases the significance of this item. The impact of pensions on the general redistribution effects of social security across different areas depends on a country's individual conditions. There is a general tendency for young people to gravitate to development centers, primarily to large and medium-sized towns that continue to expand and whose development potential is being enhanced. Older people, on the other hand, increasingly settle in rural areas. From this, we may derive a general truism that drawing old-age pensions serves more or less to reduce rather than increase territorial disparities.

The second largest item of social security is expenditures on health care. Since these expenditures vary considerably depending on the proportion of the elderly population—specifically the very old citizens in a population, since the expenditures per person over 75 years of age are 10 times higher than for young people—expenditures on health care reveal regional tendencies similar to those for pensions.

In most of the countries studied, expenditures on unemployment and employment training comprised as much as one-third of total social security. This expenditure item has a relatively significant redistribution effect, since the rate of unemployment is, as a rule, higher in less developed areas than in developed territorial units.

On the revenue side, social security expenditures are partly financed through contributions of employers and employees in proportion to wages and partly

from general taxes. The volume of financial resources transferred is substantially changing and depends on the level of original disparities in revenues.

Redistribution Effect of Taxation

It is very difficult to compare all taxes, but it is generally believed that taxes function outside the compensatory mechanism and transfers and contribute very little to equalization. Less developed territorial units most often deploy higher taxes with regard to their lower revenue potential.

The main characteristic of personal income tax is its progressive nature from a certain amount of assessment base. People and regions with higher incomes thus pay generally higher taxes. Notwithstanding any additional factors, these taxes have a redistribution effect on territorial units.⁴

Indirect taxes, such as the value-added tax, are generally very similar in EU countries. Although poor individuals and regions pay a smaller volume everywhere, part of the expenditures going to indirect taxes is usually greater than in more developed regions and for richer individuals. In other words, the redistribution effect of these taxes is more regressive.

Territorial units in many countries are financed partly on the basis of taxes that they have themselves accumulated, which means that poorer regions have lower per capita revenue. That is the reason why these countries have developed an explicit mechanism of fiscal equalization.

Interregional Mechanism of Fiscal Equalization

All federal countries have an automatic and explicit mechanism for equalizing the financial resources of the state and the territorial units. This mechanism is the central element of a functioning federal state and is the subject of much discussion. The Belgian fiscal equalization mechanism is undoubtedly the simplest: an indexed sum of 468 BF per capita annually is redistributed in every region for every percentage point by which the region's fiscal revenues from personal income is lower than the national average. Under this system, Walloon gets a transfer equivalent of around 1 percent of its GDP from the remaining two regions (Flanders and Brussels).

The German *Finanzausgleich* has undoubtedly become the most famous system of fiscal equalization. It was established in 1990 as part of German reunification and is subsidized as a transitional solution through the German Unity Fund. It is the largest redistribution mechanism of recent years.

Nonfederal countries also practice equalization. In Spain, autonomous communes obtain resources through transfers from the Interregional Compensation Fund, which finances 25 percent of total public investments

and guarantees additional resources to regions for which the first objective of the EU Structural Fund applies; these receive assistance in eliminating deficits in economic and social infrastructure.

Until 1992, Italy had a special system of transfer into *Mezzogiorno*, which represented a sum of around 3.5 billion ECU annually. Since then, responsibility for regional development has been significantly shifted to the regional budget.

France in 1993 introduced a fund for correcting regional disparities, by which regions with an above-average fiscal capacity provide resources to areas with a below-average capacity. The total amount transferred is relatively small—around 100 million ECU—and legislation recommends higher volumes of redistribution.

In Great Britain, there is no administrative authority lower than the government; there is only direct local administration. Revenue support grants allocate resources to local units on the basis of a very complex scheme that takes account of needs and revenues. Since revenues from local taxes are very low in Great Britain and cover only about 15 percent of local body expenditures (which, on the other hand, comprise about 25 percent of total public expenditures), redistribution of resources from the center is very high. The revenue support grant is but one element of redistribution, through which about 40 percent of the total sum is channeled; it only partially serves to equalize revenues that are available for moderate expenses.

Redistribution Effect of Public Investments

The redistribution effect of public investments (together with regional assistance, which is discussed below) acts not only through the transfer of relevant resources but also through expenditures, which can strengthen the economic base of weaker regions and contribute to enhancing their development. From this perspective, investments can have a multiplier effect, stimulating economic activity, initiating growth, and supporting investments in the private sector as well.

Investments in economic and social infrastructure, in particular, play a strategic role in regional development by creating conditions for an expansion of economic activities. (It must be noted that a substan

tial component of investments of this type—investments in education—are only rarely included in public investments, even though their potential contribution to strengthening the economic base of a region by upgrading labor force qualifications can be at least as important as investments in physical infrastructure.)

In all EU member states, there is generally a conflict between the long-term development needs—which involve weaker regions—and short-term needs to quickly expand development capacities based on growth in demand; these

latter involve stronger, more developed areas. This conflict becomes particularly significant when financial resources are limited. Such resources are often aimed at short-term needs, thus flowing to more developed regions rather than less.

Redistribution Effect of Regional Assistance

Strictly speaking, the regional assistance (investment subsidies, contributions for employment, etc.) introduced by EU member states to address their regional problems represents only a very small part of the state budget. (Between 1988 and 1990, member countries spent, on average, 13.5 billion ECU annually on genuine regional assistance; this was about 0.3 percent of their GDP.) Recently, expenditures in this area have dropped still further. In the Slovak Republic, the volume of direct support for regional development is even lower, accounting for less than 0.02 percent of GDP.

The actual effect of this regional assistance, however, cannot be judged solely on the basis of these aggregations, since in reality this assistance is always concentrated on particular areas and sectors to elicit a multiplier effect. Regional assistance is essentially always an element of development.

Regional assistance is very sensitive to cyclic fluctuations in the economy, primarily at a time of change toward growth; when economic conditions are favorable, assistance can influence the location of investments that companies have already decided to make.

Conclusion

The redistribution effect of public expenditures and taxes among territorial units is important, but—to a large extent—often invisible and difficult to measure. Although measures of fiscal equity, public investment, and regional assistance are most frequently transparent, they do represent a smaller part of redistribution, invisible flows.

In unitary states, we may see a trend toward much larger volumes of cash flow between different levels of administration than in a federal system. The scale of redistribution, however, does not depend so much on the volume of gross flows between revenues and expenditures as on the net balance between them. An efficient redistribution of revenues, however, is important in both cases.

We can state as a general rule that the fewer territorial units that are subjects of transfers, the greater the redistribution effect. It is also an advantage when the number of regions from which resources are transferred is larger; thus, the volume of transfer is lower and, consequently, more acceptable.

On the other hand, a mere increase in the volume of resources in

underdeveloped regions can in and of itself seldom generate sustainable economic growth. Increased purchasing power can be directed toward consumption of imported goods and services, although it can also go toward import of machinery and other investment goods vital to development. Public investments and regional assistance, in spite of their small proportion, can play a similar role in stimulating regional self-development. Of course, this type of analysis assumes many hypotheses, and more comparable information will need to be accumulated to gain a better understanding of the mechanisms of redistribution, in order to answer the following questions:

€ How can a public investment distribution among territorial units be ensured that would permit pursuit of long-range objectives and maintain spatial equilibrium?

€ How can underdeveloped territorial units best utilize redistributed resources, through their own initiatives as well, so that they are rationally directed to both consumption and investments?

Competitive Strength of Slovak Regions in the Context of European Integration

If we look at Slovak's regions through the prism of current EU support policy criteria, we can see that the system and support policy of underdeveloped regions is insufficient. Only the Bratislava region would satisfy the condition of 75 percent of average EU GDP at the NUTS (Nomenclature of Territorial Units for Statistics) II level;⁵ surprisingly, it would be included among the top third of the most successful NUTS II regions in the

EU. Bratislava's dominant position is due to its share of GDP generation (accounting for more than one-third of the country's total GDP and three times the Slovak average per capita GDP); its low unemployment (three times below the Slovak average); and its "hard" and "soft" infrastructure (accounting for 51 percent of the country's university faculty, more than 60 percent of its research and development workers, 92 percent of its banking and insurance workers, etc.). Also, more than 60 percent of the country's foreign capital is concentrated in Bratislava, as well as 32.2 percent of entrepreneurs.

Other NUTS II areas and regions in the Slovak Republic generate only 28 to 30 percent of the EU average per capita GDP.⁶ Thus, roughly 88.5 percent of the Slovak population and 96 percent of its area would be subject to regional support of approximately 8 billion Sk and would move on the borderline of capacity of our own cofinancing and preparation and implementation of regional development projects (Bucek 1997). We do not here take into account assistance available from the Cohesion Fund, which is aimed at building infrastructure and ecological projects that have a significant regional impact.

Conclusion

The purpose of this paper is to point out several facts:

€ New trends affecting regional development and connected with globalization, the diffusion of innovation, the building of regional networks, and the new position of external forces in development have a more complex relation to the financial base for regional development than is typically expected.

€ Direct and targeted assistance in eliminating regional disparities cannot be undermined; it forms a small element in terms of size, but often a very efficient one of impulse strategies aimed at inducing and sustaining regional development—on the level of individual countries and integration clusters of the EU type. Regional transfers through automatic stabilizers and targeted expenditures of public finance deserve attention due both to their scale and effect.

Notes

1. The focus of this comparative study was on the redistribution effect, in a territorial sense, achieved through public expenditures and taxes in six member countries:

Germany, France, Italy, Great Britain, and Spain, where these aspects are significant; and Belgium, the only EU member state that has recently switched from a unitary to a federal system.

2. According to available data, public expenditures include public budget expenditures (213.7 billion Sk), health insurance (33.8 billion Sk), social insurance (68.9 billion Sk), and the Employment Fund (7.4 billion Sk).

3. The intersectoral committee for reviewing, approving, and financing regional development projects has about 100 million Sk annually, or about 0.02 percent of GDP.

4. The significance of these taxes varies by country. In France, for example, they comprise only 21 percent of government revenues, compared to 30 percent and more in the other five countries studied and 40 percent in two of them. Paradoxically, the redistribution effect of public finance has been greater in France since 1970 than anywhere else.

5. Underdeveloped areas in the EU are included at the NUTS II level; in Slovakia, this includes four areas: the Bratislava region; the Trnavsky, Trenciansky, and Nitriansky regions; the Zilinsky and Banskobystricky regions; and the Presovsky and Kosicky regions. In all, 8 Slovak regions are included at the NUTS II level and 79 at the NUTS IV level.

6. According to Agenda 2000, Slovak per capita GDP is about 41 percent of the EU average, as measured by purchasing power parity. This tempts many analysts to conclude that, under current criteria, the whole of Slovakia would be subject to EU assistance in case of membership.

References

Armstrong, H., and J. Taylor. 1993. *Regional Economics and Policy*. New York: Harvester Wheatsheaf.

Bergman, E., G. Maier, and F. Toedtling, eds. 1991. *Regions Reconsidered: Networks, Innovation and Local Development in Industrialized Countries*. London: Cassel.

Bucek, M. 1997. *For and Against EU—Regional Policy*. Friedrich Ebert Foundation.

Economic Council of Canada. 1990. "From the Bottom Up: The Community Economic Development Approach." Statement by the Economic Council of Canada, Minister of Supply and Services. Ottawa.

Economic Innovation International. 1992. *Step-by-Step Management of Regional Economic Development: A Manual for Central European Managers*. U.S. Agency for International Development project. Slovak edition.

Hirschman, A.O. 1958. *The Strategy of Economic Development*. New Haven, CT: Yale University Press.

Mackay, R.R. 1992. "Regional Inequality, Economic Integration and Automatic Stabilizers." Paper presented to IV Congress of the Regional Science Association International. Palma.

Maier, G., and F. Toedtling. 1996. *Regional and Urban Economics*. New York: Springer Verlag Wien.

Organisation for Economic Co-operation and Development (OECD). 1992. *Regionally Based Technology Transfer Strategies*. Paris.

———. 1994. *Globalization and Local and Regional Competitiveness*. Paris.

Slovak Republic (SR). 1997. *SR Statistical Yearbook 1997*. Bratislava: Statistical Office and Veda Publishing House SAV.

Steiner, M. 1997. "Competence Cluster as a New Concept for Regional

Policy." *Competence Clusters Workshop Report*. Leykam, Graz.

Stoehr, W. 1986. "Regional Innovation Complexes." *Papers of the Regional Science Association* 59.

———. 1989. "Local Development Strategies to Meet Local Crisis." *Entrepreneurship and Regional Development* 1: 296.

Discussion

Balazova. It is crucial to have precise data about the economic management of self-governments. Municipal budgets are mostly balanced, some show deficits, and only a few show a surplus.

Bercik. We learn only a little from the *Statistical Yearbook*. The Slovak Statistical Office, however, can supply further data. The Ministry of Finance has valuable data within its data center, but it consolidates data on budgetary organizations and municipalities.

After 1991, municipalities developed a profile on the structure of their expenditures and revenues. Since then, no further significant competencies had been devolved (with the exception of creating a municipal police force). Data collection is a topic that merits separate consideration.

Building an information system should not be confused with controlling self-governments. It is not an intervention of the confidentiality of municipalities but an objective look at financial flows. In Switzerland, the canton office provides a complete financial mirror of the economic management of the municipalities. Each citizen can calculate in detail how the municipality manages its funds. In our country, the Municipal Establishment Act stipulates an obligation to publicize the budget and the final financial statement; this is, however, neither well understood nor comparable.

Csanda. It is vital that activities that can be categorized as useful to the public (e.g., street cleaning, garbage collection, and services and other things that cannot be measured) be identified. Municipal revenues are defined by budgetary regulations. State-shared taxes are considered to be municipal revenues, just as is the real estate tax (pursuant to the Act on the State Budget).

[Home](#)